Issue 29 – 27 March 2015

This newsletter is published by SOMO and WEED.

Subscribe online here >

In this Newsletter:

- Shadow banking: G20 taking their time, EU financial lobby acts
- Greek drama before final showdown?
- Brief Update: Too-big-to-fail banks: will they be restructured, and if so, how much?
- Brief Update: Tackling tax avoidance: EU Commission wants a bit more transparency
- Brief Update: Capital Markets Union
- Calendar

Contact us:

visit the SOMO website
m.vander.stichele@somo.nl
+31 (0)20 639 12 91

visit the WEED website
peter.wahl@weed-online.org
+49 (0)30 2758 2616

Shadow banking: G20 taking their time, EU financial lobby acts

By Markus Henn, WEED

Photo by Eadaoin O'Sullivan

Summary: Shadow banking remains a big open issue of financial reform, both at international and EU level. While the G20 and the Financial Stability board are still shaping the last regulatory recommendations, the EU’s law proposals on two shadow banking aspects - a specific type of fund and certain lending activities - are being negotiated. However, the European Commission’s law proposals were watered down in the European Parliament, and the Council will probably not strengthen the regulation either. Thus it seems that shadow banks will not be strictly regulated in the EU.

The reform of shadow banking (for an introduction, see October 2013 Newsletter) remains open at the international and EU level.

The G20 and its advisory body, the Financial Stability Board, are shaping the final recommendations for some important shadow bank activities. There were rumors that the Australian G20 Presidency last year wanted to declare the financial reform agenda accomplished. But other governments pushed to keep financial reforms on the agenda. Reforms on shadow banking are expected to be completed by 2016 – just about ten years after the start of the crisis.

The G20 Finance Ministers and Central Bank Governors, in their 9-10 February meeting Communiqué, endorsed the G20 Shadow Banking Roadmap. It mainly supports the ongoing work of the G20’s advisory body, the Financial Stability Board (FSB), and that of the securities supervisors’ global body IOSCO. The FSB will deal with the following:
Information sharing (till first quarter of 2015): Address data gaps through comprehensive information sharing, particularly in areas where cooperation on regulation is difficult.

Reducing risks (till second quarter of 2015): Finalise the proposal for numerical “haircuts floors”. When securities financing transactions take place, e.g. if a bank lends securities to another bank, the value of the collateral that accompanies the loan will be automatically reduced, e.g. to avoid the risk that the value of the collateral will not be sufficient in times of crisis.

Global securities financing database (till end of 2015): Complete the development of standards and processes for global securities financing data collection and aggregation.

Regulating re-use of collateral (till end of 2015): Prepare its final findings on how to harmonise regulation regarding the re-use of client’s collateral and review possible financial stability issues related to such asset collateral re-use.

Review the policies taken by the G20 governments in different areas (over the year 2015).

Despite some missing final decisions at the international level, particularly on the value cuts for collateral, the European Commission already proposed laws on money market funds and securities financing transactions.

However, one year ago, the financial lobby managed to delay the money market reform in the responsible ECON committee (for details, see the March 2014 Newsletter) so that it could not be concluded before the EP elections. In late February 2015, the committee took its final position – and caved into the pressure of the financial lobby. The Commission’s draft was further weakened. Even the Commission’s proposal to introduce a capital buffer of 3% to be held by money market funds was removed as a general rule and will only apply to a newly branded category of funds after five years, as the Green fraction in the Parliament complained. They also fear that the law might not even be in line with the FSB’s recommendations on money market funds and could possibly fail the FSB review. In any case, the decision will not help to curb shadow banking. Now the Council of Finance Ministers has to take a position (for the latest compromise proposal see here) on the law before the final trilogue negotiations can begin.

The second proposed law deals with the reporting and transparency of securities financing transactions. The problem with the draft was that it primarily focused on transparency, only adding a rule that the person whose security is lent by his/her bank to a third person will have to provide his/her permission first. However, the draft lacks a haircut provision, as it is currently being developed by the FSB. Therefore, in his draft report on 22 December 2014, the Social Democratic ECON Rapporteur Renato Suro proposed to close this loophole and include a haircut regime to be detailed by the Commission. He also proposed rules on the re-use of collateral, such as details on the calculation methods. The ECON made its decision on 24 March – and the conservative-liberal majority voted against the Rapporteur’s amendments. The Permanent Representatives of the Council of Finance Ministers already took the Council’s position on the law proposal in November 2014, also just calling for more transparency. Now, the final trilogue negotiations by Council, Parliament and Commission can begin.

Greek drama before final show-down?

