

Committee: Public Relations and Economic Development Sub Committee	Date: 6 October
Subject: Update and forward look for the IRSG (International Regulatory Strategy Group)	Public
Report of: Director of Economic Development	For Information
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Summary

This paper provides an update on the key areas of progress made by the International Regulatory Strategy Group (IRSG) and the key priorities going forward.

Recommendation

Members are asked to:

- note the work of the IRSG Council and its associated work outlined in the appendix;
- provide input to the IRSG via the Chairman of Public Relations and Economic Sub Committee

Main Report

IRSG Council

1. Two meetings of the IRSG Council have been held – 19 July and 15 September. The primary topic of discussion has been the impact of the UK referendum. Members heard from the representatives of HM Treasury, DExEU, FCO, FCA and the Bank of England on their approach to Brexit negotiations. They were also updated on the establishment of three new workstreams (see Appendix page 5) to assist the IRSG in assessing the impact of Brexit.

Key issues

2. **Taxation** – the IRSG Taxation Working Group monitored the agreement reached on the Anti Tax Avoidance Directive (ATAD) and the Directive on Administrative Cooperation (DAC 4). The European Commission's public country-by-country reporting (CBCR) proposal is still being negotiation in the Council and Parliament. Later this year the Commission is expected to publish further proposals on Hybrid Mismatches (under the ATAD) and the Common Consolidated Corporate Tax Base (CCCTB).

3. **Data and Cyber Security** – the latest meeting of this workstream was held on 14 July 2016. A key item for discussion was the likely impact of Brexit on the issue of data privacy and data transfers.

4. **Post Trade** – the latest meeting took place on 15 July, where members held an initial consideration of the implications of Brexit from a post trade perspective. It was agreed that further more detailed assessment will be required across the range of legislative measures which have a bearing on the post trade environment.

Appendices

- **Appendix A:** Bilateral Dialogues
- **Appendix B:** IRSG Council Workstreams

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Appendix A: Bilateral dialogues

Anglo-French Dialogue

The Anglo-French Dialogue met on 12 July in Paris to discuss the outcome of the UK referendum on EU membership. The Dialogue exchanged views on the current political and economic landscape in the EU post-UK referendum. Participants also discussed the potential implications for the City and Paris. The value and importance of the Anglo-French Dialogue was re-emphasised on both sides, as was the necessity for continued close cooperation in matters of mutual interest.

Ahead of the next meeting of the Dialogue, the Corporation is facilitating an Anglo-French roundtable on international banking regulation (with Sylvie Goulard MEP (ALDE, France) as guest speaker) and a high level dinner with the UK Ambassador to France with various participants on both sides. The next meeting of the Anglo-French Dialogue will take place in October/November.

Dialogue with Ireland

The Dialogue and Workstream Co-Chairs held a call on 30 June to discuss the implications of the UK referendum for the ongoing work of the Dialogue. Participants agreed that the Dialogue is even more important now, as it is vital to ensure a unified voice for the industry in UK/Ireland. The industry can also put the case for special treatment for the UK/Ireland in future negotiations. It was also noted that the Irish government has recently indicated that it is in Ireland's interests for UK government to get the best deal possible.

Participants agreed that the workstreams should continue to progress their individual areas of work, subject to further discussions to consider the impact of the referendum on the original proposals. They also agreed on the need to share information and have a watching brief to identify issues where the dialogue may need to react.

A meeting to consider the future work of the dialogue from a more strategic perspective will be held at State Street in Dublin on Wednesday 26 October.

Anglo-Italian dialogue

The latest meeting of the Anglo Italian Financial Services Dialogue (AIFSD) took place on 18 March 2016 in JP Morgan's offices in Canary Wharf, preceded by a dinner hosted by the Italian Ambassador at his residence on 17 March. The meeting identified securitisation and long-term finance as particular areas for focus.

Since the United Kingdom's vote to leave the European Union, our Italian counterpart has confirmed its continued commitment to this initiative. Discussions with our Italian counterpart and the UK participants will continue over the summer to agree a work programme, taking account of Italy's and the UK's financial services priorities.

The next meeting of the Anglo Italian Financial Services Dialogue is scheduled for 24 and 25 October in Rome.

