

# Banking Law Update

## **BULLETIN EDITORS**

### **Regulatory Developments**

Prof. George Walker  
Centre for Commercial Law Studies, London

### **European Developments**

Richard Hanke  
3 Verulam Buildings, London

### **Islamic Finance Developments and International Developments**

Dr. A Karim Aldohni  
Newcastle Law School, Newcastle University

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## REGULATORY DEVELOPMENTS

### REGULATORY DEVELOPMENTS

#### Financial Conduct Authority (FCA)

##### *Arch Financial Products*

The Upper Tribunal has upheld the FCA's decision to censure Arch Financial Products LLP and to impose bans on its former chief executive, Robin Farrell, and senior partner and former compliance officer, Robert Addison. Farrell and Addison were also fined £650,000 and £200,000 with the company being fined £9 million for misconduct although waived due to financial conditions. The individuals had been reckless in managing conflicts of interest in four specific transactions fairly and had lacked integrity and failed to act to ensure that the company had adequately identified and taken appropriate steps to mitigate and record the conflicts in its business. The company separately failed to segregate and control access to and use of non-public information in its business with other compliance monitoring failures.

**FCA, 20.1.2015**

##### *Asset Management and Market Abuse*

The FCA has published a paper which sets out the finding of its thematic review of *Asset management firms and the risk of market abuse* (February 2015) TR15/1. This confirms that firms had practices in place and procedures to control the risk of market abuse although these were only considered comprehensive in a limited number of firms. Further work was required to ensure that these operated effectively and covered all material risks with firms having specifically managed the difficulty of receiving inside information through all aspects of the investment process and managed this risk effectively. Only a minority of firms had appropriate post-trade surveillance mechanisms in place. The paper specifically exams the management of risk that inside information may be received but not identified, controlling access to inside information and managing the risk of improper disclosure, pre-trade controls, post-trade surveillance and personal account and dealing policies as well as training.

**FCA, 18.2.2015**

##### *Aviva Fine*

Aviva Investors has been fined £17.6 million for systems and controls failings by the FCA which led to the firm's failure to manage conflicts of interest fairly. The company had employed a side-by-side management strategy between August 2005 and June 2013 on certain desks within its Fixed Income area with funds being paid differing levels of performance fees managed by the same desk. A proportion of these fees were paid to traders in Aviva Investors Fixed Income area who managed funds on a site-by-site basis which created conflicts of interest with the traders having an incentive to favour one fund over the other especially where funds traded in the same instrument. The firm had identified the issue and recorded it in its conflict log although

the FCA identified significant weaknesses in the company's management framework and the systems and controls operating in the Fixed Income area. £132 million was paid in compensation to eight funds affected despite the company having maintained a 'three lines of defence' model of risk management. The FCA concluded that the firm had failed to take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems and failed to manage conflicts of interest fairly between itself and its customers and between customers and other clients.

**FCA, 24.2.2015**

### ***Buy-To-Let Mortgages***

The FCA has issued a consultation paper on implementation of the new legislative framework for consumer buy-to-let (CBTL) mortgages under the Mortgage Credit Directive Order 2015. Governments can claim exemption from the requirements of the Directive where they have appropriate frameworks for specific types of activity. The new framework gives the FCA powers to register, supervise and take action against firms carrying out CBTL activities.

**FCA, 5.2.2015**

### ***Consumer Credit***

The FCA has issued a consultation paper on proposed changes to its Consumer Credit Rules and Guidance (CP15/6). The objective is to correct possible areas of harm to consumers identified since the FCA took over responsibility for regulation of the consumer credit market in April 2014. The changes principally related to credit broking, guarantor lending, high-cost short-term credit, financial promotions, arrears, default and collection and mortgages. The remuneration structure for brokers has been reconsidered with the possible removal of the credit broking and fee rules in PS14/18. Firms should provide adequate explanations to guarantors, assess their credit worthiness and treat them with forbearance. Guidance on the clear, fair and not misleading principle may be elevated to a rule with the relative prominence and representative APR being highlighted. Consequential amendments are necessary on implementation of the EU Mortgage Credit Directive 2014/17/EU.

**FCA, 24.2.2015**

### ***Independent Governance Committees***

The FCA has published final rules requiring firms to establish and maintain independent governance committees (IGCs) in connection with the management of workplace pension schemes. IGCs represent the interests of scheme members in assessing the value for money of pension schemes and challenging providers to make necessary changes where appropriate. The establishment of IGCs had been recommended after an Office of Fair Trading (OFT) market study identified problems within the workplace pension market including potential conflicts of interest between employers and schemes.

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**FCA, 4.2.2015**

### ***Investment and Corporate Banking***

The FCA has confirmed that it will launch a first wholesale market study as to whether competition is working in the investment and corporate banking areas. This would include potential conflicts of interests, value for money, transparency and bundled services in the market and be conducted as part of the FCA wider examination of wholesale markets and its Fair and Effective Markets Review. This follows the FCA review of competition in the wholesale area which confirmed that difficulties in price and quality of services disclosure may prevent clients from assessing whether they are receiving value for money and with the bundling and cross-selling of services making it difficult for new market entrants and smaller established firms to challenge larger players.

**FCA, 19.2.2015**

### ***LIBOR Fines and Bans***

Former chief executive of Martin Brokers, David Caplin, and Jeremy Kraft, former compliance officer, have been fined £210,000 and £105,000 with both being banned from carrying out a significant influence function at a financial services firm for compliance failings with regard to LIBOR. The FCA considered that the directors' failings contributed to a culture at the firm that permitted LIBOR manipulation to take place and enabled the misconduct to continue undetected over a prolonged period. They had failed to recognise the risk of this culture developing and to take reasonable steps to prevent it. Proper systems and controls were non-existent with a culture of revenue coming first and compliance being unimportant. The risk that brokers would give or accept inducements was ignored with corrupt brokers' payments being made in exchange for LIBOR manipulation. The original fines of £300,000 and £150,000 were reduced on 30% early discount.

**FCA, 20.1.2015**

### ***Listing Fine***

Reckitt Benckiser Group plc (RB) has been fined £539,800 for inadequate systems and controls in the monitoring of share dealing by senior executives in own shares which contributed to late and incomplete disclosure to the market of share dealings by two senior executives. This led to breaches of the Disclosure and Transparency Rules and the Model Code. The FCA considered that the company had failed on a number of occasions between July 2005 and October 2012 to maintain appropriate systems and controls with the company being unable to monitor properly share dealings on behalf of senior executives by third parties. The dealings should have been notified to the market by end of the next business day as soon as the company became aware of the dealings. The original £771,190 fine was reduced on 30% discount.

**FCA, 20.1.2015**

### ***Payment Protection Insurance***

The FCA is to investigate the Payment Protection Insurance (PPI) complaints handling to determine whether further intervention is required. Seventy percent of complaints have been upheld since January 2011 with a total of 14 million PPI consumer complaints being handled and £17.3 billion in compensation paid. The FCA will determine whether the current approach satisfies its objectives of securing appropriate protection for consumers and enhancing the integrity of the UK financial system. Additional action may include launching a consumer communication campaign, imposing a time limit on complaints or other rule changes or guidance.

**FCA, 30.1.2015**

### ***Recovery and Resolution***

The FCA has published a policy statement on *Recovery and Resolution Directive, including feedback on CP14/15 and final rules* (January 2015) PS15/2. CP14/15 provided for implementation of the EU Bank Recovery and Resolution Directive (BRRD) in the UK with regard to investment firms which are regulated potentially by the FCA (IFPRU 730K firms) and other group entities within the BRRD. The principal Handbook revisions are made to IFPRU and SUP as well as the glossary of definitions. The paper includes feedback on the comments received and final rules. CP14/15 dealt with recovery, notification of failure or likely to fail, resolution, intra-group financing and contractual bail-in with annexes covering metrics for determination of significance, simplified application of recovery plan requirements, cost benefit analysis, compatibility statement and consultation questions with draft Handbook text. The measures will apply to solo regulated FCA firms. An IFPRU 730K firm is an investment firm that is not a CPMI firm, IFPRU 125K firm or IFPRU 50K firm. These generally undertake proprietary trading and balance sheet risk on their profit or deal on own account for the purposes of executing client orders or operate multilateral trading facilities. The measures also apply to groups that contain a 730k firm or credit institution. The FCA expects the new recovery and resolution provisions to apply to around 230 firms.

