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| <b>Committee(s):</b>  | <b>Date(s):</b>        |
| Public Relations and Economic Development Sub (Policy and Resources) Committee  | 28 May 2015            |
| <b>Subject:</b>   | <b>Public</b>          |
| Update and forward look on the activities of International Regulatory Strategy Group (IRSG)   |                        |
| <b>Report of:</b> Director of Economic Development  | <b>For Information</b> |
| <b>Summary</b>  |                        |
| <p>The report provides Members with an update on the work of the International Regulatory Strategy Group (IRSG) since the last meeting of the Public Relations and Economic Development Sub-Committee in February. It covers the European Commission's publication of a Green Paper on Capital Markets Union and the subsequent response by the IRSG.</p> <p>It goes on to IRSG Taxation Working Group's opposition to the EU-11 proposals on the Financial Transaction Tax (FTT) due to, among other factors, its potentially detrimental impact on the economy and long-term finance. It then updates members on activity around the General Data Protection Regulation, including the latest meeting of the IRSG Data and Cyber workstreams. It concludes by outlining IRSG priorities for 2015, namely the CMU, Data and Cyber Security and Post Trade.</p> |                        |
| <b>Recommendation(s)</b>  |                        |
| Members are asked to:   |                        |
| <ul style="list-style-type: none"> <li>• Note the report</li> </ul>   |                        |

## **Main Report**

### **Background**

1. This paper provides an update on recent IRSG activity and sets out the anticipated areas of activity over the coming months.

### **Capital Markets and EU Reform Agenda**

2. The European Commission published a Green Paper on Capital Markets Union on 18 February. The main areas that the Green Paper seeks to address are:

- improving access to financing for all businesses across Europe and investment projects, in particular start-ups, SMEs and long-term projects;
  - increasing and diversifying the sources of funding from investors in the EU and all over the world; and
  - making the markets work more effectively so that the connections between investors and those who need funding are more efficient and effective, both within Member States and cross-border.
3. They have since launched a public consultation on Capital Markets Union to get a shared diagnosis of the problems and set out an agenda of the initiatives to take. The consultation is based around defining the concrete steps that need to be taken to achieve an integrated and well-regulated Capital Markets Union of the 28 Member States.
  4. The IRSG response to the European Commission's Green Papers on Capital Markets Union was submitted earlier this week. The response seeks to highlight three ambitions as being central to CMU. (*Paper attached in annex*)
    - To promote prosperity in Europe by financing innovative, internationally competitive firms
    - To enable security for families through sustainable pension systems and diverse portfolios of investment that appropriately balance risk and reward
    - To deliver infrastructure that can support growth and leave a sustainable legacy for future generations
  5. The European Commission will host a public hearing on the "*Next steps to build a Capital Markets Union*" in Brussels on Monday, 8 June 2015. The conference will be the first high-level public event after the end of the public consultation on the Commission Green Paper. The City of London Corporation will be attending the event.

### **MiFID Workstream**

6. The UK Government has decided not to 'opt-in' to the Article 39 MiFID II Third Country regime (the "Article 39 Regime"). This is on the basis that it considers that the current regime is sufficiently tailored to client types and to the risks in question, and balances the need to maintain investor protection, market integrity and financial stability, while remaining open to business internationally.

7. HM Treasury has opened a consultation on the transposition of MiFID II into UK law in March 2015. The MiFID workstream held a conference call on 7 May to discuss the third country provisions in the consultation and will meet with HMT on 21 May to discuss the UK's decision not to opt-in to the Article 39 MiFID2 Third Country Regime.

### **Taxation Workstream**

8. The IRSG Taxation working group is opposed to the EU-11 proposals on FTT for a number of reasons including, but not limited to, its potentially detrimental impact on the economy and long-term finance, corporates, market liquidity, efficiency and stability, collection and relocation. Moreover, the working group has also prepared a letter for Commissioners stressing the inconsistencies of an FTT with proposals for a Capital Markets Union and is awaiting an opportune moment to release the paper, expected to be around the informal ECOFIN in June.
9. The last working group meeting was held on 20 February and included discussion on FTT, base erosion and profit sharing and corporate tax avoidance. The working group's next meeting is scheduled for May in London.

### **Data Workstream**

10. The General Data Protection Regulation (GDPR) sets out an EU framework for data processing to take account of developments since the 1995 Directive came into force. Written as a horizontal measure encompassing all sectors, it does not take specific account of the needs of the financial services industry e.g. to comply with regulatory obligations in relation to anti money laundering, fraud and IT security. It will also restrict the ability of international firms to transfer data to other parts of their operations which may be located outside the EU, or to comply with requirements from their home regulators. The proposals could also impact on a firm's ability to use profiling for the purposes of e.g. credit scoring and insurance underwriting.
11. A series of meetings were held in Brussels on 26 and 27 February for IRSG Data workstream members, including the Chair. The delegation met with Latvian, German and Spanish Justice and Home Affairs attachés to discuss key financial services concerns at the draft Data Protection Regulation.

12. At the latest meeting of the IRSG Data and Cyber workstreams on 29 April, it was noted that the Latvian Presidency hopes to reach agreement in Council on the General Data Protection Regulation in June. At that point the trilogue discussions will begin. It was therefore agreed that a workstream delegation would continue to make a concerted effort over the coming months to lobby Justice and Home Affairs attaches, Commission cabinet staff and officials as well as shadow MEP rapporteurs.

### **IRSG Priorities 2015**

13. At the last IRSG Council meeting in February 2015, the following areas of work were approved as Priority strategic workstreams; Capital Markets Union, Data and Cyber Security and Post Trade. These will require regular reports to the Council on developments and will drive the future agenda

14. Benchmarks, Taxation, FEMR, Bank Structural Reform and Retail, will be of importance over the coming year and the IRSG will maintain a watching brief on these issues.

15. The IRSG will also continue to carry out developmental work on Long Term Finance, the implications of RMB Internationalisation and post crisis regulatory fragmentation.

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