Anglo-German Financial Services Dialogue (AGFSD)

The Anglo-German Financial Services Dialogue (AGFSD), which is chaired by Sir Winfried Bischoff of the Financial Reporting Council in the UK and Dr Lutz Raettig of Morgan Stanley in Germany, was launched in Berlin in June 2016. The meeting discussed CMU, EU reform, FinTech and the Commission's call for evidence. Areas of focus going forward will be:

- The cumulative impact of legislation: The Dialogue has welcomed the approach taken by the Commission in its call for evidence and the proposal for a Capital Markets Union (CMU) to develop and integrate European capital markets and diversify finance across the EU. The Dialogue will explore how it can support this agenda, drawing on the expertise of its cross-sectoral membership.
- FinTech: While both the UK and Germany are FinTech hubs in their own right, have attracted substantial investment in this area and both the FCA and BaFin have made FinTech a priority, in aggregate the US remains stronger. Europe needs strong FinTech centres to compete with Hong Kong, Singapore and New York. The Anglo-German Financial Dialogues will develop a FinTech strategy looking at:
 - o The digital consumer: how can customers be served better;
 - o Digital enterprise: enabling organisations to be more efficient, better alignment of products and customer needs; and
 - o Digital disruption: development of new products.

Participants have also recently reconfirmed their support for the dialogue following the UK referendum. The next meeting of the Anglo-German Financial Services Dialogue is scheduled for 31 and 31 January 2017.

THE NETHERLANDS

In June 2015, a delegation of senior practitioners drawn from TheCityUK's membership visited the Netherlands with the aim of scoping out the potential for establishing an Anglo-Dutch Financial Services Dialogue (ADFSD). The visit

provided the opportunity for an initial information exchange and allowed the participants to assess the appetite for establishing an Anglo-Dutch Financial Services Dialogue in the Netherlands as well as to identify potential partners. Further working visits and discussions with the potential partner organisation VNO-NCW, the Dutch equivalent of the CBI, UKTI and Gerald Walker, UK Chair of the ADFSD, have followed over the summer.

A follow up working level visit to establish the composition and focus of the eventual ADFSD to the Hague took place on 11 February 2016.

The Dutch counterparts wanted to await the results of the UK's EU referendum before committing to participating in a formal dialogue.

We are continuing to explore the possibility of setting up the dialogue with the Dutch.

Appendix B

1. IRSG COUNCIL

IRSG Objective:

The role of the Council is to provide the overarching strategic direction to the IRSG.

City of London input: The Policy Chairman is the Deputy Chair of the Council. EDO provides the secretariat to the Council.

Latest developments: The latest meeting of the overarching Council took place on 15 September 2016. At this and the previous meeting in July, members had the opportunity to hear from representatives of HM Treasury, DExEU, FCO, FCA and the Bank of England on their approach to Brexit negotiations.

To assist with the IRSG's assessment of the impact of Brexit, the Chairman presented the proposal to establish three new workstreams:

- Regulatory coherence – to be chaired by Blackrock
- Global Competitiveness – to be chaired by Accenture
- EU's Third Country regime – to be chaired by Hogan Lovells

Next steps: The next meeting of the Council will take place on 27 October.

2. IRSG EXECUTIVE BOARD

IRSG Objective:

The role of the Executive Board is to oversee the ongoing work of the IRSG.

City of London input: The Director of Economic Development is the Co-Chair of the Board. EDO provides the secretariat to the Board.

Latest developments: Two meetings of the Executive Board have taken place in this period. The impact of the outcome of the UK Referendum has been the primary issue for discussion, including the proposal to establish the new workstreams, set out above.

Next steps: The next meeting of the Board will take place on 13 October.

(Please note that due to the EU institutions being in recess from late July to late August limited progress has been made across the key dossiers)

3. TAXATION

IRSG Objective:

To exchange views and establish positions on tax proposals and measures at EU and international levels which:

- Do not impact one financial sector alone (i.e. not solely impactful on banks, asset managers or insurers etc.).
- Have, or could potentially have, a material impact on London as Europe's leading financial centre.

To contribute to the evidence base on the impacts of multi-jurisdictional tax proposals and measures, taking into account effects on markets, corporates, customers and the global competitiveness of the EU. The Group will also take into account other EU agendas such as the European Commission's Investment Plan, the Capital Markets Union Action Plan and the Better Regulation agenda.

City of London input:

An EDO officer provides the secretariat function to the IRSG workstream, which can include the drafting of position papers and facilitating EU level engagement. We maintain contact with the relevant officials in the Permanent Representations in Brussels and have previously hosted related events.

Latest developments:

The IRSG Taxation Working Group last met on 15 September to discuss the latest developments in EU tax policy:

Access to beneficial ownership information:

the European Commission unveiled its latest proposals to tackle terrorism financing and money laundering, and the next steps in the Commission's agenda for tackling tax avoidance. This new package includes two legislative proposals to amend the Anti-Money Laundering Directive (AMLD) and the Directive on Administrative Cooperation (DAC) in the field of direct taxation, as well as a Communication on further measures to enhance transparency and the fight against tax evasion and avoidance. The proposed measures are aimed at addressing tax abuse, ensuring sustainable revenues and fostering a better business environment in the internal market, and should particularly be seen in light of the recent so-called "Panama Papers" scandal.

