



WHAT'S NEW?

Many of the recent topics featured in this column remain works-in-progress as regulation continues to be debated and formed. These include worldwide derivative exposure and UK financial markets. Areas in which there has been fresh activity include the European Market Infrastructure Regulation, bank ring-fencing, and the Bank Recovery and Resolution Directive. We discuss these in more detail below and, as always, we are keen to hear your views.



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{ IN DEPTH }

EU CONSULTS ON EMIR

> The European Market Infrastructure Regulation (EMIR) requires the EU to undertake a review of the implementation of the regulation by August 2015. To this end, a consultation document was published on 21 May, requiring responses by 13 August. The consultation will receive feedback on the effectiveness of implementation with the European Securities and Markets Authority (ESMA) targeting a report date of 17 August. This is likely to be extended, however, to enable submissions to be analysed and collated.

The consultation is open to anyone who chooses to respond, subject to registration under the Transparency Directive. You can find the consultation document at www.ec.europa.eu/finance/consultations/2015/emir-revision/index_en.htm

The ACT will respond to the consultation document and we would appreciate any input from members, ideally by 21 July, so that we have time to collate and discuss this before submission. Furthermore, the deadline

will enable the ACT to exchange opinions with, and consider the views of, other treasury associations in the EU through the European Association of Corporate Treasurers (EACT).

In addition, a public hearing was held in Brussels on 29 May, at which the ACT presented as a member of the EACT. Notes of the meeting have been posted on the ACT website at www.treasurers.org/node/303931

The reporting of derivatives data has proven to be difficult to put into effect, with pairing very hard to achieve. The hearing recognised these problems and shows that the EU is prepared to consider changes that ensure ESMA achieves an appropriate level of confidence in its overview of the aggregation of derivative risk, while minimising the impact on the use of derivatives by non-financial counterparties (NFCs) to manage their commercial risks.

This is an important change from earlier EU stances on EMIR and raised two questions:

- Should thought be given to avoid wasting processes



expensively developed for EMIR?

- How could the regulatory authorities be content that they had oversight of NFC/financial counterparty hybrids and joint ventures held in third-party locations?

The ACT raised concerns over the regulatory inconsistency that already exists between the regimes that occur in the EU and the US, and which works against the hedge exception and the threshold regime. Members are already reporting that this is eroding competitiveness for EU-domiciled businesses compared with their US competitors. So we called for a consistent global regulatory approach before other trading centre regimes are developed. Most recently, the Australians

have called for legislation to implement central clearing.

We also emphasised the NFCs' objection to dual reporting, which requires corporate treasurers to police banks. This is despite NFCs not being systemically risky to financial systems and having no right to call upon central banks to provide liquidity in times of crisis or to underwrite retail investors' losses in the manner that they insure retail bank deposits. We took the opportunity to remind the regulatory side of the hearing, represented by the EU, the UK Financial Conduct Authority and the German Bundesanstalt für Finanzdienstleistungsaufsicht, that the driver of the G20 efforts to understand derivative markets was to ensure that they present no future cost to the taxpayer.



YOUR SHOUT

If you have views that you would like the ACT policy and technical team to take into account when responding to any of the areas included on these pages, or you have your own submission that you are willing to share on these or other consultations, please email us at technical@treasurers.org



{ INTERNATIONAL }

CHINA CONSIDERS ENHANCED TRADING OF RENMINBI DEBT

China is considering following up the development of equity trading with the trading of renminbi debt. The equity route, known as Stock Connect, enables investors in Shanghai and Hong Kong to trade stock that is listed on each city's exchange under a four-party agreement between the stock exchanges and the China Securities Regulatory Commission, and the Hong Kong Securities and Futures Commission. This improved access to the Chinese market has already seen the premium for Chinese stock increase relative to that of Hong Kong stock.

Stock Connect has proved an elegant means of increasing offshore demand for Chinese

investments, although current trading is restricted to \$3.8bn per day.

Improved access to China's ¥30 trillion (approximately \$5 trillion) domestic bond market would increase the diversity of debt investors into China and would also further promote international use of the domestic currency. An increase in demand should lead to a narrowing of onshore premia relative to offshore premia similar to that experienced by equities. This would help to reduce the cost of debt to onshore issuers. Meanwhile, the offshore investor is achieving a more efficient means of acquiring renminbi exposure and engaging in the world's second-largest economy by GDP.



View the following technical updates and policy submissions at www.treasurers.org/technical and www.treasurers.org/events/webinar

EACT notes of EMIR Public Hearing 29 May 2015

ACT responds to EU Consultation on Securitisation

EACT report on regulatory issues 31 May 2015, including an update on money market funds

ACT past webinars:

Don't fear the repo

Cybersecurity – threats & responses

A reminder of *The Treasurer's Wiki*: www.treasurers.org/wiki

{ TECHNICAL ROUND-UP }

PAYMENTS AND RING-FENCING

The UK Payment Systems Regulator has published for comment its draft terms of reference for the first part of its payments market review. See <http://tinyurl.com/prpjpmf>

The review relates to the competitiveness of indirect access to payment systems and the potential for innovation. It is aimed at those organisations that have or that want to set up their own payment processes, but will rely on the four main banks that provide indirect access: Barclays, HSBC, Lloyds and RBS.

Ring-fencing bank activities remains a target of governments, although it will be challenging to unwind banks that have both globalised and integrated their activities. The EU's Barnier-Liikanen process moves towards ring-fencing investment and corporate activities in order to protect retail activities. The UK Vickers Report process seeks to ring-fence banks' retail activities from their investment and corporate activities.

The corporate customer will need to take care to monitor with which legal entity it deals with, as well as the credit value and regulation of that entity and not the larger group of which it is part.

On 14 June, UBS announced plans to transfer its retail, corporate and wealth management businesses into a new Swiss company. That same day, HSBC revealed its intention to ring-fence its UK domestic banking activities by 2019.

A focus on regulating benchmark users' fees has followed on from the Fair and Effective Markets Review. The Financial Conduct Authority (FCA) has recently published a consultation paper on *Fair, reasonable and non-discriminatory access to regulated benchmarks*. See www.fca.org.uk/your-fca/documents/consultation-papers/cp15-18

The paper sets out proposals for benchmark administrators to charge users fees and licences, noting that different fees can only be charged to different users where this is objectively justified. The eight benchmarks regulated by the FCA, and hence within the scope of this consultation, include Libor, the Sterling Overnight Interbank Average Rate, WM/Reuters London 4pm close and the ICE Brent Index. The ACT plans to respond and welcomes input via technical@treasurers.org

{ WATCH THIS SPACE }

FCA RESPONDS TO CMU PROPOSALS

The Financial Conduct Authority (FCA) has published a speech by David Lawton, its director of markets, policy and international, on the proposals for Capital Markets Union (CMU), to which it formally responded on 13 May. See www.fca.org.uk/news/capital-markets-union-regulator-perspective

Lawton emphasised the need to place CMU in the economy of Europe so as to unlock additional funds and not simply to move funding from banks to capital markets, noting also that investors require adequate

protection to take part in the CMU or we risk savings remaining in banks.

At about the same time, the FCA published its draft terms of reference for its investment and corporate banking market study (FCA document MS15/1.1). The ACT has reviewed these terms of reference and they look reasonable.

The FCA said that it intends to focus on investment banking services (the 'primary markets'),



while recognising that it will also need to consider secondary market behaviour and the degree to which bundling with corporate banking services may affect competition

for primary markets activities. Once the study has been published, we will be seeking member views on issues including bundling of investment bank activities with other activities, such as transmission services.