

Committee(s):	Date(s):
Public Relations and Economic Development Sub Policy and Resources	16 July 2015
Subject:	Public
Update and forward look on the activities of International Regulatory Strategy Group (IRSG)	
Report of: Director of Economic Development	For Information
Summary	
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 May.	
Recommendation(s)	
Members are asked to:	
<ul style="list-style-type: none"> • Note the report 	

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 seeks to highlight three ambitions as being central to CMU:
 - 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 publish an Action Plan in September, drawing on the first findings from the consultations. Concrete proposals will follow within a few weeks of the Action Plan. Early actions will include a comprehensive package on securitisation with updated calibrations for Solvency II and CRR, the definition of infrastructure, and our proposals to review the Prospectus Directive.

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 met 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. Although negotiations on the FTT stalled at the end of 2014, France and Austria have attempted to revive discussions among the EU-11, going back to a broad base and low rates. The objective is to implement the tax from 1 January 2016 however, as negotiations drag on and without any clear consensus among the 11 on the eventual shape of the FTT, this seems a little ambitious. However, there is still time for progress on the issue and some observers state that developments could take place on the margins of the next ECOFIN meetings on 14 and 24 July.
9. 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.
10. The last working group meeting was held on 14 May and discussed how far the group should continue to focus on FTT. The group agreed to keep a watching brief on FTT and reconvene once there has been significant movement within the file.

Data Workstream

11. 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.
12. The Council has now agreed its General Approach and trilogue discussions have now begun – involving Council, Parliament and Commission. The current schedule is for agreement to be reached by the end of 2015.
13. A series of meetings were held in Brussels on 23 June for the IRSG Data workstream members, including the Chair, to engage with relevant policymakers. The delegation met with Italian, Swedish and Polish Justice and Home Affairs

attachés to discuss key financial services concerns at the draft Data Protection Regulation. They viewed the above timetable as optimistic and indicated that a revised approach could be expected from the European Parliament. The issue of international data transfer will provide the initial focus for the forthcoming trilogue discussions.

Post Trade workstream

14. A meeting was held on 11 June with members of HMT Securities & Markets and Resolution teams to discuss the forthcoming EU proposals on CCP recovery and resolution, in particular the differences with the Bank Recovery and Resolution Directive and the international perspective. Given the different perspectives of the workstream members present, a range of views was provided on certain issues, which HMT found helpful to hear within a single forum. A meeting will also be sought with the Bank of England to discuss these issues.

IRSG Priorities 2015

15. At the 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

16. 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.

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

Director of Economic Development

T: 0207 332 3605

E: damian.nussbaum@cityoflondon.gov.uk