**FCA, 16.1.2015**

### ***Senior Managers Regime***

The FCA and PRA have confirmed that Non-Executive Directors (NEDs) with specific responsibilities, including Chairman, will fall within the new Senior Managers Regime (SMR). Other positions covered include Senior Independent Director and the Chairs of the Risk, Audit, Remuneration and Nominations Committees. These persons will be subject to the SMR including regulatory pre-approval, the new conduct rules and presumption of responsibility.

**FCA, 23.2.2015**

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### **Prudential Regulation Authority (PRA)**

#### ***Depositor, Dormant Account and Policyholder Protection***

The PRA has issued a consultation paper on *Depositor, dormant account and policyholder protection – amendments* (January 2015) cp4/15. This sets out transitional provisions with new rules and consequential amendments to the PRA Handbook concerning these accounts following earlier consultation papers (cp20/14 and cp21/14). The depositor protection provisions include transitional arrangements for single customer view (SCV), account marking and information requirements, a supervisory statement on PRA expectations with regard to eligible accounts and deposits under the recast Deposit Guarantee Schemes Directive (DGSD) and SCV reporting and the treatment of waivers and modifications under the Compensation sourcebook (COMP).

**PRA, 30.1.2015**

#### ***Financial Services Compensation Scheme***

The PRA has issued a consultation paper on *Financial Services Compensation Scheme – management expenses levy limit 2015/16* (January 2015) cp2/15. This proposes to set the management expenses levy limit (MELL) for the Financial Services Compensation Scheme (FSCS) at £74.4 million with the PRA and FCA required to limit the MELL under the Financial Services and Markets Act (FSMA) 2000. The objective is to ensure that the FSCS has necessary resources to carry out its functions efficiently and economically and provide a responsive and well understood compensation service for financial services consumers.

**PRA, 19.1.2015**

#### ***Pillar 2 Capital Assessment***

The PRA has issued a consultation paper on *Assessing capital adequacy under Pillar 2* (January 2015) cp1/15. This includes changes to the PRA Pillar 2 capital framework in the banking area to ensure that firms maintain adequate capital to support business risks and have appropriate processes to ensure compliance under the CRR and Capital Requirements Directive (CRD) IV. Authorities are required to assess under Pillar 2 risks not adequately covered or not covered at all under Pillar 1 and ensure that firms comply with their capital requirements under stress. The paper provides a background to the proposed revised Pillar 2 framework, the Pillar 2a methodologies (for assessing credit risk, operational risk, credit concentration risk and pension obligation risk under Pillar 2a in addition to the existing approaches applied to market risk, counterparty credit risk and interest rate risk in the non-trading book (IRRBB)), the PRA buffer, governance and risk management, disclosure and impact analysis.

**PRA, 19.1.2015**

#### ***Recovery Planning***

The PRA has issued a final set of rules on *Recovery planning (January)* (December 2013 updated January 2015) ss18/13 update. This sets out the

PRA's policy on recovery with two supervisory statements on recovery planning and resolution. The rules on the supervisory statement are to come into effect on 19 January 2015 except with regard to rules requiring a bail-in recognition clause in contracts governed by a third party law to come into effect within two years from 19 February 2015 with regard to debt instruments and 1 January 2016 with regard to other liabilities. The recovery plan sets out the firm's menu of options to deal with severe financial stresses caused by idiosyncratic problems, market-wide stress or both including liquidity and capital difficulties. This should include a list of recovery options, a description of each option using a consistent framework provided, a list of indicators to activate recovery implementation, a clear description of the escalation and decision-making process, an operational plan for accessing central bank liquidity facilities, confirmation that the board of directors, or other senior governance committee or group, has reviewed and approved the recovery plan and a communication plan to ensure that stakeholders are provided with timely and appropriate information during the recovery process. Recovery plans should comply with the information requirement set out in the PRA Recovery Planning Part of its Handbook with the content of recovery plans being proportionate to the nature, scale and complexity of the activities of the firm and group. Firms should also comply with the content requirement set out in the European Banking Authority (EBA) RTS published in July 2014. Firms had separately to consider the EBA Guidelines (GLs) on recovery plan scenarios with the PRA requiring all globally systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) to provide for scenarios within the recovery plan with all other firms providing three scenarios. Recovery plans should generally consist under the PRA requirements of: (1) summary, (1.1) integration with existing processes and (1.2) implementation of the plan; (2) recovery plan options; (2.1) summary, (2.2) impact, (2.3) execution/implementation issues, (2.4) credibility, (2.5) scenario planning, (2.6) plan for accessing central bank facilities, (2.7) disposals, (2.8) remediation measures and (2.9) wind-down analysis. The PRA has also provided a template for comparative reporting with a series of data items (including capital impact, risk-weighted and total asset impact, liquidity impact, leverage ratio exposure, assumptions to quantify liquidity/capital, timing to realisation of benefits, summary of hurdles/risks to implementation, franchise impact, likely effectiveness and ownership of the recovery option within the firm) to be completed on a Market-wide scenario, Idiosyncratic scenario and Combined scenario basis.

### **PRA, 1.2015**

#### ***Resolution Planning***

The PRA has issued a parallel supervisory statement on *Resolution planning* (December 2013 updated January 2015) ss19/13 update. This sets out the information that firms should provide to the PRA to facilitate resolution planning under the Resolution Pack Part of the PRA Rulebook. The PRA approach is based on targeted information requests designed to be proportionate to the size and complexity of the firm reflecting the resolution pack planning framework set out in cp11/16 and fs12/1 and subsequent Financial



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Stability Board (FSB) guidance. Two phases are distinguished covering the baseline information required to establish a resolution strategy for the firm and the specific information required to support the authorities' preferred resolution strategy while ensuring the protection of critical economic functions. Phase 1 information covers corporate structure and significant legal entity information (phase 1a) and economic functions (phase 1b). Phase 2 consists of three sets of information covering strategic specific information requests (bail-in (a1), partial transfer and bridge bank (a2) and bank insolvency procedure (a3)), critical function information request (payments, clearing and settlement (b1), trading book analysis (b2), cash services (b3) and custody services (b4)) and additional information requests (business reorganisation plan (c1), operational continuity (c2), liquidity needs (c3) and valuation in resolution (c4)). The PRA may also request additional information on a contingent basis where firms are experiencing stress and approaching possible resolution with information to be provided at short notice. All firms will comply with information under phase 1 to be submitted every two years or following a material adverse change. Phase 1 information should be provided within 15 months of publication of the supervisory statement. The preferred resolution strategy will be determined by the PRA and Bank of England following submission of the phase 1 information which will determine the specific information to be requested under phase 2. Information supply will be integrated into other continuing supervisory reports where appropriate (including business model analysis reviews, liquidity reviews or operational risk reviews) with firms being notified of any updated information required. A series of template tables are provided on the detailed information to be required under phases 1 and 2.