By Peter Wahl, WEED

Summary: The conflict between the Greek government and the Berlin-Troika bloc over the solution to the crisis is becoming more and more dramatic. If there is no rapid solution, Greece will be insolvent in April. But a Grexit would be a disaster for the EU, too. There is a chance that the protagonists will continue to muddle through. In the long run, this will deepen the crisis.

The drama over Greece is more exciting than a Hollywood thriller. The situation has been escalating daily. There is an increasingly sharper confrontation between Athens, on the one hand, and the power bloc of Berlin, the Eurogroup and the Troika on the other, with a particularly heavy Greek-German conflict in the middle. The new SYRIZA government is trying to obtain an alleviation of its debt burden and wants to end the most perverse effects of the austerity policies. But although an agreement was reached at the end of last February to extend the existing support programme until the end of June, any payment of the promised 7.2 billion euros is tied to the implementation of a “reform programme” – to be adopted and supervised by the Troika. Reforms being undertaken by SYRIZA, such as combating poverty by distributing food ration cards, or granting free access to electricity to the poorest, are not the type of reforms the Troika wants to see or actually
Crisis management at the impasse

The Greek drama has now lasted for five years. The crisis management by the Troika has failed. If the Greeks continued following the Troika formulas, they would have to live and work for an entire generation under the present conditions in order to pay back a debt burden of 180 per cent of the GDP. It is obvious that neither the debt situation nor the social misery can continue. Sooner or later, the situation could completely spiral out of control. This is why muddling through might at maximum buy some time, perhaps some months, but in the end it will worsen things. A real, substantial solution is required.

However, under the condition that Greece stays in the Eurozone, this means also that the Troika and Berlin need to accept substantial changes. The question is whether they have the willingness and the capability to do so. Because from their point of view, this would be a success for SYRIZA and that is what they want to prevent for several reasons:

- It would mean that there is an alternative to the austerity paradigm and that the entire logic of the crisis management could be put into question.
- It would create a contagion effect and strengthen PODEMOS in Spain, whose programme is similar to SYRIZA’s. And as elections for the Spanish Parliament are coming up in November 2015, a landslide might be triggered, with other countries following suit.
- For Social Democrats, who support the austerity policies all over the EU, there is the risk of being outcompeted by a left alternative. The example of their Greek sister party, PASOK, which disappeared under the radar of five percent, is the writing on the wall. In particular, the German SPD has taken quite an aggressive stance against a change in the austerity measures.

Greek economy still in depression

Before the December elections, optimism was spread by politicians and the media that Greece had finally reached the turning point and an upswing would get underway. EUROSTAT figures (the official statistical service of the EU) for the third quarter of 2014 suggested that the country had a growth rate of 0.7 per cent, which, in fact, was top in the Eurozone.

However, what EUROSTAT had not said was that the 0.7 per cent growth rate was due to a statistical effect: prices were sinking faster than revenues in this period, which is a typical phenomenon in a deflationary situation, as explained by Bill Mitchell.

The December 2014 figures for the Greek GDP once again showed the economy shrinking by minus 0.4 per cent, the unemployment rate was at 26 per cent in December 2014 and youth unemployment was at 51.2 per cent. Almost half of the population had lost its medical care and almost a quarter of the school children didn’t have enough to eat.
For all these reasons, one should not have very high expectations of the problem-solving capacity of the EU. For 25 years, there have been hopes that the EU could be reformed and transformed to allow a more democratic and social Europe. But the opposite has happened. The coming weeks will show whether it will be different this time. If there is no break in dependency on the current path, there is no reason for optimism.

---

**Brief Updates**

---

**Brief Update: Too-big-to-fail banks: will they be restructured, and if so, how much?**

Photo by Flickr / Alexander Johmann / Creative Commons 2.0

The legislative proposal to restructure banks that are too risky for the financial system and would have to be bailed out if they fell into crisis is still highly disputed in the European Parliament (EP) and the Council of Finance Ministers (ECOFIN) (see also previous Newsletter). The EP’s ECON committee did not vote on a compromise text in March due to very divergent opinions. While left-leaning parties want a benchmark that would lead to automatic separation of the riskiest parts of a bank into a different legal entity than the part responsible for basic banking functions, right-leaning parties want a far less automatic separation and have given supervisors the mandate to assess each bank separately. A compromise text is not expected before late March 2015, and a vote in the ECON not before mid-April.

