

BANKS

Banks horse-trade on ringfence fine print

News analysis

Lenders angle for concessions on governance and operational issues of their retail and investment units, write FT reporters

Some of Britain's biggest banks are expecting to secure concessions from the regulator over the new ringfencing regime, in an example of the industry's fightback against tougher regulation.

Lenders have been in discussions with the regulator over the details of the regime recommended by Sir John Vickers, which will force them to separate their retail businesses from their investment banking divisions.

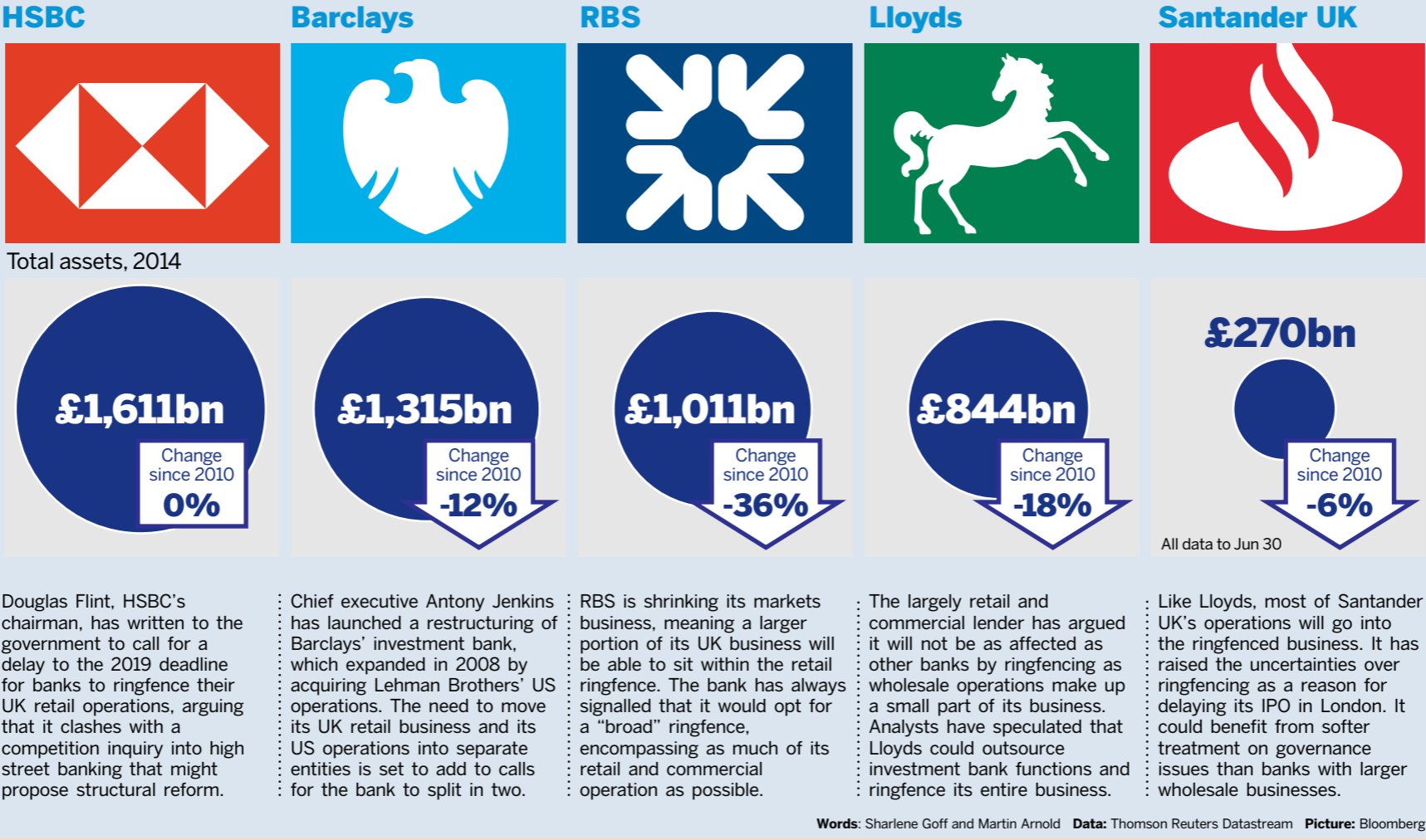
Banks that have the smallest wholesale divisions – Lloyds Banking Group and Santander UK – fear that they could be disproportionately hit by the costs of meeting the rules, which will require them to have separate boards, IT systems and risk and finance functions for the activities that are not included in the ringfence. They have pushed for concessions, such as more overlap between the different boards to limit the number of new non-executive directors they have to find.