### **PRA, 16.1.2015**

#### ***Supervisory Tools on Recovery and Resolution***

The PRA final rules implementing the EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD) requirements are set out in Policy Statement 1/15 following earlier consultation paper 13/14 in July 2014. The objective is to ensure that firms are better prepared for financial stress and maintain credible and robust recovery planning with the authorities having all necessary information to implement resolution plans and ensure the feasibility of creditor bail-in through contractual recognition of bail-in requirements. The statement includes feedback on the issues raised in cp13/14 concerning Recovery planning (frequency and content of recovery plans for smaller firms, scenarios, cross-referencing to the resolution pack, third country branches and wind-down analysis), Resolution pack, Intragroup financial support (IGFS) and the contractual recognition of bail-in powers in contracts governed by third country laws. The statement includes five PRA Rulebook Instruments on *Recovery Plan*, *Resolution Pack*, *Group Financial Support*, *Bank Recovery and Resolution Directive and Contractual Recognition of Bail-in*. The PRA has published the two separate Supervisory Statements referred to above on Recovery planning (ss 18/13) and Resolution planning (ss 19/13).



**PRA, 16.1.2015**

### ***Third Country Equivalence***

The PRA has amended its earlier Supervisory Statement 20/13 on Third country equivalence aspects of the credit risk provisions in the CRR [Capital Requirements Regulation], and recognised exchanges (December 2014) ss20/13. This relates to the identification of recognised exchanges prior to the adoption by the European Securities and Markets Authority (ESMA) of implementing technical standards (ITSs) identifying individual markets and exchanges that qualify as recognised exchanges under the CRR. The European Commission had published a decision on 12 December 2014 on countries applying supervisory and regulatory arrangements, at least, equivalent to corresponding EU measures which decision came into effect on 1 January 2015. The revised statement sets out the exchanges that the PRA considers qualify under the CRR in advance of the ESMA ITSs.

**PRA, 23.1.2015**

### ***Whistleblowing***

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have produced a series of measures to formalise public disclosure, or whistleblowing, procedures within financial firms under the Public Interest Disclosure Act (PIDA) 1998. This develops current good practice in the banking and insurance area and existing FCA guidance on whistleblowing. The initiative follows the recommendation by the Parliamentary Commission on Banking Standards (PCBS) that banks and other institutions have specific mechanisms to allow internal disclosure with the PRA and FCA ensuring that these arrangements work effectively in practice. The measures specifically require that firms maintain appropriate arrangements and inform their UK based employees accordingly, advise employees that they can report to the PRA and FCA, provide protections to whistleblowers in whatever relationship with their firms, prevent the inclusion in new employment contracts and settlement agreements of clauses prohibiting disclosure and allocating responsibility for managing whistleblowing to an appropriate individual under the Senior Managers' Regime and Senior Insurance Managers' Regime.

**PRA, 23.2.2015**

### **Bank for International Settlements (BIS)**

#### ***Accounting for Expected Credit Losses***

The Basel Committee on Banking Supervision has issued a consultation document on *Guidance on accounting for expected credit losses* (February 2015). This replaces the Committee's 2006 guidance on *Sound Credit Risk Assessment and Valuation for Loans* (2006). This reflects the transfer to an expected credit loss (ECL) accounting framework across countries with the revised guidance intended to promote high-quality, robust and consistent implementation of ECL accounting frameworks across all jurisdictions. This

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includes supervisory expectations consistent with applicable accounting standards established by the International Accounting Standards Board (IASB) and other bodies although adjusted to reflect internationally active bank expected best practice.

**BIS, 2.2.2015**

### ***Bank Behaviour***

The Basel Committee has issued a working paper on *The interplay of accounting and regulation and its impact on bank behaviour: Literature review* (January 2015) wp28... While bank behaviour is affected by regulatory and accounting rules, the relationship between the two is not as clear understood. The paper provides a review of academic literature on the relationship between accounting and regulatory frameworks with specific reference to fair value accounting, provisioning, prudential filters and market discipline and disclosure.

**BIS, 29.1.2015**

### ***Banking and Regulation***

The Basel Committee hosted a workshop on 'Banking and regulation: the next frontier' on 22–23 January 2015 jointly organised by the Research Task Force of the Committee and the Centre for Economic Policy Research and Journal of Financial Intermediation. The workshop examined the reform initiatives adopted by the Committee following the 2007/financial crisis, referred to as its 'post-crisis reform agenda', in particular, with regard to capital adequacy, leverage, liquidity and macroprudential matters. Other areas covered included recovery and resolution (with bail-in provisions), structural reform, compensation, central counterparties and shadow banking. The workshop attempted to assess how successful the reform agenda had been in dealing with the problems identified and how useful this would act in combating potential future crises and either dampen or exacerbate them. The opening address was given by Mathias Dewatripont, co-Chair of the Research Task Force. Specific sessions were held on the Role of Government in the Financial System (including 'shadow banks' as 'cream skimmers' by Diana Hancock, Federal Reserve Board), Macroprudential Policies Before and During a Crisis (including Banks' Endogenous Systemic Risk Taking, Liquidity Trap and Excessive Leverage), Impacts of Bank Regulation (including the Limits of Model-Based Regulation and the Impact of liquidity regulation on banks, in particular, from the UK), a Critical Evaluation of Bail-ins as Bank Recapitalisation Mechanisms (Charles Goodhart), Capital and Liquidity Regulations (including Liquidity Policies and Systemic Risk), Effects of Capital Requirements on Bank Lending and Private Incentives and Bank Risk-Taking.

**BIS, 22.1.2015**

### ***Credit Risk Management Development***

The Joint Forum has carried out a survey across supervisory authorities and firms in the banking, securities and insurance areas to determine how credit

risk supervision and management have changed. Fifteen authorities and 23 firms responded. This updates its earlier 2006 review on *Regulatory and market differences: issues and observations* (2006). Four specific recommendations are made with regard to supervisory caution against over-reliance on internal models for credit risk management and regulatory capital, awareness of the growth of 'search for yield' (SFY) products in a low interest rate environment, the increased need for high-quality liquidity collateral to cover margin requirements for OTC derivatives sectors and examination of whether firms were accurately capturing central counterparty exposures within their credit risk management.

**BIS, 5.2.2015**

### ***Effective Risk Data Aggregation***

The Basel Committee has published a second progress report on *Progress in adopting the principles for effective risk data aggregation and risk reporting* (January 2015). This reviews implementation of the Committee's 2013 *Principles for Effective Risk Data Aggregation and Risk Reporting*. GSIBs are required to implement the Principles by 2016. Fourteen firms had indicated that they would be unable to comply fully with the Principle by the 2016 deadline.

**BIS, 23.1.2015**

### ***Financial Inclusion***

The Basel Committee has issued a study on *Range of practice in the regulation and supervision of institutions relevant to financial inclusion* (January 2015). This reflects developments in digital financial inclusion, including in connection with the service of poor and low-income customers, across different jurisdictions and the means in which authorities respond to the new challenges created in regulatory scope and supervisory allocation. This includes survey results on developments in financial inclusion and current regulatory and supervisory approaches including language (including such terms as regulation, supervision and licensing), supervisory powers, responsibilities and functions and prudential regulations and requirements as well as financial consumer protection issues.

**BIS, 30.1.2015**

### ***Pillar 3 Disclosure Requirements***

The Basel Committee has issued a revised set of Pillar 3 disclosure requirements following earlier perceived inadequacies. The objective is to ensure that market participants can better compare banks' disclosures of risk-weighted assets especially with regard to the transparency of internal model-based approaches used to calculate minimum regulatory capital requirement. The revised standards replace the earlier 2004 Basel II, 2009 Basel 2.5 revisions and 2009 enhancements. The new requirements include templates with accompanying definitions and fixed formats where appropriate. The standards are in nine parts and generally cover Pillar 3 information disclosure, risk

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management and RWA overview, linkages between financial statements and regulatory exposures, credit risk, counterparty credit risk, securitisation, market risk, operational risk (unchanged), interest rate in the banking book (unchanged) with abbreviations provided in Annex I and earlier superseded disclosure documents in Annex II.

