

Committee: Public Relations and Economic Development Sub-Committee	Date: 16 February 2016
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. The IRSG Council held its first meeting on 7th February. The meeting was scheduled to allow a final exchange of views and analysis between government and industry representatives ahead of the triggering of Article 50, with representatives from HM Treasury, DExEU, FCO, and the Bank of England present to provide updates on Brexit priorities.
2. The Council was also updated on key IRSG workstreams that are providing industry analysis on the future needs of UK-based financial and professional services firms during the negotiations and over the longer term. The Council also heard updates from representatives of the IRSG Bilateral Dialogues with France, Germany, Italy and Ireland ahead of a London meeting of the UK Dialogue chairs to take place on February 20th.

Key issues

3. **The EU's Third Country Regime and market access** – The IRSG report '*The EU's third country regimes and alternatives to passporting*', (available

[here](#)) was published on 23 January and has been shared with policymakers. The report concludes that ‘Third Country Regimes’ (TCRs) – provisions of existing EU law that provide certain rights and protections to countries outside the EU – do not provide a long-term, sustainable solution for City firms to access EU markets. Current alternatives to passporting and TCRs are subject to limitations or are significantly less efficient than existing arrangements, and a separate IRSG workstream is preparing a new, separate report looking at possible alternative options that would work both for UK-based and EU27 firms based on a bespoke agreement offering mutual market access. This work is expected to be complete in mid-February.

4. **Post Trade** – The IRSG’s has also produced a cross-sector review of the post-trade services which form a core part of the City’s market infrastructure, focusing on UK-based Central Counterparties (CCPs). The report underlines the UK’s status as the dominant global centre for clearing, with around 40% of global trading taking place through UK CCPs compared to less than 10% in the EU27. The report advocates transitional arrangements to enable markets to continue operations and avoid the risks of market disruption and sharply increased costs of clearing – both of which will affect the non-financial end-users of markets in both the UK and the EU27. The report has been shared with key policymakers and will be published shortly.
5. **IRSG Bilateral Dialogues** – The IRSG Council also heard updates from representatives of the IRSG Bilateral Dialogues with France, Germany, Italy and Ireland. The bilateral dialogues exist to enable contact between senior industry representatives from the UK and counterpart countries, which is proving valuable to the Corporation’s work to engage with EU counterparts and highlight key points of concern. A London meeting of the UK Dialogue chairs is being held on February 20th to discuss forward IRSG Dialogue activity and ensure key policy themes deliver positive outcomes with EU government and industry counterparts.

Appendices

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

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Appendix A: Bilateral Dialogues

Anglo-French Dialogue

The last meeting of the Anglo-French Dialogue was held on 18 January in Paris. The importance of the Dialogue was restated, as was the enthusiasm and desire to continue to engage and work bilaterally in areas of common interest. A brief political overview was given by Mark Boleat and Vivien Levy-Garboua touching on Brexit, the forthcoming Presidential election in France, and the new US administration.

Issues discussed:

- Regulatory equivalence and transitional arrangements in the context of Brexit – UK representatives set out the key asks of the UK financial and related professional services industry in relation to Brexit. From a French perspective, discussions regarding the technical aspects of the UK's withdrawal from the EU are still at an early stage. France, along with other EU Member States, is keen to know the UK's negotiating position upon the triggering of Article 50. Should the EU be willing to agree transitional arrangements, it is important to first agree on the future relationship between the EU and the UK.
- Long-term vision for European capital markets: The Maltese Presidency (January to June 2017) hopes to make significant progress on current EU proposals in areas including securitisation, venture capital funds, and the forthcoming mid-term review. Other areas of work relate to the European Commission's EU Banking Reform Package, CCP Recovery and Resolution, the revision of the Anti-Money Laundering Directive, and the forthcoming Action Plan for Retail Financial Services. The Dialogue will continue to explore ideas for collaborative work in areas of common interest such as long-term investment in infrastructure (e.g. the European Fund for Strategic Investment (EFSI)) and green projects, linking long-term savings to capital markets (e.g. the Pan-European Personal Pension (PEPP) product).
- On the 'Basel IV' proposals, Dialogue participants acknowledged the IRSG letter sent to Mario Draghi, Stefan Ingves, and Finance Ministers in France and the UK, and Governors of Banque de France and Bank of England which expressed industry concerns that the current proposals would severely impact the ability of European banks to finance the wider economy and thus further engagement would be required. The Dialogue will distribute a new letter to EU Finance Ministers reiterating its position as regards the finalisation of the Basel package.
- Participants requested the opportunity to discuss the European Commission's EU Banking Reform Package at the next meeting of the Anglo-French Dialogue, which is due to take place in April. The following topics were also raised as potential priorities for the Dialogue: access to talent; smart regulation; investment initiatives; and opportunities for start-ups.

Dialogue with Ireland

Following a meeting of the UK-Ireland Dialogue in Dublin in October, forward activity includes a Dialogue dinner with the Irish Ambassador to the UK on February 28th, and a plenary meeting in London on March 1st. The October meeting and contact with Irish counterparts since then has confirmed willingness to work together on areas of common interest for London and Dublin-based financial services.

Activity includes:

- Green finance – work towards engagement in Brussels with policymakers on environmentally sustainable growth and the role that green finance plays in advancing this agenda, including engagement with Sustainable Nation Ireland – a representative body for the Irish sustainability and low carbon sector. This work should include produce a narrative and roadmap to be used in engagement with policymakers.
- Fintech – plans to host an event in London on the impact of Brexit on British and Irish Fintech, bringing together representatives from the UK and Irish FinTech sectors.
- Brexit – production of a summary document setting out what the future EU regulatory framework for financial services will look like post Brexit, reflecting priority themes for the UK and Irish industries. This will include specific focus on the implications for Ireland, including the customs and border issues.

