INTERNATIONAL REGULATORY UPDATE
07 – 11 JANUARY 2019

- ESAs report on regulatory sandboxes and innovation hubs
- EU Council agrees position on proposed prudential regime for investment firms
- EU Commission publishes draft rules on sustainability topics in investment advice
- ECB publishes consolidated guide to licence applications
- Fintech: ESMA and EBA report on crypto-assets
- MiFIR: EU Commission consults on extension of ESCB exemption to People’s Bank of China
- EU Commission reports on operation of AIFMD
- Brexit: SIs under the EU (Withdrawal) Act for 7 - 11 January 2019
- Brexit: FCA opens temporary permissions regime notification period and applications for credit rating agencies and trade repositories
- Brexit: FCA consults on implementing financial services contracts regime and fees for regulating securitisation repositories
- PRA publishes final policy on liquidity reporting
- CRR: PRA consults on eligibility of financial collateral as funded credit protection
- Consob consults on information to be disclosed to public with regard to SREP
- Consob consults on intervention measures on binary options and financial contracts for difference
- MiFID2/MiFIR: German Federal Ministry of Finance consults on past experience and potential need for change
- BaFin consults on draft circular on definition of default and estimation of risk parameters
- Swiss National Bank sets criteria for fintech companies’ access to Swiss Interbank Clearing
- MiFID2 and new rules applicable to asset management companies: update to AMF policy published
- Polish Financial Supervision Authority issues bulletin regarding first meeting of Interministerial Fintech Steering Committee

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ESAs report on regulatory sandboxes and innovation hubs

The European Supervisory Authorities (ESAs) have published a report on innovation facilitators, such as regulatory sandboxes and innovation hubs. The report contains a comparative analysis of the innovation facilitators established to date in the EU, including comparison of their objectives, legal bases, phases and interaction with other competent authorities. From this analysis, the ESAs have developed a set of best practices, which are intended to promote consistency in design and operation, foster regulatory and supervisory transparency and facilitate cooperation between national authorities in relation to innovation facilitators. Finally, the report also sets out options to be considered in future EU-level work on innovation facilitators, including:

- the development of ESA own-initiative guidance on cooperation and coordination between innovation facilitators; and
- the creation of an EU network to connect innovation facilitators established at the Member State level.

EU Council agrees position on proposed prudential regime for investment firms

The Committee of Permanent Representatives (Coreper) has endorsed the EU Council’s negotiating position on the prudential supervision of investment firms and the proposed regulation on the prudential requirements of investment firms.

Under the terms of the agreed texts, all investment firms would be subject to the same measures, in particular as regards capital holdings, reporting, corporate governance and remuneration, but the set of requirements they would need to apply would be differentiated according to their size, nature and complexity.

The largest firms (Class 1) would be subject to the full banking prudential regime and would be supervised as credit institutions:

- investment firms that provide bank-like services, such as dealing on own account or underwriting financial instruments, and whose consolidated assets exceed EUR 15 billion would automatically be subject to CRD 4/CRR; and
- investment firms engaged in bank-like activities with consolidated assets between EUR 5 and EUR 15 billion could be requested to apply CRD 4/CRR by their supervisory authority, in particular if the firm's size or activities would involve risks to financial stability.
The Council text also sets out in greater detail some of the requirements under MiFID2/MiFIR that would apply to third country investment firms accessing the single market.

The EU Parliament voted on its position on this file on 24 September 2018 and negotiations between the Council and Parliament are now ready to commence.

**EU Commission publishes draft rules on sustainability topics in investment advice**

The EU Commission has published a set of draft rules intended to ensure that insurance distributors and investment firms integrate environmental, social and governance (ESG) considerations into their investment advice to clients.

The draft rules are part of the EU Commission's Sustainable Finance Action Plan published in March 2018 and amend Delegated Acts under the Markets in Financial Instruments Directive (MiFID2) and Insurance Distribution Directive (IDD).

MiFID2 provides the legal framework for the requirements applicable to investment firms; IDD provides the requirements applicable to the distribution of insurance-based investment products.

The EU Commission intends to adopt the proposed Delegated Acts when the new disclosure provisions for sustainability investments and sustainability risk are agreed at EU level.

**ECB publishes consolidated guide to licence applications**

The European Central Bank (ECB) has published the consolidated version of its guide to the assessment of licence applications to become a credit institution within the meaning of the Capital Requirements Regulation (CRR), including initial authorisations, applications from fintechs, authorisations in the context of mergers and acquisitions, bridge bank applications and licence extensions.