**BIS, 28.1.2015**

### *Speeches*

A series of speeches have been given in recent months. Patrick Honohan, Governor of the Central Bank of Ireland, gave an address on 'Where did all the money channelled into property-backed lending go?' which was published in the Irish Times on 31 January 2015. Charles I Plosser, President of the Federal Reserve Bank of Philadelphia spoke on 'An appreciation of the Fed's 12 banks' before the Union League of Philadelphia on 17 February 2015. Raghuram Rajan, Governor of the Reserve Bank of India spoke on 'Democracy, inclusion and prosperity' before the DD Kosambi Ideas Festival, Goa on 20 January 2015. Jens Weidmann, President of the Deutsche Bundesbank spoke on 'Heading for stability and prosperity – bringing the Euro area back on track' before the City of London Corporation on 12 February 2015. Fabrizio Saccomanni, former Minister of Economy and Finance of Italy, spoke on 'Monetary spinovers? Boom and bust? Currency wars? The international monetary system strikes back' at the BIS Special Governor's Meeting, Manila on 6 February 2015.

**BIS, 1/2.2015**

### *Statistics*

The BIS has released a number of statistical papers. These include 'Residential property price statistics' (February 2015), 'Detailed data set on nominal residential property prices' (February 2015) and 'Long series on nominal residential property prices' (February 2015). Separate statistics have been provided on 'Global liquidity indicators' (February 2015), 'Locational banking statistics' (January 2015) and 'Consolidated banking statistics' (January 2015). The BIS has also published the 'International banking statistics at end-September 2014' (January 2015). This confirms that international banking activity continued to expand in the third quarter of 2014 rising 5% to around £493 billion. Cross-border lending was concentrated in Japanese yen and US dollars with emerging market cross-border lending decreasing with Russians claims specifically contracting by £11 billion and 15% fall.

**BIS, 1/2.2015**

### *Working Papers*

The Bank for International Settlements (BIS) has issued a number of working papers. These include 'A dynamic network model of the unsecured interbank lending market', 'Why does financial sector growth crowd out real economic growth?', 'Liquidity growth: the role of counter-cyclical interest rates', 'Bank competition and credit booms', 'The biofuel connection: impact

of US regulation on oil and food prices', 'Why did bank lending rates diverge from policy rates after the financial crisis?', 'Can demography affect inflation and monetary policy?', 'Bank capital shock propagation via syndicated interconnectedness', 'Global dollar credit: links to US monetary policy and leverage', 'Secular stagnation, debt overhang and other rationales for sluggish growth, six years on', 'Credit booms: implications for the public and the private sector', 'Trilemmas and trade-offs: living with financial globalisation' and 'Understanding the role of debt in the financial system'.

**BIS, 1/2.2015**

### **Financial Stability Board (FSB)**

#### *Istanbul G20 Meeting*

The Chairman of the Financial Stability Board (FSB), Mark Carney, wrote to the G20 Finance Ministers and Central Bank Governors ahead of the meeting in Istanbul in February 2014 to outline the FSB's work programme. This would be taken forward to support the goals of the Turkish G20 Presidency in 2015 following the Australian Presidency and previous meeting in Brisbane in November 2014. The priorities for the FSB's work were agreed at the Brisbane meeting as ensuring the full, consistent and prompt implementation of agreed reforms, finalising the design of the remaining post-crisis reforms and dealing with new risks and vulnerabilities. The FSB would publish its first annual report on implementation with implementation being supported through continuing FSB peer reviews (including other shadow bank activities, GSIBs supervision, bank resolution powers and recovery and resolution planning and the effectiveness of OTC trade repositories), reporting on the resolvability of GSIBs, IOSCO peer reviews and Basel Committee individual jurisdiction reviews. Completing the post-crisis reform agenda required additional work on capital adequacy (including improving the standardised approaches for the calculation of risk-weighted assets, dealing with excessive variability in internal-model based approaches and finalising the standard leverage ratio by 2015), ending too-big-to-fail (including finalising the total loss absorbency capacity (TLAC) of GSIBs and promoting industry adoption of contractual provisions recognising temporary stays on the close-out of financial contracts on resolution) and making derivatives markets safer (including TR reporting, design of the Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI) by the Committee on Payment and Market Infrastructure (CPMI) and with finalisation of IOSCO's cross-border regulatory toolkit). New risks and vulnerabilities would specifically be examined in terms of dealing with risks arising from market based finance, including capital market and asset management activities, shadow banking and conduct risks.

**FSB, 11.2.2015**

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### **International Organisation of Securities Commissions (IOSCO)**

#### ***Credit Rating Agencies***

The IOSCO Board has approved a project specification for its Committee 6 on Credit Rating Agencies (CRA) to obtain a better understanding of the CRA industry and specific products and services based on an information gathering exercise on services and products and then on service and product use and understanding. The study is directed at other CRA services including private ratings, confidential ratings, expected ratings, indicative ratings, prospective ratings, provisional ratings, preliminary ratings, one-time ratings, regional ratings, national ratings, point-in-time rating, scoring, credit assessments, rating assessments, assessments and research. Comments were invited before 23 March 2015 based on the questionnaire provided.

**IOSCO, 4.2.2015**

#### ***Oil Price Reporting Agencies***

IOSCO has asked for comment on the continuing implementation of its *Principles for Oil Price Reporting Agencies* (PRA Principles). This follows its September 2014 report into the activities of the four principal PRAs, Argus Media, ICIS, OPIS and Platts, on implementation prepared with the International Energy Agency (IEA), International Energy Forum (IEF) and Organisation of Petroleum Exporting Countries (OPEC). IOSCO has published a series of seven further questions which it requests public comment on as part of its further review into this area. Comments were invited by 12 March 2015.

**IOSCO, 12.2.2015**

#### ***Risk Mitigation***

IOSCO has published a final report on *Risk Mitigation Standards for Non-centrally Cleared OTC Derivatives* (January 2015). This includes nine standards intended to mitigate the risks in non-centrally cleared OTC derivatives markets. A substantial number of OTC derivative contracts would be cleared through central counterparties (CCPs) with IOSCO and the Basel Committee publishing a separate framework in 2013 covering non-standard cleared contracts that cannot be settled through CCPs. This consists of a series of risk mitigation standards developed with the Basel Committee and CPMI generally covering trading relationship documentation and trade confirmation, process and methodology for value determination, portfolio reconciliation, portfolio compression and dispute resolution. The objective is to produce legal certainty and facilitate timely dispute resolution, facilitate the management of counterparty credit and other risks and improve overall financial stability.

**IOSCO, 28.1.2015**

### ***Securities Prudential Standards***

The International Organisation of Securities Commissions (IOSCO) has published a final report on *A Comparison and Analysis of Prudential Standards in the Securities Area* (February 2015) (FRO 02/2015). This examines similarities, differences and gaps in terms of prudential and capital regulation of securities firms across jurisdictions. This updates the IOSCO's 1989 Report on *Capital Adequacy Standards for Securities Firms* (1989). The report specifically examines the use of the Net Capital Rule (NCR) approach adopted in the US and the Capital Requirements Directive (CRD) model used in the US although based on Basel Committee provisions. The report specifically examines high-level objectives and approaches within different capital frameworks, regulatory scope of capital frameworks and prudential frameworks and risks posed by group entities, constituents of regulatory capital, capital requirements, recent and proposed regulatory developments and conclusions (72–77) from the comparative analysis conducted. The report notes that the NCR is generally concerned with ensuring that securities firms maintain sufficient liquid balance sheet assets to allow them to be wound-down within a short period while the CRD focuses on firm solvency while both regimes attempt to ensure that securities firms hold sufficient capital to protect customers and creditors from losses in the event of firm failure. The approaches are considered to be structured in fundamentally different ways and use very different concepts to determine appropriate capital although common purposes arise. The report accepts that it is not possible to conduct calculations to determine whether a particular intermediary would hold more or less capital under the NCR or CRD with substantial national discretions and variations arising.

