THIS MONTH

REIGN OF THE RENMINBI

The renminbi is very topical this month. According to messaging provider SWIFT, the currency of the world's second-largest economy is now the fifth most used currency for payments. I have to confess that before researching Chinese bank card association UnionPay for the article on page 15, I knew very little about China's payment cards. I had no idea that UnionPay is bigger than Visa or MasterCard in terms of the number of cards that it has in circulation.

Michelle Price is ACT associate policy and technical director @michellehprice

{ IN DEPTH }

EUROPEAN PRIVATE PLACEMENT GUIDE IS PUBLISHED

The Pan-European Private Placement Working Group (PEPP WG) has recently published a *Pan-European Corporate Private Placement Market Guide* (see tiny.cc/dyyztx). The group was set up by the International Capital Market Association, the Association for Financial Markets in Europe, the Investment Management Association and financial services lobbying group TheCityUK, as well as other major players.

The guide is intended to provide a framework of suggested best practices for PEPP transactions, setting out the roles of the key parties and includes an illustrative transaction timetable and key processes. The ACT reviewed and provided comment on a late draft of the market guide.

Following on from the Breedon report in 2012, the ACT chaired a working party that looked at the development of a UK private placement market. A key recommendation identified in the report was the development of a standardised form of loan/note documentation (see www.treasurers.org/node/8624). The above PEPP WG guide outlines two different sets of recently developed documentation templates – those launched by the Loan Market Association (LMA) and the other by the Euro Private Placement Working Group (Euro PP, a French financial industry initiative).

In early January 2015, the LMA launched both a loan format (facility agreement) and a note format (subscription agreement) private placement documentation template for the parties to choose between, as well as a term sheet for use with either format. The documentation is based on the LMA's investment-grade facility agreement, but is adapted to reflect the specific characteristics of a private placement.

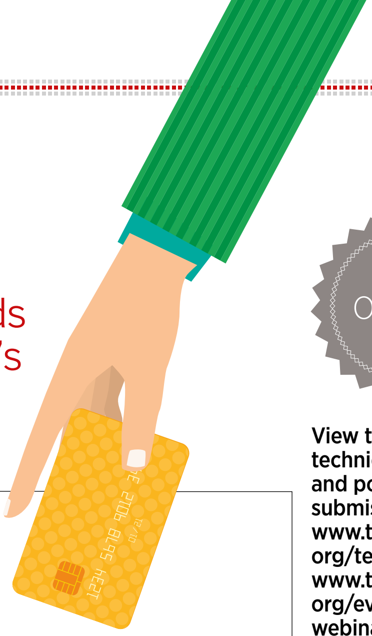
The LMA Private Placement Documents are governed by English law and assume the transaction is unsecured and with an investment-grade company as the borrower/issuer. But the documents are said to be drafted in such a way as to be easily adaptable to other governing laws and market sectors. Other notable features are that the debt is not expected to be listed, rated or cleared. It is a single drawdown or issuance of term debt with a bullet repayment. The interest rate can be either fixed or floating; and the terms provide for issuer optional prepayment or redemption, investor prepayment/redemption rights on the occurrence of a change of control, and prepayment or redemption on a change in tax law or as a result of an illegality. The ACT reviewed the drafts at a late stage and offers its thanks to law firm Slaughter and May for its input into this work.

A few days later, the Euro PP published standard documentation in both loan and note format. These templates will also reflect French euro private placement market practice.

Additionally, as mentioned in last month's Technical Briefing (see *The Treasurer*, February 2015, page 11), the ACT welcomes the UK government's announcement of an exemption from withholding tax on interest on private placements. This was another of the recommendations in the report produced by the ACT's private placement working group.