The consolidated guide includes both the content of the ECB’s first guide, which was published in March 2018, and a new Part 2, following a public consultation in 2018. The guide is intended to promote a level playing field and enhance transparency of the assessment criteria and process for establishing a credit institution in the euro area.

**Fintech: ESMA and EBA report on crypto-assets**

The European Securities and Markets Authority (ESMA) and European Banking Authority (EBA) have both published advice to EU institutions on the treatment of crypto-assets under EU law.

ESMA's report, which contains advice to the EU Commission, Council and Parliament, sets out the existing EU rules applicable to crypto-assets and provides ESMA’s position on the gaps and issues in the current framework. Amongst other things, the report notes that some crypto-assets qualify as financial instruments under MiFID, although its rules were not designed with crypto-instruments in mind. This means that national competent authorities (NCAs) face challenges when interpreting regulatory requirements with regards to crypto-assets. ESMA also notes that the assets that do not qualify as financial instruments and are therefore outside of applicable financial rules pose substantial risks to investors.
ESMA calls on the EU institutions to consider ways in which these gaps and issues could be addressed and recommends:

- reconsidering existing regulations to allow for effective application in the case of crypto-assets;
- at a minimum, expanding the anti-money laundering requirements to all crypto-assets and activities involving crypto-assets; and
- putting appropriate risk disclosure in place to ensure investors are aware of the potential risks of crypto-assets.

The EBA's report, which contains advice to the EU Commission, also considers the applicability and suitability of EU law to crypto-assets. It notes that typically crypto-asset activities fall outside the scope of EU banking, payments and electronic money law and that they pose risks that are not addressed at the EU level. As a result, the EBA notes, there is divergence between Member States with regards to the regulatory response to crypto-assets, which poses a risk to the level playing field. The EBA therefore recommends that the EU Commission:

- carries out a comprehensive cost/benefit analysis to determine what action is required at the EU level;
- considers the October 2018 recommendations of the Financial Action Task Force regarding 'virtual asset activities'; and
- takes action where possible to promote consistency in the accounting treatment of crypto-assets.

The EBA report also sets out a number of steps it will take in 2019 to improve the monitoring on institutions' crypto-asset activities and disclosure practices.

**MiFIR: EU Commission consults on extension of ESCB exemption to People’s Bank of China**

The EU Commission has published a draft Delegated Regulation extending the exemption for third-country central banks from the pre- and post-trade transparency requirements under MiFIR to the People's Bank of China (PBC).

The draft Delegated Regulation, which would amend the list of exempted public entities set out in the Annex to Delegated Regulation (EU) 2017/1799 to include the PBC, is open for feedback until 6 February 2019.

**EU Commission reports on operation of AIFMD**

The EU Commission has published a report on the impact of the Alternative Investment Fund Managers Directive (AIFMD) on alternative investment fund managers (AIFMs), alternative investment funds (AIFs), and investors in the EU and elsewhere.

The report finds that the AIFMD has played a significant role in helping to create an internal market for AIFs and a harmonised and stringent regulatory and supervisory framework for AIFMs, and that most of the provisions of the Directive have achieved the intended objectives efficiently and effectively, while highlighting a small number of areas that need further harmonisation in order to prevent rule arbitrage and to ensure a level playing field.

The Commission plans to continue its ongoing work on the AIFMD review with a particular focus on the issues raised in the report. In 2019 the Commission
will prepare a report to the co-legislators on the functioning of the legislation, as required by the Directive.

**Brexit: SIs under the EU (Withdrawal) Act for 7 - 11 January 2019**

HM Government published new draft statutory instruments (SIs) under the EU (Withdrawal) Act 2018 between 7 and 11 January 2019.

For guidance purposes, HM Treasury (HMT) has published:

- the **draft Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019**, which seek to ensure that retained EU law related to the Benchmarks Regulation (EU) 2016/1011 continues to operate effectively in the UK once it has left the EU. Changes include creating a UK register of benchmarks, temporarily migrating EU27 approved benchmarks onto the UK register, maintaining pre-exit day prohibitions, transferring functions carried out by EU institutions to appropriate UK bodies and correcting deficiencies in Commission Delegated Acts; and

- the **draft Public Record, Disclosure of Information and Co-operation (Financial Services) (Amendment) (EU Exit) Regulations 2019**, which proposes changes to the UK's framework for disclosing confidential information between regulators aimed at treating the EEA equally to other third country regulatory authorities.

