Keeping Up With Regulatory Change

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Poll Question

Where does regulation feature in terms of strategic demands for your business?

• Number 1

• Top three

• Top five

• Not important
Poll Question

Which regulatory areas are causing the most concern?

- Taxation
- Capital adequacy / resolution planning
- Cyber security
- Payments legislation
- Structural reform
- None of the above
Poll Question

Which regulation gives you the biggest headache?

• Basel III

• FATCA

• Dodd Frank

• Payments legislation (local to your region / market)

• Securities related regulation (local to your region / market)

• All of the above
Poll Question

What is the biggest difficulty in dealing with regulation?

- Volume
- Unclear objectives of the regulation
- Lack of understanding and knowledge
- Unintended consequences
- Cost implications and implementation
Citi TTS’ Global Regulatory and Market Strategy function aims to **monitor** emerging regulatory change, perform **advocacy** where possible, support the development of appropriate **business strategies** around those changes, provide **client support** via insightful communications, and enhance **communication** flow and house timely, accurate information and resources globally.

Identify regulatory priorities via the impact on these criteria:

- **Technology**
- **Clients**
- **Organization Structure**
- **Reputation**
- **Revenue**

Advocacy and Industry Engagement:

- **Payments Regulatory Expert Group Chair, and Information Security Working Group**
- **Regulatory Affairs Committee and Intraday Liquidity Monitoring Working Group**
- **UK Payment Systems Regulator**
- **EPC and UK Payments Councils**
Key Themes in Regulatory Change

1. ‘Fragmentation’: Differing local regulatory requirements and varying implementation of globally agreed rules increase complexity and impact banks’ abilities to provide services.

2. Greater and closer supervision by governments and national regulatory bodies via tax led initiatives or recovery & resolution planning (EU SSM, OECD BEPS, FATCA, EU FTT).

3. Harmonisation, innovation, competition and consumer protection: via efficiency and/or greater customer choice (SEPA, PSD2, MiFID II / MiFIR, T2S, CSDR).

4. Disintermediation of the correspondent banking model: new entrants into the traditional GTB to end-user flow.


6. Negative interest rates.

7. The continuing conflict between competitive reform and AML/compliance.
Regulatory Landscape: Key Drivers

Recovery and Resolution/Ring-fencing
- EU Recovery and Resolution Directive
- EU Structural Reform Regulation UK Vickers Ring-fence
- US Foreign Bank Rule
- Dodd-Frank/Volcker Rule

Capital Adequacy/Leverage/Liquidity
- Basel III: Global implementation objective
- CRD IV

Taxation
- EU FTT
- FATCA
- BEPS

Financial Stability

Customer Protection

Payments
- Europe: Payment Services Directive II, Card Regulation and SEPA

Deposit Guarantees
- EU Deposit Guarantees Directive

Shadow Banking
- G20 agenda
- Alternative Fund legislation
- Money Market Funds

AML
- Increased regulation and sanctions risk

Infrastructure
- OTC Derivatives Clearing
- CSDR
- MiFID / MiFIR
- EMIR
# Regulatory Developments Across the Globe

Multiple global, regional and local regulations and extra-territorial complications - against a backdrop of challenging macro economic environment and geopolitical uncertainty.

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<td>AML/OFAC ATF/ABC</td>
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<td>International Payments Framework</td>
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<td>FSA/FCA reviews: mis-selling and outsourcing (contingency planning/step-in rights)</td>
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<td>Depositor Protection and National Preference</td>
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<td>LIBOR Remediation</td>
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<td>Conduct Risk</td>
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<td>New Payments Systems Regulator</td>
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**General risk of overlaps and inconsistencies in regulatory developments across the globe:** concerns around non-level-playing field; fragmented approach challenges global operating model of banks and global corporations.

**Challenges on implementation of internationally agreed models** raise questions on availability and cost of global network based services. Key message to regulators focusses on importance of global transaction banking services to the real economy.