**IOSCO, 24.2.2015**

### ***Strengthening Global Securities Markets***

The IOSCO Board met in Seoul in February 2015 to take forward its work on securing strong, safe and efficient securities markets which were considered to be important drivers of global economic growth. The Board hosted a roundtable discussion on the impact of technical innovation and digital disruption on financial markets and services. Other matters discussed included progress on the FSB Non-Bank Non-Insurance (NBNI) SIFIs's and margin requirements for non-cleared OTC derivatives, work on central counterparties (CCPs), asset management and conduct risk, new mandates on secondary bond market liquidity and order routing incentives, capital market risks, cyber resilience, investor protection, credible deterrence and IOSCO's Enhanced Multilateral Memorandum of Understanding on cooperation and exchange of information and cross-border regulation, national updates and proposed monitoring and assessment of the national implementation of IOSCO's *Principles and Standards*.

**IOSCO, 13.2.2015**



## REGULATORY DEVELOPMENTS

### **International Association of Insurance Supervisors (IAIS)**

#### ***Policies and Procedures***

The Executive Committee of the International Association of Insurance Supervisors (IAIS) has adopted new Policies and Procedures following the resolution on comments received during the second public consultation. These consist of the Policy for Consultation of Stakeholders and Policy for Attendance at IAIS Meetings. The purpose is to provide new transparent and effective policies for engaging with stakeholders, referred to as any group or individual with an interest in IAIS activities, through the establishment of an inclusive and structured consultation process and without the need to pay any annual fee. The IAIS will also hold subject matter specific stakeholder meetings in various regions around the world including on its ComFrame and capital standard development.

**IAIS, 13.2.2015**

### **International Swap Derivatives Association (ISDA)**

The International Swaps and Derivatives Association (ISDA) has conducted a survey on preparing for the introduction of non-cleared margin requirements on OTC derivative trade set. Two thirds of respondents were concerned about their ability to post initial and variation margin on their non-cleared OTC trades. ISDA is assisting with the revision of existing contractual documentation, providing advice on the establishment of segregated accounts and supporting systems and processes to manage exchange and collateral settlement and developing a standard initial margin model (SIMM) or methodology to establish a single, regulatory approved model that market participants can use to exchange collateral in a manner consistent with the rules. The Working Group on Margining Requirements (WGMR) set up by the Basel Committee and IOSCO has indicated that initial margin requirements will be phased in from December 2015 beginning with the largest derivatives users with ISDA requesting further time to prepare with final national rules only having been recently published.

ISDA has separately supported the White Paper on *Pro-Reform Reconsideration of the CFTC Swaps Trading Rules: Return to Dodd-Frank* (29 January 2015) prepared by J Christopher Giancarlo, US Commodity Futures Trading Commission (CFTC) Commissioner. The Commissioner supports implementation of the requirements on the clearing of swaps through central counterparties and reporting of swaps trades to trade repositories but questions the CFTC implementation of the requirements on executing swaps transactions on regulated trading platforms under Title VII of the Dodd-Frank Act. The paper argues that there is a fundamental mismatch between the CFTC's swaps trading regulatory framework and the distinct liquidity and trading dynamics of the global swaps market with the CFTC framework being highly over-engineered, disproportionately based on US futures markets and bias against discretion and technological innovation.

The ISDA has proposed a new recovery and continuity framework for central counterparties (CCPs) in *ISDA CCP Default Management, Recovery and Continuity* (January 2015). The objective is to re-establish a matched book following default of one or more clearing members. This provides for a portfolio option of the defaulted clearing member's portfolio, limited cash calls to solvent clearing members, loss allocation mechanisms through a pro-rata reduction of unpaid obligations of the CCP and a possible partial tear-up of contracts to re-establish a matched book with CCP recovery being preferable to closure.

**ISDA, 1/2.2015**

### EUROPEAN DEVELOPMENTS

#### Capital Markets Union consultation

On 18 February 2015 the Commission launched a consultation on its plan to establish a single capital market in the EU in order to remove barriers on cross-border investment in the EU. It has published a Green Paper and Commission Staff Working Document setting out its objectives and policy priorities. It then plans to adopt an Action Plan in the summer, with the ultimate aim of legislation being effective by 2019.

The key objectives of the project will be:

- improving access to finance for all businesses and infrastructure projects across Europe;
- helping SMEs raise finance as easily as large companies;
- creating a single market for capital by removing barriers to cross-border investments;
- diversifying the funding of the economy and reduce the cost of raising capital

The Green Paper identifies the following principles that the Commission will seek to ensure underpin its future measures to create the Capital Markets Union:

- it should maximise the benefits of capital markets for the economy, growth and jobs;
- it should create a single market for capital for all 28 Member States by removing barriers to cross-border investment within the EU and fostering stronger connections with global capital markets;
- it should be built on firm foundations of financial stability, with a single rulebook for financial services which is effectively and consistently enforced;
- it should ensure an effective level of investor protection; and
- it should help to attract investment from all over the world and increase EU competitiveness.

## EUROPEAN DEVELOPMENTS

The Commission proposes progressing the Capital Markets Union project alongside the review of the Prospectus Directive and the adoption of a European framework on securitisation (in respect of both of which it has also launched consultations) and implementation of the European Long-term Investment Funds regulation.

More information is available on the Commission's dedicated website: [http://ec.europa.eu/finance/capital-markets-union/index\\_en.htm](http://ec.europa.eu/finance/capital-markets-union/index_en.htm)

### ISLAMIC FINANCE DEVELOPMENTS

#### **The Global Islamic Finance and Investment Group – Expanding the frontiers of Islamic finance**

Bank Negara Malaysia and the United Kingdom Foreign and Commonwealth Office co-hosted the second Global Islamic Finance and Investment Group (GIFIG) meeting at Sasana Kijang, Kuala Lumpur <sup>2nd February 2015</sup>.

This meeting follows the inaugural meeting held in London in March 2014. As with the previous GIFIG, a series of discussions were held between senior government officials and business leaders in Islamic finance around the world including the UK, Malaysia, Qatar, Bahrain and the UAE. Among the institutions represented were the Bank of England, UK Treasury, Islamic Financial Services Board, INCEIF, Maybank Islamic, CIMB Islamic, and Dubai Islamic Economy Development Centre.

With the increasing internationalisation of Islamic finance, this Group serves as a platform to foster cross-border linkages between different time zones, which may lead to seamless flow of information to facilitate capital and financial flows, efficient price discovery process, enhance competitiveness and innovation, as well as maintain the vibrancy of the industry.

The meeting has agreed on the following key outcomes:

- To improve communications to foster better understanding on Islamic finance globally; and
- To enhance efforts to link the flow of Islamic finance funds into infrastructure needs and to support economic development globally.

The Global Islamic Finance and Investment Group (GIFIG) was established following a commitment made at the World Islamic Economic Forum (WIEF) in London, in October 2013, with the aim of identifying the key global opportunities and challenges facing Islamic Finance, and to use its extensive knowledge and expertise to create a global Islamic Finance market that supports growth and prosperity. The group includes Ministers, central bank Governors, regulators, and CEOs of major Islamic financial institutions.

#### **Bank Negara Malaysia 26.02.15**

[http://www.bnm.gov.my/index.php?ch=en\\_press&pg=en\\_press\\_all&ac=3157&lang=en](http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press_all&ac=3157&lang=en)

### **The 12th IFSB Summit 2015 Theme Discusses the Core Principles for Islamic Finance Regulation**

The Islamic Financial Services Board (IFSB) announced that the theme of the 12th IFSB Summit is “Core Principles for Islamic Finance: Integrating with the Global Regulatory Framework”. This twelfth edition of the Summit, which is hosted by the National Bank of Kazakhstan, will be held on 19 to 21 May 2015 in Almaty, Kazakhstan.