The draft instruments are still in development and the guidance is intended to provide Parliament and stakeholders with further details on HMT's approach to onshoring financial services legislation.

The **draft Packaged Retail and Insurance-based Investment Products (Amendment) (EU Exit) Regulations 2019** and the **draft Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019** were laid before Parliament.

For information on all draft SIs under the EU (Withdrawal) Act published last week, visit [www.gov.uk](http://www.gov.uk) and [www.legislation.gov.uk](http://www.legislation.gov.uk).

**Brexit: FCA opens temporary permissions regime notification period and applications for credit rating agencies and trade repositories**

The Financial Conduct Authority (FCA) has opened the notification window for the temporary permissions regime (TPR), which will allow EEA-based firms currently passporting into the UK to continue new and existing regulated business within the scope of their current permissions for a limited period and EEA-domiciled investment funds that market in the UK under a passport to continue temporarily marketing in the UK, in a Brexit scenario without an implementation period.

Notifications need to be submitted via the Connect system and the FCA has published a guide to the notification process for both firms and investment funds. The FCA has called on firms and funds not to wait for confirmation of whether there will be an implementation period before they submit their notification. Notifications are due by 28 March 2019.
The FCA has also highlighted to fund managers that they should take note of two draft directions on notifications before exit day under:

- the Collective Investment Schemes (Amendment etc.) (EU Exit) Regulations 2019; and
- the Alternative Investment Fund Managers Regulations 2013 (as amended, in particular by the Alternative Investment Fund Managers (Amendment etc.) (EU Exit) Regulations 2019).

Moreover, the FCA has published details of the notification process for the temporary authorisation regime for data reporting services providers (DRSPs). DRSPs established and authorised under MiFID in an EEA Member State can notify the FCA of their intention to provide a data reporting service in the UK from exit day under the Data Reporting Services Regulations 2017, as amended by the Markets in Financial Instruments (Amendments) (EU Exit) Regulations 2018. DRSPs with temporary authorisation will have up to one year after exit day to seek permanent authorisation in the UK. Notifications are due by 15 February 2019.

Separately, the Prudential Regulation Authority (PRA) has published a document clarifying the PRA’s and FCA’s proposals for applying the Senior Managers and Certification Regime (SM&CR) to firms in the TPR which includes a set of frequently asked questions (FAQs) on how the two sets of proposals set out in the PRA’s and FCA’s consultation papers (PRA CP26/18 and FCA CP18/29) would apply to dual-regulated, EEA firms currently operating in the UK via an establishment passport through a branch.

The FCA has also opened applications for credit rating agencies (CRAs) and trade repositories (TRs) looking to provide services in the UK after 29 March 2019.

The FCA will become the UK regulator of CRAs and TRs if the UK leaves the EU without a withdrawal agreement and without entering an implementation period.

In line with this, the FCA has updated its CRA and TR webpages with further guidance indicating that:

- UK-based CRAs and TRs should notify the FCA before exit day of their wish to convert a European Securities and Markets Authority (ESMA) registration into a registration with the FCA;
- UK-based CRAs and TRs that wish to do so should make an advance application for registration in the temporary registration regime before exit day; and
- CRAs certified with ESMA should notify the FCA before exit day of their wish to extend their certification to the UK.

The temporary registration regime will only come into force if the UK leaves the EU without a transition period.

**Brexit: FCA consults on implementing financial services contracts regime and fees for regulating securitisation repositories**

The FCA has published two consultations as part of its preparatory work for the UK’s exit from the EU. The first consultation (CP19/2) sets out proposals to implement the financial services contracts regime (FSCR) to ensure EEA
firms that have pre-existing contracts in the UK can continue to fulfil their obligations for a limited time if the UK leaves the EU without an implementation period. The FSCR was introduced by the Government in the form of a draft statutory instrument in December 2018. It is intended to facilitate continuity of existing contracts after exit day for EEA firms with regulated business in the UK that do not enter the temporary permissions regime or exit the regime without full authorisation from the UK. In CP19/2 the FCA sets out proposed amendments to its handbook to apply rules to firms in the FSCR in respect of their UK activities. Comments are due by 29 January 2019.

The second consultation (CP19/1) sets out the FCA’s proposed fees structure for securitisation repositories (SRs). The FCA will take over responsibility for regulation of SRs from the European Securities and Markets Authority (ESMA) when the UK leaves the EU. Comments are due by 11 February 2019.