**Ongoing evolution of European payments legislation** with consumer protection enhancements focusing on ensuring corporate flexibility.

**Derivatives Clearing/Trading:** (too) slow alignment work between US/European regimes.

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<td>Volcker</td>
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<td>Compensation/ Whistle blowing/Mkt Abuse</td>
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<td>Investor protection</td>
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Appendices
# Glossary

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<th>Acronym</th>
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<td>BEPS</td>
<td>Base Erosion Profit Shifting</td>
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<td>CMU</td>
<td>Capital Markets Union</td>
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<td>CRD IV</td>
<td>Capital Requirements Directive IV</td>
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<td>CSDR</td>
<td>Central Securities Depositories Regulation</td>
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<td>EBA</td>
<td>European Banking Authority</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EMIR</td>
<td>European Market Infrastructure Regulation</td>
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<td>FATCA</td>
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<td>PSD II</td>
<td>Payment Services Directive II</td>
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<td>SEPA</td>
<td>Single European Payments Area</td>
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Hot Topics: Basel III

- Basel III and developments at BCBS level
  - Risk of diverging national implementation of Basel III
  - Trigger point for capital buffers, reporting requirements and implementation timelines vary
  - The BCBS Regulatory Consistency Assessment Programme (RCAP) ensures an on-going review of national Basel III implementation to spot diverging approaches. So far the following countries have been reviewed: Canada, Australia, Brazil, China, Switzerland, European Union, Singapore, Japan, US
  - BCBS focus in 2015 and beyond includes strengthening supervision, improving disclosure and new calibration for operational risk capital

- Basel Intraday Liquidity Monitoring: The Basel Committee’s Monitoring Tools for Intraday Liquidity Management Framework, issued in April 2013, formally apply in January 2015 (more detail here: [http://www.bis.org/publ/bcbs248.pdf](http://www.bis.org/publ/bcbs248.pdf)). Only a minority of countries have taken steps to embed the requirements into their national legislation and major countries

- Europe and US local regulatory rules still under way to enforce these global recommendations

- The most recent revised element of Basel III, which was initially published in 2010 by the Basel Committee on Banking Standards (BCBS), is the Net Stable Funding Ratio (NSFR). The final NSFR version was issued in October 2014 (see following link [http://www.bis.org/bcbs/publ/d295.pdf](http://www.bis.org/bcbs/publ/d295.pdf))

- A dedicated task force under the umbrella of BAFT, the global trade body for transaction banking, has been set up to monitor the global implementation of these recommendations. This task force will report to the BAFT Global Public Policy and Regulatory Affairs Committee
Hot Topics: FATCA

5 Key Areas of Focus

New Account Due Diligence

FATCA Withholding

Pre-existing Account Due Diligence

Monitoring for Changes in Circumstance

Information Reporting on U.S. Accounts

Applies to:
• Accounts opened on or after July 1, 2014 for individuals and January 1, 2015 for entities
FATCA Requirements:
• Collect documentation to establish FATCA status at account opening
• Identify U.S. indicia that make the claimed status incorrect or unreliable
• Collect and verify GIINs for certain FFIs
• Validate tax documentation collected against all account information

Applies to:
• Accounts opened prior to July 1, 2014 for individuals and January 1, 2015 for entities
FATCA Requirements:
• Search for indicators of U.S. status on certain existing accounts held by individuals (for FFIs only)
• Perform enhanced due diligence on high net worth individuals (a value of $1 million or more) (for FFIs only)
• Search for certain indicators of accounts held by prima facie FFIs (for USFIs and non-IGA countries)
• FFIs must request documentation to establish the foreign status of individuals with U.S. indicia
• Both USFIs and FFIs must request documentation to establish the FATCA status of all entities