The theme of the 12th IFSB Summit underscores the recognition that while there are significant benefits to Islamic finance from the processes of growth and international integration that is underway, there are corresponding challenges in building up the regulatory, supervisory and surveillance capabilities in order to contain vulnerability to cross border volatility and contagion. In particular, many regulatory authorities involved in the regulation and supervision of the Islamic financial services industry face challenges in identifying the applicable principles and benchmarks for assessing the gaps in their existing structures.

The proposed Core Principles for Islamic Finance Regulation fill this gap and represent an advanced approach to the assessment of regulatory and supervisory regimes that target stability in a manner that is benchmarked against the new global regulatory architecture. More specifically, in the context of the sustained growth of Islamic finance, and its increasing integration into the global economic system, a set of opportunities and challenges to its further prospects require a consistent, cross-national framework for evaluating its stability and resilience in the form of Core Principles for various sectors.

The various sessions of the 12th IFSB Summit will address the role of this development in enhancing the regulatory consistency and resilience of the Islamic financial services industry as well as enabling the necessary frameworks and pre-conditions for the assessment of regulatory and supervisory regimes.

The important changes taking place in the global regulatory architecture provide the setting for Islamic finance to play a stronger role in real sector development and in facilitating cross border integration. With regional and international hubs for Islamic finance being discussed and planned across advanced jurisdictions and emerging markets alike, the Summit will provide an environment that supports greater dialogue amongst key players on this important set of issues.

The Summit will also entail a sharing of experiences related to the challenges faced, by both regulatory authorities and financial institutions, in the adoption of the new Basel capital and regulatory frameworks, along with the progress towards the adoption of the IFSB’s related recent standards on stress testing, liquidity management and the revisions to the capital adequacy standard.

Essentially, among the topics that will be discussed during the Summit are:

## ISLAMIC FINANCE DEVELOPMENTS

- Global Overview of the Islamic Financial Services Industry (IFSI): Trends and Policy Developments
- New Regulatory Developments and the Impact on the IFSI
- Role of the Core Principles for Islamic Finance in Enhancing Regulatory Consistency and Resilience of the Industry
- Enabling Framework for the Assessment of Regulatory and Supervisory Regimes
- Panel Discussion on 'The New Silk Road: The Importance of Regulatory Cooperation for Cross-Border Integration'

This 12th Summit aims to bring together experienced international chairpersons and speakers to discuss pertinent issues in the IFSI attracting participants from all sectors of the financial services industry across the globe. Participants of the previous Summits have included key players of the global industry, especially members of the IFSB from among regulatory and supervisory authorities, international inter-governmental organisations, market players and distinguished thought leaders.

**The Islamic Financial Services Board 22.01.15**

<http://www.ifsb.org/>

### **The Islamic Development Bank and The UK Department for International Development to Establish Arab Women's Enterprise Fund**

The Islamic Development Bank (IDB), and the United Kingdom's Department for International Development (DFID) have signed a Memorandum of Understanding (MoU) to establish Arab Women's Enterprise Fund (AWEF) in order to support less privileged women in Arab countries to unleash their economic potentials and increase their participation in the economy.

The MoU was signed by RT Honorable Desmond Swayne, UK's Minister of State for International Development and Dr. Ahmad Mohamed Ali, IDB President, at DFID's head office in London. According to Dr. Ali, the signing of the MoU provides "great opportunity to lift the women in Arab countries in transition from abject poverty and make them fully participate in the economic activities of their countries."

As part of the agreement, both IDB and DFID will contribute £10 million in Pounds Sterling each (nearly US \$20 million) towards the establishment of Arab Women's Enterprise Fund.

The MoU aims at establishing the necessary governance arrangements for the Fund, exploring the opportunity for co-financing individual projects, supporting generation of knowledge, dissemination of information, and demonstration and utilization of best practices, collaborating on ways to bring on board other development partners, and supporting advocacy events to engage the private sector and to raise public awareness and mobilize support for the mutually agreed initiatives.

The IDB President informed the Minister that IDB will be very happy to partner with the DFID in other development projects. He told the Minister that already IDB has partnership with the Bill & Melinda Gates Foundation on polio eradication, and has recently signed an agreement with Ministers from Ebola affected countries for the implementation of the Late King Abdullah's US \$35 million initiative on the fight against Ebola.

### **Japan's FSA explores opening market to Islamic finance**

Financial Services Agency (FSA) is considering relaxing rules to allow banks to provide Islamic financial products in its domestic market for the first time. The financial regulator said in a statement on its website it was asking for public comments until March 27 and would present results of the consultation a month afterwards.

Japanese lenders are already allowed to provide Islamic financial products through their overseas subsidiaries, and Bank of Tokyo-Mitsubishi UFJ (BTMU) recently became the first Japanese commercial bank to issue Islamic bonds, or sukuk.

A move to allow sukuk and similar products to be bought and sold in Japan, Asia's largest bond market, would give the sector a further boost.

BTMU, Japan's largest lender, expects a relaxation of the rules after the spring and is preparing an operational framework to commence booking business as soon as possible.

'BTMU regards this as a positive development and is keen to further develop the Islamic market globally,' it said in a statement to Reuters.

Any regulatory changes would present Japan with a challenge shared by other jurisdictions new to Islamic finance: taxation.

Certain Islamic finance structures, particularly sukuk, can attract double or even triple tax duties because they require multiple transfers of title of the underlying asset.

But this hasn't stopped Japanese banks from increasing their activity in Islamic finance outside of Japan.

In September, BTMU sold debut sukuk deals in two tranches under a multi-currency programme in Malaysia, including the world's first yen-denominated sukuk.

It is now considering offering Islamic financial services through its Dubai branch, subject to regulatory approval, the lender said.

Sumitomo Mitsui Banking Corp is also offering Islamic financial products through its Malaysian subsidiary; it set up an in-house sharia advisory board in December.

In October, the Japan International Cooperation Agency signed an agreement with the private sector arm of the Jeddah-based Islamic Development Bank to develop sharia-compliant transactions, with a focus on sukuk.

## ISLAMIC FINANCE DEVELOPMENTS

(Reporting by Takahiko Wada in Tokyo and Bernardo Vizcaino in Dubai;  
Editing by Catherine Evans)

**Reuters 26.02.15**

<http://uk.reuters.com/article/2015/02/26/islam-financing-japan-idUKL5N0W03Z420150226>

### INTERNATIONAL DEVELOPMENTS

#### **Bank Deleveraging in Emerging Europe Slightly Faster in the Third Quarter of 2014**

Western banks scaled back funding to Central, Eastern and Southeastern Europe (CESEE) countries at a slightly faster pace in the third quarter of 2014, compared to the second quarter, according to a new Vienna Initiative committee report. Credit grew in Turkey, Russia, and Poland, but was largely flat or contracting in most other countries.

Banks reporting to the Bank for International Settlements (BIS) reduced their external positions vis-à-vis the CESEE region by 0.3 percent of GDP in the third quarter of 2014. Excluding Russia and Turkey, the external positions of these banks declined by 0.4 percent of GDP, about the same as in the previous quarter.

The extent of decline between bank and non-bank claims varied by country, but for the region as a whole, the contraction was more in claims on non-bank borrowers than on banks, mirroring weak credit growth for corporations across the region.

According to balance of payments statistics, investment inflows other than Foreign Direct Investment and portfolio flows remained positive for the region, and for many countries, these flows show a more benign picture than the BIS data.

In aggregate, domestic credit growth for the region decelerated on a year-on-year basis but remained positive in November 2014. However, growth was still largely concentrated in Turkey, Russia, and Poland, while in most other countries credit contracted or remained flat. And outside the European CIS countries and Turkey, overall domestic credit growth was mostly driven by expansion of credit to households.