PRA publishes final policy on liquidity reporting

The Prudential Regulation Authority (PRA) has published a policy statement (PS1/19) setting out feedback to responses to its consultation on liquidity reporting (CP22/18), in which it proposed amendments aimed at mitigating risks associated with the transition to the new liquidity report (PRA110) on 1 July 2019. The PRA received six responses to CP22/18 and, in light of them, has made one change to PRA110 remittance dates during the dual reporting period, and one clarification to reporting expectations in stress.

PS1/19 also contains feedback to responses received to the PRA’s occasional consultation paper (CP16/18), which contained proposals to correct the applicable consolidation levels at which PRA110 will be reported. The PRA received no responses to this proposal and will therefore be proceeding without change to the version consulted upon.

The changes consulted upon in CP22/18 and CP16/18 will be introduced by:

- amendments to the Regulatory Reporting Part of the PRA Rulebook, through the replacement of instrument PRA 2018/3 with a new instrument; and
- updates to supervisory statement ‘Guidelines for completing regulatory reports’ (SS34/15).

The amendments to the Regulatory Reporting Part will take effect from the dates outlined in the new instrument. The updates to SS34/15 took effect from 8 January 2019.

CRR: PRA consults on eligibility of financial collateral as funded credit protection

The PRA has published a consultation on a proposed new chapter to its supervisory statement on ’Credit risk mitigation’ (CRM) (SS17/13) to clarify its expectations regarding the eligibility of financial collateral as funded credit protection under the Capital Requirements Regulation (CRR).

Under Article 207(2) of the CRR, financial collateral is not eligible for CRM if the credit quality of the obligor and the value of the collateral have a material positive correlation. The PRA has identified inconsistency in firms’ interpretation and application of Article 207(2) in the context of non-recourse loans, in which a significant fall in the value of the financial collateral can, in some cases, bring about the default of the obligor, thus creating a correlation.
The PRA is therefore seeking feedback on amendments to SS17/13 which are intended to clarify how Article 207(2) applies in such circumstances, as well as the PRA’s expectations of how firms should treat collateral with a material positive correlation for CRM purposes.

Comments are due by 10 April 2019.

Consob consults on information to be disclosed to public with regard to SREP

The Italian securities regulator Consob has launched a consultation on the information to be publicly disclosed by banks as a result of their assessment process on the adequacy of capital requirements, known as the Supervisory Review and Evaluation Process (SREP).

The aim of the consultation is to collect industry feedback on the redefinition of the information to be made public in conjunction with the implementation of the SREP, i.e. the recurring tests managed by the prudential supervisory authorities for the credit sector - the Single Supervision Mechanism (SSM) of the European Central Bank for the larger institutions and the Bank of Italy for the smaller ones.

In particular, the initiative is intended primarily to draw attention to the appropriate identification of privileged ‘price sensitive’ information which, during the course of the SREP, will have to be disclosed to the market through a press release or, alternatively, will have to be subject to the delayed communication procedure. In addition, Consob has provided some indications regarding the processing of such information in the context of both information prospectuses and periodic financial information.

At the end of the consultation, Consob will adopt an official recommendation, which will repeal and replace the previous communication adopted on this subject on 26 November 2015 (No. 0090883).

The consultation runs until 31 January 2019.

Consob consults on intervention measures on binary options and financial contracts for difference

Consob has published new draft intervention measures on the marketing of binary options (BOs) and financial contracts for difference (CFDs) for consultation. These are designed to implement in Italy - and make definitive rather than only temporary - the European Securities and Markets Authority's measures on marketing to retail clients of binary options and CFDs. Those measures were published in the Official Journal of the European Union on 1 June 2018.

The measures adopted by Consob will apply to the offering to retail clients of the products in question (under freedom to provide services and/or through a branch) and shall be altogether similar to the ones adopted by ESMA, thus satisfying all the requirements laid down in Article 42 of MiFIR, such as the existence of significant investor protection concerns, the absence in the EU's legislation of other possible responses sufficient to tackle the problem, the proportionality of the measure and its non-discriminatory effect.

The consultation will end on 22 January 2019.
MiFID2/MiFIR: German Federal Ministry of Finance consults on past experience and potential need for change

The German Federal Ministry of Finance (BMF) has launched a consultation regarding the MiFID2/MiFIR provisions, which have now been implemented in national law and in effect for about one year.