Progress in the ECOFIN is also proceeding at a slower pace than planned. German and French government amendments foresee minimum reforms, e.g. merely separating and not banning betting on own account (proprietary trading), and providing a good deal of discretion to national supervisors, in line with their national reforms. In contrast, the UK has introduced a much stricter separation, or “ringfencing”, based on the Vickers Commission, and is looking to opt out of any weaker EU law. The Netherlands has been in favour of automatic separation and in its 2014 annual report, the Dutch Central Bank just proposed capping the size of European Banks. There are not many national debates about this issue, but FW blogs expressed some critical views (see here, for instance).

---

**Brief Update: Tackling tax avoidance: EU Commission wants a bit more transparency**

The debate about reforming corporate taxation in the EU (for background, see December 2014 Newsletter) led the European Commission (EC) to propose a “tax transparency package” on 18 March 2015. At its core is a draft law requiring all EU states to inform all other EU states about their cross-border tax rulings, i.e. decisions taken in advance by tax authorities regarding the taxation of a particular company. However, EU states already had the duty to inform other states in the case of tax impacts, pursuant to a law from 1977. As this law was not taken seriously by Luxembourg and the likes, it is not clear yet how well the new proposal will work – and if it will be endorsed by the member states.

Furthermore, the EC’s package includes checking the economic effects of financial reporting for large companies on a country-by-country basis. The effects (e.g. on investment) of this reporting by banks was already checked last year and the EC concluded that they were positive.

Finally, the EC’s package includes reviewing the EU’s “Code of Conduct on Business Taxation” and collecting more data on tax evasion and avoidance in the EU.

The EC announced a second package with rules against tax avoidance and for tax harmonisation by summer 2015. To push for a strong reform, 30 European NGOs wrote a letter to the President of the Commission Juncker in March 2015. A response is pending.

The European Parliament is also active on its own, with a new special committee TAXE on corporate taxation, accompanied by a report on “tax fairness” and a legislative initiative on “bringing transparency, coordination and convergence to corporate tax policies in the Union.”

Meanwhile, the OECD and the G20 are continuing work on their Action Plan against “base erosion and profit shifting”, with many draft texts in the last months and critical replies from the “BEPS monitoring group”. The OECD will release further draft texts to complete the Plan in upcoming months.

International civil society work is also supported by a new “Independent Commission for the Reform of International Corporate Taxation”, which aims for a wider and more inclusive discussion on international tax rules.

---
Brief Update: Capital Markets Union

On 28 January 2015, the Commission announced that it had started work on its “flagship project” to integrate and deepen European capital markets (for background and a critique, see previous Newsletter). A few weeks later, on 18 February, it presented its Green Paper “Building a Capital Markets Union” together with a more technical Staff Working Document that explains the thinking behind the project in greater detail. Both papers contain no surprises, but they clarify the agenda for the future as well as the thinking and discourse behind the project. The Green Paper, in particular, identifies five priority areas for short-term action:

- High-quality securitisation, probably the most controversial part of the project, and the prospectus regime for investment funds;
- Standardisation of credit information about SMEs in order to make them investable for non-bank investors who traditionally have little access to such information;
- Measures to boost long-term investment;
- Inclusion of the European Long-term Investment Funds (ELTIF, see February 2014 Newsletter);
- Supporting the development of a European market for privately issued corporate debt (private placement).

Furthermore, the Paper also lists a number of regulatory and legal areas in which national frameworks would have to be harmonised to create an integrated capital market (the “single rulebook”). Among them, insolvency laws, corporate governance regimes and diverging tax treatments for financial instruments. There are no concrete proposals yet, as these have to develop out of the consultation phase.

The release of the Paper initiates a phase of public consultation that will last until 13 May 2015. Alongside this consultation, two parallel discussions have been launched that focus specifically on two CMU-related areas: “simple, transparent and standardised” securitisation and the review of the Prospectus Directive.

Calendar

For background to the official agenda of European institutions, see the following websites:

- European Council
- Economics and Monetary Affairs Committee (ECOFIN) of the European Parliament
- Financial Stability Board

The links below give the website with updates and overviews of documents and dates related to the EU decision making process.