Public country-by-country reporting (CBCR):

Following the launch of the public CBCR proposal in April, there has been some disagreement on a variety of issues. Firstly, in relation to the triggering threshold of €750M (which is in line with international standards), some observers believe that the threshold should be brought lower so as to include a greater number of multinationals and corporates. Secondly, as regards the aggregation of non-EU financial data (with the exception of so-called “tax-havens”), some observers believe that this could put the EU at a competitive disadvantage globally, whereas others advocate full disaggregation of information (i.e. full disclosure of global financial data). Finally, the process of “blacklisting” non-cooperative jurisdictions is proving a sticking point because there is no internationally agreed definition of a “tax-haven”. Member States have differing views as regards an agreement on a common definition and this is likely to cause problems in Council moving forward.

Financial Transaction Tax (FTT):

An EU-10 Ministerial Level Task Force has now been set up to solve the two remaining technical issues – applying the tax to derivatives (which should not have a negative impact on public borrowing costs) and making collection of the tax cost-effective. The Task Force will report back to the Council in September when a final decision on the FTT proposal will have to be made. Austria will remain the “political Chair” of the EU-10 until the end of September. Little progress is expected.

Forthcoming proposals:

The European Commission is expected to publish proposals for Hybrid Mismatches (to be implemented under the ATAD) and the CCCTB in Q4 2016.

Next steps:

The next meeting of the IRSG Taxation Working Group is scheduled for 6 October.

4. CAPITAL MARKETS UNION

IRSG Objective: the creation of a capital market across the 28 Member States without barriers, with appropriate regulation and open to global business.

City of London input: an EDO officer is member of the IRSG workstream. The Brussels Office is in very regular contact with the relevant officials in the Commission.

Latest Developments: In December 2015, the IRSG sent a response to the CMU Action Plan which draws on the IRSG response to the Green Paper on CMU and the policy priorities identified by members of the CMU workstream to Commissioner Hill. Since then the group has served as a sounding board for various other IRSG workstreams.

In June 2016, the group has responded to the Commission's consultation on an effective insolvency framework within the EU. The consultation contains 32 questions, grouped into four categories:

1. Scope of the insolvency framework;
2. Saving viable businesses in difficulty;
3. Second chance in the event of an 'honest' failure;
4. Increasing the efficiency and effectiveness of the recovery of debts.

Next steps: The IRSG workstream will convene in September to discuss next steps.

5. DATA/CYBER

IRSG Objective: the creation of a proportionate data regime which is fit for purpose for both consumers and the business community within a global context and the growing digital world economy.

City of London input: an EDO officer provides the secretariat to the workstream. This includes the drafting of position papers and facilitating EU level engagement.

Latest developments: The latest meeting of the Data/Cyber workstream took place on 14 July. A key item for discussion was the likely impact of Brexit on the issue of data privacy and data transfers. Financial services firms with their main establishment in the UK will need to consider how these issues will be impacted by the UK's departure from the EU.

Next steps: The workstream will feed into the ICO guidance process for the implementation of the GDPR and will engage with Department of Culture, Media and Sport to feed into the national implementation of the NIS Directive. A further meeting will take place in the autumn to consider in more detail the key priorities arising from the UK referendum outcome.

6. POST TRADE

IRSG Objective: to ensure that Europe's post-trade infrastructure is open and efficient and supports the development of integrated European markets, reducing costs for issuers and investors alike

City of London input: an EDO officer provides the secretariat to the workstream. This includes the drafting of position papers and facilitating EU level engagement.

Latest developments: the latest meeting took place on 15 July, where members held an initial consideration of the implications of Brexit from a post trade perspective. The key recommendations arising from the initial discussion were:

a/ minimise disruption; b/ maintain open access to CCPs and CSDs both between the UK and the EU, but also between the UK and third countries such as the US, to avoid fragmentation of liquidity; c/ (If the UK becomes a third country) – ensure a smooth transition by developing transitional regulatory permissions so that there is no loss of access in either direction and no gap between authorisation and recognition at the point of exit; d/ Allow markets to determine where clearing and settlement will take place post-exit. The workstream also noted the importance of not limiting access to talented people in operating existing services and developing new ones in the Fintech sector.

Next steps: It was agreed that further more detailed assessment will be required across the range of legislative measures which have a bearing on the post trade environment. The workstream will therefore reconvene in the early autumn after members have had time to consider the specific implications for their firm/sector.