The ball is now in the court of the Bank of England's Prudential Regulation Authority, which is expected to unveil its first consultation paper on the detailed governance and legal arrangements operating in ringfenced banks in October. The uncertainty surrounding the new system comes as big banks prepare for significant structural reforms in the US, UK and potentially the EU, with its Liikanen proposals, as well as global initiatives aimed at ending the problem of companies that are too big to fail.

This month Douglas Flint, chairman of HSBC, called for a pause to the Vickers process given the UK had also launched an investigation into competition in the banking sector. He said regulatory reform was "increasingly fragmented" and continually evolving. David Strachan, head of Deloitte's centre for regulatory strategy, said: "The PRA's new rules are the missing bricks and mortar which banks hope will provide them with the direction they need to plan effectively, on governance and other operational issues. But there is further rulemaking to come and the uncertainty around the EU's bank structural reform proposal remains. So the building is still far from complete."

The UK in December passed legislation adopting Sir John's proposals to separate the retail and investment arms of banks and erecting a

Ringfencing the changes



"ringfence" around the retail bank so its essential operations continue even if the whole bank fails.

The goal of the new system is to ensure ringfenced banks are simpler in their make-up and easier to wind up in the event of failure. The ringfence will cover lenders with at least £25bn of retail and small and medium-sized enterprises deposits, and will come into force in 2019.

The Treasury in June put in place secondary legislation defining what activities can be conducted inside the ringfence, offering concessions to industry lobbyists who had pushed for business customers to be offered products such as options and trade finance. The next phase of the debate will centre on the relationship between ringfenced banks and other members of broader banking groups,

which will be set out in the PRA consultation papers.

One banking insider said he expected the PRA to be "sympathetic" on the issue of board representation. This could potentially mean allowing more than one common director between the boards of the different parts of the business, if the bulk of activity takes place in the ringfenced bank. Another banker said companies

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Infighting delays rules on US bonuses

By Gina Chon in Washington

A US proposal forcing executives of the world's largest banks to defer compensation to prevent the kind of risk taking that spurred the financial crisis has become bogged down in regulatory infighting, causing a critical Dodd-Frank financial reform mandate to languish for the past three years.

US regulators want to finalise the rule this year but it is unclear if the six agencies involved can meet that goal, with some blaming each other for the delay, according to people familiar with the rule.

Several of the people said that the Securities and Exchange Commission is behind the hold up, while others say the banking regulators, who are leading the effort, are at fault.

Advocates of a compensation rule say the proposal is needed to prevent another crisis because it will punish bank executives if they put their companies at risk.

Bonuses for executives of AIG, which received a \$182bn government bailout, caused an uproar in Congress in 2009.

Non-profit advocacy group Americans for Finan-

cial Reform blamed regulators for not working together to finish the rule.

The group is to write to the agencies this week. The letter will also be sent to lawmakers urging them to finalise the proposal and strengthen it by not leaving implementation up to a bank's board or management.

"We consider this one of the major pieces of unfinished business in Dodd-Frank," said Marcus Stanley, AFR policy director. "The regulators really have to get their act together. Bank CEOs need to know that they face consequences for their bad behaviour."

The measure is on the banking regulators' 2014 agenda but is not on this year's to do list for the SEC, though the agency does include some corporate pay disclosure measures.

The last time regulators discussed the incentive-based compensation proposal was in 2011, when the agencies sought public comment. The UK in July introduced proposals to claw back bonuses, while the EU has implemented bonus caps.

The US's proposed rule is aimed at eliminating bonus

structures that could encourage the excessive risk taking that spurred the financial crisis. The rule requires that bonuses should balance risk and rewards, be compatible with risk management practices and be supported by strong corporate governance.