The rate of deposit growth slowed in 2014 (including in Q3), but continued to more than offset the decline in foreign bank funding for most CESEE countries. Nevertheless, due to rising non-performing loans and continued tightening in credit standards, recent surveys indicate that the improvement in overall lending conditions slowed in Q3.

The CESEE Deleveraging and Credit Monitor is prepared by the staff of international financial institutions taking part in the Vienna Initiative's Steering Committee. It is based on the BIS's International Banking Statistics published on January 20, 2015.



The Vienna Initiative was established at the height of the global financial crisis of 2008/09 as a private-public sector platform to secure adequate capital and liquidity support by Western banking groups for their affiliates in Central, Eastern, and South Eastern Europe (CESEE). It was relaunched as “Vienna 2” in January 2012 in response to renewed risks for the region from the Euro zone crisis.

### **International Monetary Fund 28.01.15**

<http://www.imf.org/external/np/sec/pr/2015/pr1517.htm>

### **DIFC Governor and Lord Mayor of London Discuss New Initiatives**

Dubai International Financial Centre (DIFC) and the City of London explored ways to extend the 10-year relationship between the two international financial centres during the visit to DIFC by the Right Honorable Lord Mayor of the City of London, Alderman Alan Yarrow.

His Excellency Essa Kazim, DIFC Governor, and Arif Amiri, Deputy CEO of the DIFC Authority, welcomed the Lord Mayor and his accompanying delegation. During the visit, the officials discussed potential initiatives between the two centres that would leverage DIFC’s role as a platform for international firms — including those based in the City of London — to serve existing clients and develop new ones in the fast-growing Middle East, Africa and South Asia region.

The discussion also extended to efforts by the two centres to jointly support the expanding Islamic finance sector around the world — within the context of Dubai’s commitment to becoming the capital of the global Islamic economy. They also reviewed the complementary nature of the upcoming Abu Dhabi Global Market to the existing ecosystem at DIFC and how together the two financial free zones will confirm the UAE as a major force in international finance.

His Excellency Essa Kazim, Governor, Dubai International Financial Centre said: “Since the launch of DIFC in 2004 and our first meeting that year with the City of London’s top officials, our two organisations have worked collaboratively and diligently to sign cooperative agreements and promote initiatives that have strengthened both centres and leveraged the benefits each side brings to financial firms operating on a global scale.”

Lord Mayor Alan Yarrow said: “The DIFC and City of London may have different histories as financial centres but we have a common bond in working towards sustainable economic growth. Key to this is the sharing of skills and experiences which is why my visit, joined by a number of businesses, will prove to be so useful. The growth of the DIFC over the past ten years has been enormous and the City of London will continue to support Dubai as their financial partner of choice.”

The Lord Mayor’s visit was the 13th for a sitting Lord Mayor, reflecting the bilateral commitment of both centres in building business opportunities for

## INTERNATIONAL DEVELOPMENTS

firms operating in the two cities. He was accompanied by City of London officials; UK government trade, finance and investment officials; and the UK's consul general to Dubai.

The visit comes shortly after the close of DIFC's 10th anniversary year, which also was one of its most successful. By the end of 2014, DIFC had more than 1,113 active registered firms and 16,560 people working in at the Centre. The past year also ended with the successful pricing of DIFC Investments' US\$ 700 million Sukuk, a Sharia-compliant bond that was marketed in London, as well as Abu Dhabi, Dubai, Hong Kong and Singapore, and was more than four times oversubscribed.

### **Dubai International Financial Centre 26.01.15**

<http://www.difc.ae/news/difc-governor-and-lord-mayor-london-discuss-new-initiatives>

### **Government of Malaysia and World Bank Group to open a World Bank Group Office in Kuala Lumpur**

The Government of Malaysia and the World Bank Group signed agreements, 27th January, to establish a knowledge and research office in Kuala Lumpur to share its successful development experience with countries striving to make the same transition out of poverty and into shared prosperity.

Second Minister of Finance, H.E. Dato' Seri Ahmad Husni Mohamad Hanadzlah and Governor Bank Negara Malaysia, Dr. Zeti Akhtar Aziz, signed on behalf of Malaysia, and World Bank Vice President for East Asia Axel van Trotsenburg signed on behalf of the World Bank.

The new World Bank Group Office will combine both operational expertise and research. It will facilitate the sharing of Malaysia's successful development experiences with countries around the world. It will also allow Malaysia to further leverage global knowledge and expertise from the World Bank towards its transformation into a developed, high-income economy.

*“Our partnership with Malaysia will boost the World Bank's ability to remain a source for innovative solutions to help developing countries achieve what Malaysia already has,”* said van Trotsenburg during the Putrajaya signing ceremony. *“Such knowledge sharing will be a big gain for everyone, and particularly fitting of a nation transitioning to a high-income, developed economy.”*

Malaysia's impressive growth performance since Independence is matched by an even more impressive achievement in reducing poverty. In the past 40 years, absolute poverty declined from nearly half of Malaysia's population to one percent of households today. Poverty reduction was driven by growth, which created jobs for people and resources for government, and by a careful focus on human capital development through investments in education and health.

H.E. Dato' Seri Ahmad Husni Mohamad Hanadzlah noted that *“As a country that has made tremendous strides to eradicate poverty and increase the*

*welfare of the bottom 40 percent of our population, Malaysia is keen to collaborate with the World Bank Group to bring this experience to many more countries.”*

The World Bank Group Office in Malaysia will be housed in Sasana Kijang, Bank Negara Malaysia’s centre of excellence in knowledge and learning in central banking and financial services, located in Kuala Lumpur, Malaysia.

### **World Bank 26.01.15**

<http://www.worldbank.org/en/news/press-release/2015/01/27/government-of-malaysia-and-wbg-to-open-a-world-bank-group-office-in-kuala-lumpur>

### **PBC and CIRC Jointly Released Notice to Allow Insurers to Issue Capital Supplemental Bonds on Inter-Bank Bond Market**