The purpose of the consultation is to obtain an overview of the experience gained by financial institutions, market operators and issuers, as well as investors, in relation to the MiFID2/MiFIR provisions and to identify any potential need for change. The BMF intends to communicate any need for change identified on the basis of the responses received to the EU Commission.

The BMF will accept written comments until 15 March 2019. The comments should cover all aspects of MiFID2/MiFIR and its interrelation with other provisions considered relevant by the respective respondent and, as far as possible, be supported by data.

BaFin consults on draft circular on definition of default and estimation of risk parameters

The German Federal Financial Supervisory Authority (BaFin) has published for consultation a draft circular on the application of the definition of default under Article 178 of the CRR and on probability of default (PD) estimation, loss given default (LGD) estimation and the treatment of defaulted exposures.

The consultation has been launched against the background that BaFin will be adopting the following EBA guidelines into its administrative practice:

- guidelines on the application of the definition of default under Article 178 of the CRR - except paragraphs 25 and 26; and
- guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures.

BaFin wants to publish this information with the circular. Should any potential errors be identified during the consultation in the German version of the guidelines provided by the EBA, BaFin will address these in the circular.

Comments are due by 1 February 2019.

Swiss National Bank sets criteria for fintech companies' access to Swiss Interbank Clearing

On 1 January 2019, the Federal Council's revised Ordinance on Banks and Savings Banks (Banking Ordinance) entered into force. The Banking Ordinance provides details on the new licensing category of fintech companies, as set down in the Banking Act. The Swiss Financial Market Supervisory Authority (FINMA) is responsible for granting fintech licences.

The Swiss National Bank's (SNB's) statutory mandate includes ensuring and facilitating the functioning of cashless payment systems. As commissioning party of the Swiss Interbank Clearing (SIC) system, the SNB grants access to applicants that make a significant contribution to the fulfilment of the SNB's statutory tasks, and whose admission does not pose any major risks. Entities with fintech licences whose business model makes them significant
participants in the area of Swiss franc payment transactions will therefore be granted access to the SIC system and to giro accounts.

Press release

MiFID2 and new rules applicable to asset management companies: update to AMF policy published

The Autorité des Marchés Financiers (AMF) has published an update of its policy (instructions, positions and recommendations) to take account of the impact of the legislative and regulatory provisions arising from MiFID2 and the creation of separate legal structures for asset management companies (AMCs) and investment firms (IFs). The update also provides further clarifications that the AMF believes may be of use to market operators. Three policy documents have been updated and one new instruction has been issued.

Polish Financial Supervision Authority issues bulletin regarding first meeting of Interministerial Fintech Steering Committee

The Polish Financial Supervision Authority has issued a bulletin regarding the first meeting of the Interministerial Fintech Steering Committee. The subject of the meeting, among other things, was a draft act amending the provisions on conducting fintech activity by:

- introducing test licenses limited to fintech entities in the regulatory sandbox;
- introducing a register of crowdfunding platforms and regulating their operations;
- introducing amendments to liberalise provisions regulating the use of cloud solutions and outsourcing in banking;
- introducing the small electronic money institution (EMI);
- introducing small insurance companies as a separate category of entities operating on the basis of an entry in a register; and
- introducing amendments to liberalise operations with respect to small PIs, among other things.

In addition, the Polish Financial Supervision Authority discussed its strategy to promote the Polish fintech industry and conduct fintech operations.

Amendment regulations extending deadline for opt-out/opt-in notifications for accredited investors gazetted

The Monetary Authority of Singapore (MAS) has issued the following amendment regulations:

- the Securities and Futures (Classes of Investors) (Amendment) Regulations 2019;
- the Financial Advisers (Amendment) Regulations 2019;
- the Securities and Futures (Classes of Investors) (Amendment No. 2) Regulations 2019; and
Amongst other things, these amendment regulations have been issued to give effect to the extension of the deadline previously announced in the FAQs on the definition of accredited investor and the opt-in process issued on 18 December 2018.

Prior to the effective date of the amendment regulations, under the Securities and Futures (Classes of Investors Regulations) 2018 and the Financial Advisers Regulations 2018, a financial institution (FI) would only have been able to treat a customer as an accredited investor on or after 8 January 2019 if the FI had obtained the written consent from that customer to be treated as an accredited investor. For existing customers of the FI, the FI would have been required to send such customers a notification (opt-out notification) before 8 January 2019 to inform existing customers that they may opt-out of being treated by that FI as an accredited investor. FIs are also required to obtain the written consent (opt-in confirmation) from new customers onboarded from 8 January 2019 to opt-in to being treated as an accredited investor by the FI.