The stakes are higher for the biggest US banks like JPMorgan, Citigroup and Goldman Sachs, in addition to the largest foreign banks in the US. At those banks, certain top executives would have to defer at least 50 per cent of their bonuses for at least three years. The amount ultimately paid would be adjusted to reflect any losses during that time.



Regulations would defer bonuses at big banks

The differences between banking and market regulators over the compensation proposal are reminiscent of disagreements that bogged down the Volcker rule banning proprietary trading, which was held up for about two years before being approved in late 2013.

Like the Volcker rule, multiple agencies are involved in the pay proposal, which slows down an approval process.

The agencies writing the compensation proposal are the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the SEC, the Federal Housing Finance Agency

and the National Credit Union Administration.

The SEC has delayed moving forward on the measure partly because of concerns about a cost-benefit analysis of the rule, which is part of the market regulator's requirements but is not mandated for bank oversight agencies, people familiar with the proposal said.

Opponents of SEC regulation have successfully sued the agency on the basis of an inadequate cost benefit analysis.

Others say the banking regulators are leading the effort and control the meetings, so any delay is their responsibility.

OCC Comptroller Tom Curry has said he hoped to finalise the rule this year, while Fed vice-chairman Stanley Fischer said this week that more work needs to be done on compensation practices.

In the absence of a finalised rule, banking regulators have issued compensation guidelines but they do not have the heft of a binding rule.

The Federal Reserve has also conducted a review of pay practices at the largest banks to use in its supervision of banks.

Goldman seeks investors for traders' chat service

By Tracy Alloway in New York

Goldman Sachs has asked financial companies across Wall Street to invest \$5m-\$6m each to create a new online chat service, as an alternative to Bloomberg LP's instant messaging.

Last month, the Financial Times reported that the US bank was spearheading an attempt to build a chat service for bankers and traders that could compete with the system installed on Bloomberg's \$20,000-a-year terminals.

The new service was believed to involve fusing Goldman's own in-house messaging technology, known as Live Current, with software developed by Perzo, a California start-up

founded by David Gurle, a former Thomson Reuters executive.

Now, Goldman has approached companies including BlackRock, JPMorgan Chase, Morgan Stanley, HSBC, Bank of America and Bank of New York Mellon to invest as much as \$6m apiece in the Perzo project, according to people familiar with the matter.

Goldman declined to comment.

Reports of the funding discussions come as big banks step up their attempts to harness new technology, in order to improve their businesses while cutting costs.

Goldman, in particular, has been bulking up its investment in new tech-

nology, with Lloyd Blankfein, chief executive, noting in an interview with Bloomberg Television this year that: "We're a technology firm."

The online chat project

Goldman, in particular, has been bulking up its investment in new technology

was initially given the internal code name "Babel" at Goldman – leading some at rival banks to refer to it as "Babble".

It has since been named "Symphony" and may launch as early as the second quarter of next year.

Goldman's new chat platform is intended to be a cheaper alternative to Bloomberg's terminal-based system, at a time when banks and financial groups are under pressure to cut costs.

It is also expected to be a more open application than the Bloomberg system.

Some people familiar with the project said it represented a way for Goldman to monetise its own in-house technology. Live Current was rolled out last year in an effort to protect sensitive internal communications at the bank.

Last year, Goldman executives confronted Bloomberg over the media group's alleged use of private terminal data to track individual bankers. Bloomberg instant

messages have also become important sources of evidence in regulatory investigations into banks' conduct.

Symphony is not the only rival chat service on Wall Street. Markit, the financial services and data firm, has created a system that allows users to connect different messaging functions to each other.

Last week, Jefferies became the latest financial company to sign up to use Markit's Collaboration Services.

Another company is working on a chat platform that would be aimed more at broker-dealers such as ICAP and Tullett Prebon rather than large banks, according to people familiar with the plans.