March

- 30, ESMA (Paris): Deadline for consultation on European Electronic Access Point (EEAP)
- 31, ECON (Brussels): Meeting, vote scheduled on European Fund for Strategic Investments, on Indices used as benchmarks in financial instruments and financial contracts
- 31, ESMA (Paris): Call for Evidence Competition, Choice and Conflicts of Interests in the CRA Industry
- ??, G7 (Frankfurt): Financial Sector Regulation conference

April

- 14, ECON (Brussels): Meeting, vote scheduled on Structural measures improving the resilience of EU credit institutions
- 15, EP (Strasbourg): Plenary
- 17, G20 (Washington): Finance Ministers and Central Bank Governors meeting
- 17-19, WB/IMF (Washington): Spring meetings
- 18 (NGO): Global TTIP action day
- 20, ECON (Brussels): Meeting
- 22, UN (New York): ECOSOC meeting on international cooperation in tax matters
- 24-25, ECOFIN (Brussels): Informal Meeting
- 29-30, LATINDADD-GATJ (Lima): Conference International Tax Justice & Human Rights

May

- 5-7, Eurodad (Copenhagen): International conference. Focus: Financing for Development (FID)
- 6-7, ECON (Brussels): Meeting
- 6-7, CSO: Events on Women and Tax Justice
- 6-8, G20 (Istanbul): International Tax Symposium
- 7, UK: General election
- 11, Eurogroup (Brussels): Meeting
- 12, ECOFIN (Brussels): Meeting
• 13, EC (Brussels): deadline of consultations on Building a Capital Markets Union, on Review of the Prospectus Directive, on An EU framework for simple, transparent and standardised securitisations
• 18-21, EP (Strasbourg): Plenary, indicative sitting on Transatlantic Trade and Investment Partnership (TTIP)
• 26, ECON (Brussels): Meeting
• 27-29, G7 (Dresden): Finance Ministers and Central Bank Governors meeting
• 27, EP (Strasbourg): Plenary

June
• 7-8, G7 (Schloss Elmau, Germany): Heads of State Summit
• 8-11, EP (Strasbourg): Plenary
• 8, EC (Brussels): presenting consultation results
• 15-16, ECON (Brussels): Meeting
• 16, Eurogroup (Luxembourg): Meeting
• 19, ECOFIN (Brussels): Meeting
• 24, EP (Strasbourg): Plenary, indicative sitting on European Fund for Strategic Investments
• 25, ECON (Brussels): Meeting
• 25-26, European Council (Brussels): Meeting

July
• 1, EU: Start of Luxembourg EU Presidency
• 6-9, EP (Strasbourg): Plenary, indicative sitting on securities financing transactions, on Regulatory fitness and performance programme (REFIT)
• 13-16, UN (Addis Ababa): Financing for Development Conference
• 15-16, ECON (Brussels): Meeting

September
• 3, ECON (Brussels): Meeting
• 4-5, G20 (Ankara): Finance Ministers and Central Bank Governors meeting
• 7-10, EP (Strasbourg): Plenary, indicative sitting on Structural measures improving the resilience of EU credit institutions, on Indices used as benchmarks in financial instruments and financial contracts
• 14-15, ECON (Brussels): Meeting, vote scheduled on Bringing transparency, coordination and convergence to corporate tax policies
• 16, EP (Brussels): Plenary
• 23, ECON (Brussels): Meeting
• ??, EC (Brussels): Capital Markets Union action plan

October
• 5-8, EP (Strasbourg): Plenary, indicative sitting on Bringing transparency, coordination and convergence to corporate tax policies, on Inquiry report on tax fairness in Europe
• 8, G20 (Lima, Peru): Finance Ministers and Central Bank Governors meeting
• 9-11, World Bank/IMF (Lima, Peru): Annual meetings
• 13, ECON (Brussels): Meeting
• 14, EP (Brussels): Plenary
• 14-16, European Council (Brussels): Meeting
• 19, ECON (Brussels): Meeting
• 26-29, EP (Strasbourg): Plenary

November
• 9-10, ECON (Brussels): Meeting, vote scheduled on institutions for occupational retirement provision
• 11, EP (Strasbourg): Plenary
• 12, ECON (Brussels): Meeting
• 15-16, G20 (Antalya): Summit
• 23-26, EP (Strasbourg): Plenary
• 25, EBA (London): Public Hearing on simplified obligations
• 30, ECON (Brussels): Meeting

December
• 1, G20: China takes over G20 Presidency
• 1, ECON (Brussels): Meeting
• 2, EP (Brussels): Plenary
• 7, ECON (Brussels): Meeting
• 14-17, EP (Strasbourg): Plenary
• 17-18, European Council (Brussels): Meeting
• 31, G7: End of German Presidency

This newsletter has been produced with the financial assistance of the Ford Foundation. The contents of this newsletter are the sole responsibility of SOMO and WEED and can under no circumstances be regarded as reflecting the position of the Ford Foundation.

This newsletter is produced by SOMO and WEED and is intended for wide circulation to interested parties. We appreciate receiving feedback as well as announcements of reports, campaigns, and meetings, which can be sent to markus.henn@weed-online.org.