The MAS had announced in the FAQs that it would extend the deadline from 8 January 2019 to 7 April 2019 to give FIs an additional 3 months to provide existing customers with opt-out notifications and to implement procedures to obtain opt-in confirmation from new customers onboarded from 8 April 2019. This extension has been given effect to through the amendment regulations.

**ASIC consults on reform of fees and costs disclosure for superannuation and managed investment schemes**

The Australian Securities and Investments Commission (ASIC) has launched a public consultation on proposed changes to the fees and costs disclosure regime for superannuation and managed investment schemes. The consultation paper is intended to set out ASIC’s response to the recommendations in Report 581 entitled ‘Review of ASIC Regulatory Guide 97: Disclosing fees and costs in product disclosure statements and periodic statements’ (RG 97).

Report 581, published in July 2018, was prepared by Darren McShane, an external expert appointed by ASIC in November 2017 to conduct a review of fees and costs disclosure in superannuation and managed investments.

ASIC proposes to take forward the key recommendations from Report 581, which relate to:

- simplifying how fees and costs information is presented to consumers;
- reducing data inputs, including eliminating the requirement for fees and costs disclosure to incorporate some costs categories, particularly property operating costs, borrowing costs and implicit costs; and
- making disclosure for managed investment schemes more consistent with superannuation.

To assist industry in understanding the proposals, the consultation paper includes a proposed updated RG 97, as well as draft amendments to Schedule 10 of the Corporations Regulations 2001.

ASIC has indicated that, concurrently with the industry consultation, it will undertake consumer testing of some aspects of the proposals.

Comments on the consultation are due by 2 April 2019.
RECENT CLIFFORD CHANCE BRIEFINGS

The EU Securitisation Regulation – entering a brave new world

On 1 January 2019 the EU Securitisation Regulation began to apply – somewhat extraordinarily – before key elements of the regime were even close to being finished. Of the dozens of mandates for technical standards and guidelines, not a single one has been completed and published in the Official Journal of the European Union.

This briefing paper provides an overview of the regulation and sets out some of the practical compliance challenges that result from needing to comply with a new and still incomplete regime.

https://www.cliffordchance.com/briefings/2019/01/the_eu_securitisationregulationentering.html

Liability Management – Key Considerations for Debt Issuers in Asia Pacific – 2nd Edition

Since the publication of the First Edition of our guide 'Liability Management – Key Considerations for Debt Issuers in Asia Pacific', there has been increasing volatility in various currency markets driven by recent US federal reserve rate increases (with further rate increases having been signalled to occur through the end of 2018 and into 2019) and an appreciating USD, as well as resulting from tensions in global trade policies and continuing volatility in the GBP and EUR currency markets after the Brexit vote in 2016.

Clifford Chance has published the Second Edition of the guide. It describes the main techniques which issuers in the region, who are considering liability management either in the context of an active debt capital restructuring exercise, and both distressed and non-distressed financial situations, might employ. The guide also highlights some of the legal issues that they and their financial advisors will need to take into account.

You can use the insights within the guide to understand recent changes in the regulatory landscape and familiarise yourself with new developments and techniques in liability management transactions.


Brexit and choice of courts – UK accedes to the Hague Convention

The Hague Convention on choice of court agreements will come into force in the UK on 1 April 2019 if there is a ‘no deal’ Brexit. As a result, all EU member states will be obliged to give effect to exclusive choice of court agreements in favour of the English courts entered into after that date and to enforce the resulting judgment.

This briefing paper discusses the accession.

https://www.cliffordchance.com/briefings/2019/01/brexit_and_choiceofcourtsukaccedestoth.html
Changes in regulation of arbitration in Russia

On 29 March 2019, Federal Law No. 531-FZ of 27 December 2018 On the Incorporation of Amendments to the Federal Law On Arbitration in the Russian Federation and to the Federal Law On Advertising will take effect. The law includes a range of amendments to Federal Law No. 382-FZ of 29 December 2015 On Arbitration in the Russian Federation, which itself was enacted as part of the so-called 'arbitration reform'.

This briefing paper discusses the changes.

https://www.cliffordchance.com/briefings/2019/01/changes_in_regulationofarbitrationinrussia.html
This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

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