Contracts & Tenders

PRIVATIZATION AGENCY

Republic of Serbia

NOTICE ON ANNOUNCEMENT OF THE PUBLIC INVITATION

For collecting letters of interest for companies in Privatization Agency portfolio

Serbian Parliament passed the new Law on Privatization (hereinafter: the Law) on August 2<sup>nd</sup> 2014, which entered into force on August 13<sup>th</sup> 2014.

In order to survey the interest of potential investors, Privatization Agency (hereinafter: the Agency) announced the public invitation for collecting letters of interest, and invited investors to express their interest in privatization and submit proposed model in line with the Law, for 502 parent companies with subsidiaries, in various industries – metal processing, agriculture, automotive, food processing, etc.

Pursuant to the Law, possible privatization models are: sale of capital, sale of assets, transfer of capital free of charge and strategic partnership; method of privatization can be public collection of offers with subsequent public bidding, and public collection of bids.

In addition to above stated models and methods, the Law also provides measures for preparation and disbanding of companies in privatization, such as: conditional debt write-off and debt to equity swap (conversion).

Public invitation for collecting letters of interest for companies in Privatization Agency portfolio (hereinafter: Public Invitation) was announced on August 15<sup>th</sup> 2014 on Agency's web site.

The Agency invited all potential investors to submit their letters of interest for a particular company from the Agency's portfolio (hereinafter: Letter of Interest).

The Letter of Interest should include: basic data about prospective investor, basic data on the company in privatization (name, address, ID number), expression of interest for participation in privatization process with proposed model in line with the Law (in case of proposed model of asset sale, the letter must specify the asset), proposed indicative price, investment program, provisional business plan and number of employees that the investor is ready to employ permanently (from the company in privatization or otherwise).

Submission deadline: Letters of Interest shall be submitted by mail or directly to the Agency, not later than September 15<sup>th</sup> 2014.

Full text of the Public Invitation with basic data on companies from the Agency's portfolio is available at: [www.priv.rs/public-invitation](http://www.priv.rs/public-invitation)

For any inquiries regarding to this Public Invitation, please contact the Agency at the following address:

Privatization Agency, Republic of Serbia  
23 Terzije Street, Belgrade  
Phone: +381 11 3020 800  
Email: [loi@priv.rs](mailto:loi@priv.rs)

The notice on announced Public Invitation is also published in Serbian daily newspapers "POLITIKA", "KURIR" and "VEČERNE NOVOSTI".

The Agency reserves the right to amend any and all elements of this Public Invitation, and shall have no liability in case of any costs or damages that may occur in this respect to any prospective bidder or third parties.

Legal Notices

In the matter of Aeroconcrete Holdings Limited and In the matter of the Cyprus Companies Law Cap 113

Notice is hereby given that the creditors of the above-named company which is being voluntarily wound up are required on or before the 15th day of September 2014 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Constantinos Constantinou, of PricewaterhouseCoopers Limited, Julia House, 3 Th. Dervis Street, CY-1066 Nicosia, PO Box 21612, CY-1591 Nicosia, Cyprus, the joint liquidator of the said company, and if so required by notice in writing from the said joint liquidator, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 15th day of August 2014  
Constantinos Constantinou  
PricewaterhouseCoopers Limited  
Joint Liquidator of Aeroconcrete Holdings Limited

In the matter of Wardhill Limited and In the matter of the Cyprus Companies Law Cap 113

Notice is hereby given that the creditors of the above-named company which is being voluntarily wound up are required on or before the 15th day of September 2014 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Constantinos Constantinou, of PricewaterhouseCoopers Limited, Julia House, 3 Th. Dervis Street, CY-1066 Nicosia, PO Box 21612, CY-1591 Nicosia, Cyprus, the joint liquidator of the said company, and if so required by notice in writing from the said joint liquidator, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 15th day of August 2014  
Constantinos Constantinou  
PricewaterhouseCoopers Limited  
Joint Liquidator of Wardhill Limited

Lahore Knowledge Park

Extension in EOI Submission Deadline

It is intimated that the last date for the submission of proposals in reference to the advertisement titled, "Request for Expression of Interest (EOI)" published in this newspaper on July 16, 2014 is now extended to **September 2, 2014, 1600 HRS PST**

Note:

The originally given deadline was August 18, 2014.

All other conditions remain unchanged.

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