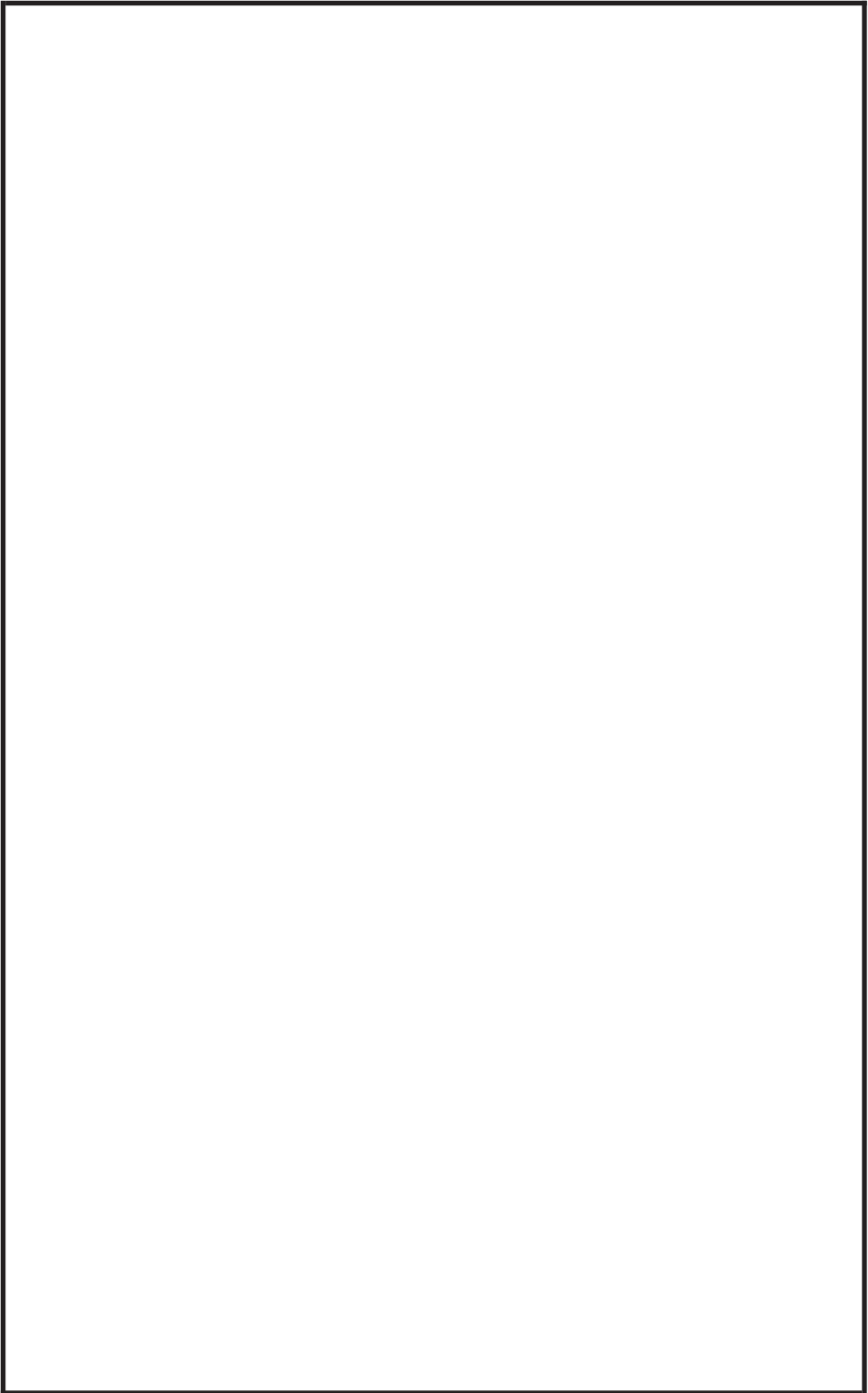
The People’s Bank of China (PBC) and China Insurance Regulatory Commission (CIRC) jointly released the Notice [2015] No. 3 to allow insurance companies to issue capital supplemental bonds on the inter-bank bond market.

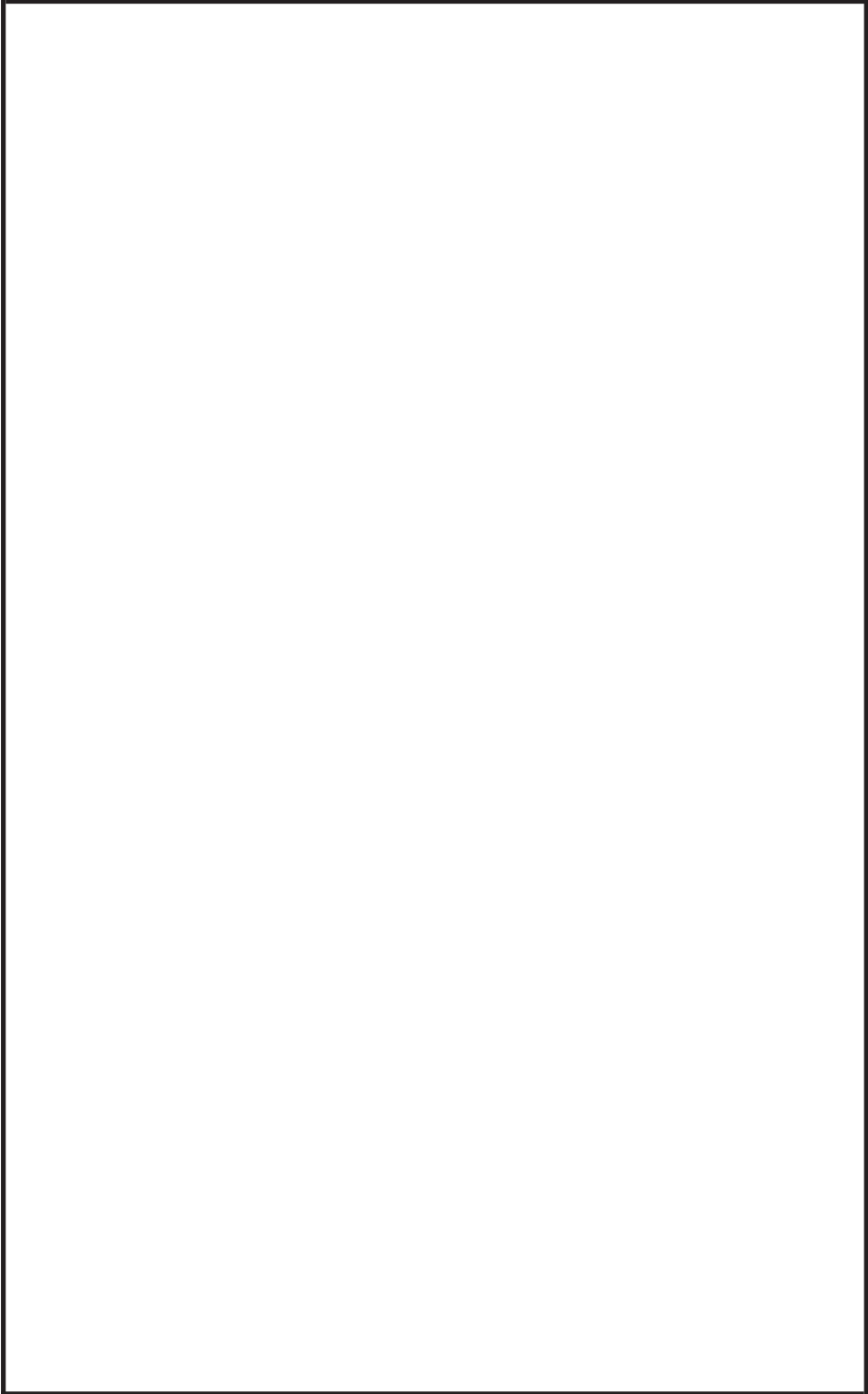
Capital supplemental bond refers to bonds issued by insurance companies with a minimum maturity of five years for the purpose of supplementing capital funds. In the case of liquidation, the seniority of claim of capital supplemental bond is after policy obligations and other ordinary debts, but before equities. By facilitating insurance companies to issue capital supplemental bonds on the inter-bank market, the PBC and CIRC hope to broaden the channels for insurance companies to supplement capitals, and enhance their solvency and risk resilience. Moreover, since insurance companies have long participated on the inter-bank bond market as investors, their participation as issuers will help expand the borrower group on the inter-bank bond market and broaden the spectrum of products for market investors.

As an important measure in implementing the decisions adopted at the 3rd Plenum of 18th CPC Central Committee and the State Council Opinions on Accelerating Development of Modern Insurance Industry, the release of this Notice is important for diversifying financial market participants, improving the system of modern financial markets, and promoting sustainable development of the insurance industry. In the next step, the PBC and CIRC will actively promote the issuing of capital supplemental bonds by insurance companies in accordance with the Notice, and enhance regulation over the financing behaviour of the insurance companies through stricter requirements on information disclosure for the purpose of protecting the rights and interests of investors.

### **The People’s Bank of China 29.01.15**

[http://www.pbc.gov.cn/publish/english/955/2015/20150129085415329476200/20150129085415329476200\\_.html](http://www.pbc.gov.cn/publish/english/955/2015/20150129085415329476200/20150129085415329476200_.html)





Correspondence about this bulletin may be sent to:  
Fergus Burdon, Senior Editor, Specialist Law, LexisNexis,  
Lexis House, 30 Farringdon Street, London EC4A 4HH  
(tel: +44 (0)1905 357743,  
email: [fergus.burdon@lexisnexis.co.uk](mailto:fergus.burdon@lexisnexis.co.uk)).

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