Applies to:
• U.S. source FDAP income paid on / after July 1, 2014, unless an exception applies (e.g. grandfathered obligations, short-term debt).
• Gross proceeds and foreign pass thru payments paid after 2016
• Generally does not apply during due diligence period for pre-existing accounts
FATCA Requirements:
• USFIs must withhold on NPFFIs
• PFFIs must withhold on NPFFIs and unless the PFI is located in an IGA country, on recalcitrant accounts

Applies to:
• All accounts
FATCA Requirements:
• Monitor for changes in circumstances that affect the FATCA Status of the account
• Collect additional documentation, as required

Applies to:
• PFFIs and Reporting Model 1 FFIs who have U.S. accounts
FATCA Requirements:
• 2014 - Report year-end account balance/value
• 2015 - Also report income paid
• 2016 and later - Also report gross proceeds
Hot Topics: Structural Reform and Recovery & Resolution

- EU Structural Reform is cross-border crisis management of credit institutions and investment firms
  - Finally adopted in June 2014, with member states transposing to national law by 2014 end
  - (EBA) and EU Council are developing further rules in certain areas
  - Consists of the Single Supervisory Mechanism (SSM) made up of the European Central Bank (ECB) and national competent authorities – the first step in Banking Union and risk assessment, asset quality reviews and stress tests
  - The ECB will directly supervise ‘significant’ banks, identified according to quantitative and qualitative criteria. The ECB has made it clear that it can take any institution under direct supervision at any time
  - Single Resolution Mechanism (SRM) is the second phase of Banking Union and came into effect in August 2014 and is overseen by Single Resolution Board (“SRB”) and national authorities from January 2015 to 2016. The SRM applies to ALL banks
  - Structural Reform Fund (“SRF”) was adopted in 2014 and will run from 2016 over eight years

- In January 2015, further regulatory measures were proposed, following on from the Liikanen report of 2012
  - The proposal also applies to foreign branches operating in the EU, in an attempt to drive a level playing field and avoid circumvention
  - It provides the possibility for the Commission to recognise the equivalence of third country structural reforms (when meeting certain conditions) and make it possible for third country banks operating in the EU or EU banks operating overseas, to be exempted from the proposed obligations

- Bank Recovery and Resolution Directive (BRRD) was proposed for the recovery and resolution of credit institutions and investments firms, creating an EU framework for cross-border crisis management and resolution in the banking sector. The proposal allows for bail-ins, creation of bridge banks and temporary control of banks
Structural Reform and Recovery and Resolution

• The legislation was formally adopted in 2014 and MS had until 31 December 2014 to transpose the BRRD into their national law. The EBA and European Commission will develop secondary rules in a number of areas

• Consultations on bail-in powers, valuation in recovery and resolution and draft guidelines in relation to bail-in (specifically the rate of conversion of debt to equity and treatment of shareholders) were launched in November, concluding in early February 2015
Hot Topics: European Payments Legislation

• **PSD2 (Payments Directive II):** Trialogue negotiations are still underway, with final text due in 2015 and implementation expected in 2016/2017. The Directive seeks to:
  – Modify concepts from PSD1
  – Address technology developments in the payments space
  – Enhance consumer protection and encourage innovation and competition

• PSD2 covers three main areas
  – Introduction of third-party payment providers (TPP)
  – Access to customers’ bank accounts and security verification
  – International ‘one leg-out’ transactions and non-EU currencies

• **Card Interchange Fee Regulation (IFR)**
  – Banks have to prepare for significant revenue implications, in particular in countries where levels were significantly higher than those proposed by the Commission
  – Several member states are arguing for more exemptions in the context of domestic debit card schemes
  – The issues around the honour all cards rule (HACR) for non-regulated cards remain

• **Network and Information Security (NIS) Directive**
  – Proposed as part of the broader Cyber Security Strategy, to ensure a common level of NIS across the EU to boost trust, harmonise the function of the market and encourage a level playing field
  – The proposal was submitted in early 2013 and reached informal trialogue discussions during Q4 2014, with the Latvian Presidency expressing keenness to progress the proposal during the first half of 2015
  – The scope is still TBD, along with information and reporting requirements for market operators and compliance obligations for Banks, in line with parallel financial securities legislation
Hot Topics: Taxation