The guide is intended to provide a framework of best practices for PEPP transactions

In a relatively short space of time, UnionPay's global share of cards has grown to 38% worldwide. This exceeds both Visa's and MasterCard's share of cards at 24% and 18% respectively



{ INTERNATIONAL }

THE RISE OF CHINA'S PAYMENT CARD

UnionPay is the only domestic bank card association in China. It was established in 2002 under the approval of the People's Bank of China. In a relatively short space of time, UnionPay's global share of cards has grown to 38% worldwide, equating to 4.1 billion UnionPay cards. This exceeds both Visa's and MasterCard's share of cards at 24% and 18% respectively. Card usage differs on a country-by-country basis, with cards in Western Europe and North America used twice as frequently as in other regions. Hence, while UnionPay has the largest number of cards worldwide, its share of volume of transactions is lower at 6% and the value of its transactions is 27%. (Source: Retail Banking Research, August 2014 www.rbrlondon.com/newsletters/b327_GlobalCards.pdf)

UnionPay also operates an interbank transaction settlement system through which the interconnection between bank card systems can be realised, not only interbank, but also cross-region and cross-border. Its cards are accepted in more than 140 countries outside China. UnionPay debit cards can be used in the UnionPay network and other networks that have signed contracts with UnionPay, which includes the LINK network in the UK.

With the number of Chinese mainland tourists, students and business travellers increasing year-on-year, treasurers in relevant industries should consider the costs and benefits of adding a new payment card.

NEW ON THE WEB

View the following technical updates and policy submissions at www.treasurers.org/technical and www.treasurers.org/events/webinars

ACT responds to UK's Fair and Effective Markets Review

ACT responds to new UK Payment Systems Regulator consultation

ACT past webinars: Optimising the goals of security, liquidity and yield in today's liquidity landscape; and Cross border RMB – embracing the new norm

See also John Grout's blog on how corporate cash management went over year end 2014

{ WATCH THIS SPACE }

CMU PROPOSALS EXPLAINED

An objective of the proposed Capital Markets Union (CMU) is to make it easier for European corporates to raise funds through the markets, rather than relying on banks. It is often cited that start-ups and SMEs will be key beneficiaries. While SMEs don't typically source their funding from the likes of the bond and private placement markets, mid-sized and larger companies do, which frees up bank funding for smaller companies.

Lord Hill, the European commissioner for financial stability, financial services and CMU, has said that CMU "won't unleash a wave of legislative proposals". It is anticipated that among the proposals will be the facilitation of the private placement market, the development of safe securitisation and, potentially, the introduction of an EU-wide regulator.

The European Commission launched a Green Paper setting out a public consultation on CMU in the middle of February. Lord Hill is expected to publish his concrete plans this summer. Legislative and industry-led changes should be in place by 2019.

{ TECHNICAL ROUND-UP }

DATA, DELAYS AND DOWNGRADES

Corporates should remember that they remain legally responsible for their trade-reported data under the European Market Infrastructure Regulation (EMIR) regardless of any delegated reporting arrangements that are in place with their banks. The ACT is aware of the Financial Conduct Authority reviewing the EMIR reporting activities of some corporates. Now is the time to ensure that portfolio reconciliation practices are documented, that reconciliations are up to date and that you are accessing the repository to check that what it has accepted as reported is correct.

A renewed effort by the group of 10 euro-area countries could result in parts of the financial transaction tax coming into force on 1 January 2016. The latest push by France and Austria aims to widen the range of transactions, but at low rates. If derivatives are within scope, this could increase the cost of hedging for many corporates.

The Financial Conduct Authority has published a review of the regulatory regime for crowdfunding, which looks at the implementation of the new rules set out in March 2014. A copy of the report can be found at www.fca.org.uk/static/documents/crowdfunding-review.pdf

The European Securities and Markets Authority's (ESMA's) proposed pre-trade credit checks could delay the trade execution time of exchange-traded derivatives by up to 60 seconds in the European Economic Area. The proposals are outlined in ESMA's *Regulatory Technical Standards on MiFID II/MiFIR* in RTS 37. See www.esma.europa.eu/system/files/2014-1570_cp_mifid_ii_part_2.pdf

The use of Bitcoin continues to grow with the development of new Bitcoin applications, and stores such as Microsoft US adding Bitcoin as a method of payment. The future of Bitcoin is dependent on the development of an effective regulatory framework and the blockchain infrastructure, the public ledger where all Bitcoin transactions are recorded.

Standard & Poor's has downgraded six banks in the UK, Austria and Germany, including Credit Suisse, HSBC and the parents of Barclays and Lloyds. These downgrades are a result of these countries now requiring creditors to take losses before taxpayers following the EU's bank resolution law. Other EU countries are expected to follow by 1 January 2016, when the new rules must be implemented.