Anglo-German Dialogue

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. Policy & Resources Committee Chairman Mark Boleat is a Dialogue member and attended the meeting.

Dialogue participants reconfirmed their support for the dialogue at a meeting on January 31st. At this second meeting, members discussed implications for a range of sectoral groups including banks, asset management, insurance, market infrastructure providers and professional services. Other areas of discussion included FinTech as an enabler for growth in Europe, financial services regulatory reform in Europe and the future of the EU. The next meeting of the Dialogue will be held in Frankfurt in June.

Anglo-Italian Dialogue

Following a meeting of the Anglo Italian Dialogue in Rome in October, the next meeting is scheduled to be held in London in March. This group has discussed the need for a two-pronged approach in future dialogue discussions, addressing the Brexit negotiations and their impact on financial services in Europe while also looking to pursue business-as-usual topics. The dialogue is particularly interested in securitisation and the opportunities from FinTech as an enabler for growth in financial services and will focus on this theme at the March meeting.

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 Council meeting was held on 7 February 2017. At this and the previous meeting in December, members had the opportunity to hear from representatives of HM Treasury, DExEU, FCO, and the Bank of England on their approach to Brexit negotiations.

Council members were updated on key IRSG workstream activity including new reports on the EU's Third Country Equivalence Regime and the impact of Brexit on central counterparties (CCPs).

Next steps: The next meeting of the Council will take place on 18th May 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, Damian Nussbaum, is the Co-Chair of the Board. EDO provides the secretariat to the Board.

Latest developments: The Executive Board last met on 17th January. Brexit remains the primary issue for discussion, with the Board focusing on the focus and quality of IRSG activity and coordinating outputs from the IRSG workstreams.

Next steps: The next meeting of the Board will take place on 21st March.

KEY IRSG WORKSTREAMS

1. 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 26 January. This meeting covered the European Commission's Corporate Tax Reform Package, published in October, which comprises a two-step proposal for a Common Consolidated Corporate Tax Base (CCCTB), Hybrid Mismatches involving third countries (through a revision of the Anti-Tax Avoidance Directive (ATAD)) and a proposal for a Double Taxation Dispute Resolution Mechanism.

The issue of the financial trader exemption under the revision of the ATAD was raised as a concern. The EU proposal is much narrower in scope than that proposed at UK level, and many industry representatives have discussed this issue with HMT and HMRC. AFME is engaging on this issue at EU level. The IRSG Taxation Working Group chair will be following up with relevant parties to examine possible engagement under IRSG. There was also a state of play provided on the Financial Transaction Tax (FTT). The file has not progressed since November 2016 and was not discussed on the margins of the January ECOFIN Council as expected.

An update was given on the public country-by-country reporting (CBCR) file. As a revision of the Accounting Directive, the Council and Parliament will have to agree on the ultimate amendment to the existing legislation. On the Council side, the most

contentious issue remains the agreement of a blacklist of non-cooperative jurisdictions. This also remains an issue on the Parliament side, as does the triggering threshold of €750M. It is hoped that an agreement can be reached by the end of the Maltese Presidency.

Next steps: The Tax workstream next meets on 23rd March.

2. REGULATORY COHERENCE

IRSG Objective: the principal objectives for this workstream is to build on the findings of the EU Third Country Regime analysis, explore options for market access post-Brexit and also identify options for maintaining UK influence in regulatory policymaking.

City of London input: two officers from the Regulatory Affairs team provide the secretariat to the workstream. This includes support for the Chair and liaison with industry leads and key officials.

Latest developments: The last workstream meeting took place on 27th January, discussing a draft report on options for the UK to maintain market access following Brexit. This report has received extensive input from members and key government departments and is due to be completed by mid-February. Analysis on the UK influence element will be produced in March.

3. DATA

IRSG Objective: the principal objectives for this workstream is to provide expert analysis on the implications of Brexit from a data protection perspective, and industry recommendations to the Government as it prepares for exit negotiations with the EU. Outputs from the workstream will focus on the needs and priorities of UK-based financial and professional services firms and the likely impact of the UK's departure and any eventual UK-EU agreement.

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

Latest developments: The Data workstream last met on 6th February and discussed a renewed Terms of Reference to focus on new challenges and opportunities for the City created by Brexit. Two specific outputs will be pursued as priorities:

- a. Analysis of the implications of the UK's departure for:
 - Personal data flows in and out of the EU27

- The extra-territorial scope of the GDPR
 - Supervisory arrangements
 - International data transfers
 - Broader data protection requirements
- b. Identification of possible options for the UK to ensure:
- The ongoing free flows of data in and out of the EU27
 - The continuation of international data transfers
 - The development of a beneficial regulatory framework for UK-based firms

Next steps: The workstream is due to meet in early March to set out a timeframe for delivering new analysis on these areas and finalising the group's specific focus.

4. 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 6th January, with members discussing final amendments to the report which has now been approved by the IRSG Executive Board. The report has been shared with officials from key government departments, with whom workstream members are shortly due to meet to discuss the paper's findings.

Next steps: Meetings to be scheduled with key officials in February, with further analysis of Brexit impact on trade depository and non-CCP institutions in next workstream meeting (date tbc).