- **EU Financial Transaction Tax (EU FTT)** has not progressed further failed to meet it’s January 2014 deadline but the intention remains to introduce tax on financial transactions in Europe with extraterritorial impact
  - In May 2014, 10 of the 11 participating member states committed to finalise “viable solutions” by 31 December 2014 to implement a first step of the FTT, no later than 1 January 2016
  - Work will continue in 2015, with the aim of still meeting the January 2016 target
- **Base Erosion Profit Shifting (“BEPS”)** refers to tax planning, which seeks to exploit cross border gaps and mismatches in tax laws to reduce the overall tax liability – “to make profits ‘disappear’ for tax purposes or to shift profits to locations where there is little or no real activity” (OECD Website)
  - Well publicised cases of dramatically low effective corporate tax rates have put corporate tax systems high on the political agenda. The work being undertaken by the OECD is mandated by the G20 and all G20 nations are participating in the work
  - The OECD launched an Action Plan on BEPS and has identified 15 Actions to be developed in 2014 and 2015 to more closely align taxation with economic activities and results and thus prevent “double non-taxation”
  - Considerable debate continues around implementation, consistency, approach to development countries and tax competition between jurisdictions
Hot Topics: CSD Securities and Derivatives Legislation

- **CSD Regulation** was designed to create a level playing field of custody services regardless whether provided by CSDs or custodian banks. Regulators want more transparency and ancillary services subject to standard banking regulation.

- CSDR officially entered into force on 17 September 2014 and ESMA and EBA have nine months to submit their proposals for over 30 Regulatory Technical Standards (RTSs) and Implementing Technical Standards (ITSs), covering a number of areas, e.g. the registration of CSDs, CSD requirements and settlement discipline measures.
  - ESMA’s technical advice is expected in early 2015 and draft technical standards (including a cost-benefit analysis and evidence) later on. Its guidelines on the standardised procedures and messaging protocols for arrangements put in place by investment firms to limit the number of settlement fails, is expected in Q4 2015.
Hot Topics: MiFID Securities and Derivatives Legislation

• Markets in Financial Instruments Directive (MiFID2 / MiFIR) – the EU Directive and Regulation amending the original Markets in Financial Instruments Directive to address market regulation and investor protection
  – Expands the existing reporting regime in an effort to increase transparency; impose additional systems and control requirements on firms using algorithmic and high frequency trading
  – Requires organised trading to be conducted on regulated venues; and increases protection for retail and professional investors based on simplification of products, better information, and increased regulatory supervision
• Published in June 2014 and effective from January 2017. EU Member States are required to implement MiFID2 in their national legislations by June 2016
• While primary legislation has been agreed, there is still much to be determined by ESMA and the Commission, with the final publication of these measures expected in February 2016 and ESMA consultation underway
Hot Topics: EMIR Securities and Derivatives Legislation

- **EMIR** – Regulation of OTC Derivatives, CCPs, and TRs. Key aspects include:
  - Mandatory clearing obligation for certain classes of OTC derivatives contracts entered into between certain counterparties
  - Risk-mitigation techniques for non-cleared OTC derivative transactions (e.g. provision on margin, timely conformations, portfolio reconciliation and compression, and dispute resolution)
  - Reporting obligations;
  - Framework for regulation of central counterparties (CCPs) and trade repositories (TRs)

- ESMA consultation underway for a number of areas, specifically relating to revised technical standards and implementation.

- In November 2014, ESMA published a consultation paper on the revision of the regulatory technical standards and implementing technical standards. The consultation closed in February 2015

- ESMA will deliver draft RTS on the clearing obligation for credit derivatives once the Commission has concluded its assessment process of the RTS on interest rate derivatives
Thank You