THIS MONTH

MiFID II, SWIFT AND REPOS

The Brexit vote is on the horizon; EU-wide financial regulation awaits a European Commission review of the Call for Evidence; and MiFID II is deferred for at least a year. China continues to vex the equity markets as we all try to understand the impact of its volatile economy worldwide – despite an enviable 6%+ growth rate. If you have views you'd like the ACT policy and technical team to take into account, please email us at technical@treasurers.org

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{ IN DEPTH }

MiFID II: TRADING PLATFORMS AND MARKET MAKERS

Three months after the need to defer MiFID II was recognised, the European Parliament has managed to formally extend implementation until 3 January 2018. On reflection, it's of concern for future legislation that implementation should not require reversion to the elected body – a warning to all involved in complex change management.

A few believed they would be able to slip in some changes, but getting the simple deferral was always going to challenge a process designed for debate in an organisation with a fulsome agenda. For now, this is just deferral.

The immediate concern for the modern treasurer remains the impact on the use of trading platforms to deal with their banks. MiFID II adapts the 'own account' exemption of MiFID, which enabled corporate treasurers to make use of the improved internal control and efficiency of electronic trading.

MyTreasury and Thomson Reuters have each raised concerns that corporate use of their trading systems could require their corporate customers to adopt the burden of registration as traders with their local EU National Competition Authorities (NCAs): the Financial Conduct Authority for UK treasurers. We would also expect this to impact users of 360T, and to be copied throughout the G20 members if implemented in the EU.

There is light at the end of this tunnel, with associations poring over discussions with the European Securities and Markets Authority (ESMA) on the interpretation of the change in wording, to understand how ESMA intends to be used by EU NCAs, which may not be to catch non-financial counterparties at all. We will keep you updated through our newsletter and blogs as the debate becomes clearer.

Market makers retreat

Perhaps of longer-term concern is the continued withdrawal of market makers as the cost of implementing MiFID II across the EU adds to the capital cost of market-making operations. We have commented in the latest e-newsletter on those who have already departed.

The impact of worldwide G20-based regulation for treasurers is most likely the widening of secondary spreads of traded bonds and the knock-on effect to primary-issue pricing. Fewer market makers may have the benign effect of reducing intra-market-maker competition for a wafer-thin margin, but the fundamental effect of increasing the bond traders' capital reserves can only be to require greater trading income to cover costs. A few basis points here or there from government bond trading through to corporate bond trading will soon add to the corporate interest bill, as the Organisation for Economic Co-operation and Development is trying to reduce the tax wedge (see www.treasurers.org/node/315246 for the latest on UK Base Erosion and Profit Shifting).

This is all developing while the European Commission continues its push for increased bond issuance under the umbrella of the CMU Initiative, which requires a broad-based traded bond market to stimulate demand and maintain liquidity, as traditional bank lending is under threat from its capital regulation.

We will keep you informed as the EU position develops.

NEW ON THE WEB

View technical updates, policy submissions and webinars at www.treasurers.org/technical and www.treasurers.org/events/webinar. Elsewhere on the web:

A reminder of *The Treasurer's Wiki*: www.treasurers.org/wiki

Brexit: we have opened up the discussion with a blog: blogs.treasurers.org/?p=313877

Our response to the *Consultative Position Paper on the Evolution of Euribor*: www.treasurers.org/ACTmedia/ACT_response_Euribor_consultation.pdf

EACT report on regulatory issues February 2016, including an update on the financial transaction tax, money market funds and bank ring-fencing: www.treasurers.org/ACTmedia/Monthly_Report_Regulatory_Issues_EACT_February_2016.pdf

{ TECHNICAL ROUND-UP }

WMBA and BRRD

CHANGE TO WMBA BENCHMARK CALCULATION METHODOLOGY FOR SONIA AND RONIA

The Wholesale Market Brokers' Association (WMBA) has announced changes for these two benchmarks to take effect from 20 June 2016. These extend the day until 18:00 to keep in line with the extended CHAPS and CREST cut-off, and the fixing will be half an hour after that time. See http://tinyurl.com/gw78bud

BANK BAIL-IN PROVISIONS

As the Bank Recovery and Resolution Directive (BRRD) approaches, there have been efforts to clear up legacy bad debts. Italy has agreed with the EU government guarantees, sold at market rates, to enable Italian banks to sell up to €200bn of debt. See http://tinyurl.com/hgb87yp for a summary and discussion of this agreement, which serves to highlight differences between banking among the EU member states.

Italian savers have bought into bank-retailed savings products, which fall outside deposit-guarantee schemes, hence their concern that their banks remain solvent and their deposits are not exposed to any degree of bail-in.

This serves to illustrate the degree to which corporates will need to understand the business of their banking counterparties and the status of their corporate banking under BRRD, and after allowing for any changes required by banking separation.

{ INTERNATIONAL }

SWIFT AND GLOBAL PAYMENTS

So much effort has been going into facilitating retail payments that we can lose track of SWIFT's pre-eminence in communicating between banks. Large corporates have been signing up, as SWIFT participants will be able to initiate messages into the banking systems.

SWIFT has announced an initiative to develop direct access for corporate treasurers in the B2B payment market with the following key features:

- Same-day use of funds;
- Transparency and predictability of fees;
- End-to-end payments tracking; and
- Transfer of rich payment information.

See http://tinyurl.com/zhh5p3x

Chinese reserves

The call for China to introduce capital controls increases. The *Financial Times* reports on the pace of capital outflows as Chinese nationals seek to protect themselves against further renminbi devaluation. (See http://tinyurl.com/hqyfgfr)

Although it's worth keeping scale in perspective: Chinese forex reserves are down to $3.23 trillion; and recent outflows are averaging at around $100bn per month. Ultimately, we look to China to develop its internal economy to maintain the high levels of growth that support international trade and enable recent new-found wealth to trickle down to the poorer sections of its economy.

{ WATCH THIS SPACE }

REPOS

The repurchase agreement (repo) has provided a means by which natural holders of traded securities can provide security for short-term loans. Banks and other financial institutions, including your own pension fund, can use those holdings of long-term gilts they hold to manage their liquidity.

Treasurers of larger enterprises have made use of the repo market to enhance yield and diversify, and mitigate risk. The repo can be regarded as a stand-alone short-term investment or as additional security to enable increased lending to relationship banks during a period when corporates are holding increased cash to guard against market disruption.

A major drawback for corporates that have considered joining this market has been the documentation with the standard Global Master Repurchase Agreement, and the need for a custodial agreement and a settlement agent. The market already uses tripartite agreements to bring the custodian, settlement agent and counterparty together, and some exchanges are implementing multiple-counterparty arrangements. This is so the corporate lender does not need to agree a separate tripartite with each of its banks only to find that the appetite of some has disappeared over the potential six months of negotiation.

An initiative is being considered to draft more standardised agreements for corporate engagement in the market, which could simplify access, reduce engagement time and make this a more attractive cash management option, which will be simpler to explain to finance directors and boards.