

## SUMMARY MINUTES

Teleconference: FMLC, EFMLG, FMLG, SNB, HKMA, FLB and MAS

Monday, 13 May 2013, 7-9 am EDT

1.	FLB initiatives – update	Financial Law Board (Bank of Japan)
a.	Reform of the Resolution Framework for Financial Institutions in Japan	<p>Based on the Financial System Council report published in end January 2013 which included recommendations to establish an orderly resolution regime for financial institutions, the Bill for Partial Amendment of the Financial Instruments and Exchange Act was submitted to the Diet on April 16. The Bill includes amendments to the Deposit Insurance Act to introduce a new regime for the orderly resolution of financial institutions based on the FSB’s “Key Attributes of Effective Resolution Regimes for Financial Institutions”. The scope of financial institutions that may be resolved under the new regime includes: deposit-taking financial institutions, insurance companies, securities firms, financial holding companies, and foreign bank branches. Under the Bill, the Deposit Insurance Corporation oversees the measures taken under the new regime, and provides liquidity and financial assistance. The Bill also grants authority to implement a temporary stay on early termination rights when necessary to prevent severe market disruptions. When losses are incurred, they will in principle be borne ex post by the financial industry, and government financial support would be limited to exceptional cases. By the enactment of the Bill, the Japanese resolution framework will be mostly equipped with the requirements stipulated in the FSB’s “Key Attributes”. The measures will come into effect nine months after its proclamation.</p>

<p>b.</p>	<p>Update on the OTC Derivatives Market Reform in Japan</p>	<p>The central clearing requirement for certain yen-denominated CDS and interest rate swap (IRS) transactions took effect in November 2012. Prior to this transition, JSCC (Japan Securities Clearing Corporation) had started clearing business of the IRS and the CDS in October 2012 and in July 2011 respectively. In December 2012, leaders of authorities in charge of OTC derivatives markets, including the Japanese FSA, agreed to address the cross-border issues, such as inconsistencies and duplicative rules. Following their Joint Press Statement, the CFTC issued No-Action Relief to the JSCC that enables JSCC to clear certain CDS and IRS transactions without the license as the U.S. DCO (derivatives clearing organization) under section 5b(a) of the CEA (Commodity Exchange Act). The record keeping and reporting requirement took effect in November 2012 with a transition period until this April. In March DTCC Data Repository Japan was designated by the J-FSA as the first Trade Repository in Japan. In Japan all the necessary legislations for the OTC derivatives reform are in place and now we are in the implementation phase. Our biggest concern is the development of the cross-border issues and we are willing to discuss the issue with our foreign colleagues.</p>
<p>c.</p>	<p>Status of the Japanese Civil Code (Law of Obligations) Reform</p>	<p>The Ministry of Justice is currently inviting comments on the Interim Draft Proposal for reforming the Japanese Civil Code (law of obligations), hereafter the JCC. This document contains more than 260 proposals including proposals which are quite relevant to the financial industry. For instance, the statutory rate of interest in Japan is currently stipulated at a fixed rate of annual 5% for civil obligations but the proposal is to introduce variable statutory rate, possibly starting from 3% and then varying once a year when the central bank's Basic Loan Rate changes more than 0.5% year on year. With regards to the assignment of claims, it is proposed that the assignment of claims is in principle effective notwithstanding an agreement limiting or prohibiting such an assignment. Currently, the Article 466 of the JCC allows obligee and obligor to enter into an agreement to prohibit such assignment. This proposal</p>

		is expected to balance the protection of the debtor with the use of the assignment of receivables for the purpose of finance, such as securitization and asset based lending (ABL). The Legislative Council has not yet set the deadline for deliberation of the final report but it is said that it will take a few years. Financial community, including the FLB, is currently preparing comments to this Interim Proposal.
<b>2.</b>	<b>EFMLG initiatives - update</b>	<b>European Financial Markets Lawyers Group (European Central Bank)</b>
a.	Banking Union in the Euro Area	<p>The European Union and in particular the euro area continue to advance with European Banking Union (EBU). EBU is composed of the following:</p> <ul style="list-style-type: none"> <li>a) A single supervisor for the credit institutions established in the euro area. This single supervisor is the Single Supervisory Mechanism (SSM), which is led by the European Central Bank (ECB). The SSM supervises all the institutions established in the euro area Member States. Other EU Member States can also opt-in for SSM supervision. The ECB will directly supervise the ca. 130 main credit institutions of the euro area. The SSM will apply EU legislation as transposed by the relevant Member State and the technical standards established by the European Banking Authority (EBA). SSM will start its activities in July or September 2014.</li> <li>b) A Single Resolution Mechanism (SRM). The Commission proposal for EU legislation establishing the SRM will be tabled to the Council of the EU (co-legislator along with the European Parliament (EP) in the first half of July 2013). The SRM will have an agency at its centre and a Resolution Fund. The European Commission will take/confirm the main decisions of the agency. The national resolution authorities of SSM Member States will be part of the SSM, which will be led by the agency. A fiscal backstop backing the Resolution Fund will be needed.</li> </ul>

		<p>c) <b>ESM Direct Bank Recapitalisation.</b> The euro area EUR 700 bn capital organisation ESM will be able to directly recapitalise credit institutions established in the euro area which do not meet the capital requirements established by the ECB and are viable, if the Member State where they are established is in a difficult fiscal position not allowing it to recapitalise itself without risks for its fiscal sustainability or capital market access.</p> <p>d) <b>Bank Recovery and Resolution Directive (BRRD)</b> granting national authorities resolution tools will be finalised by the EU legislator (Council, EP) before the end of 2013. These will be the tools used by the SRM when it will be established.</p> <p>The on-going review of the Deposit Guarantee Scheme Directive harmonises further the DGSs of the EU Member States. It will be finalised by the EU legislator only once that the BRRD is finalised. A single DGS is not envisaged yet.</p>
<b>3.</b>	<b>FMLC initiatives - update</b>	<b>Financial Market Law Committee (Bank of England)</b>
a.	Credit Rating Agencies	<p>The FMLC's suggested reforms have met with some success.</p> <p>Some of the key areas for which the FMLC raised concerns included the provisions on issuer-pays model and the proposal to reverse evidential burden of proof. In particular, the proposed inversion of the burden of proof is not aligned with the general principles of EU Member States' laws.</p>
b.	Securitisation Risk Retention Rules/CLOs	<p>Article 122a of the CRR imposes restrictions on credit institutions and may have the detrimental effect on, in particular, the market for collateralised loan obligations. This is because in reality, there is unlikely to be any party that could fulfil the criteria. Credit institutions have been relying on the EBA Guidelines. The FMLC has made and continues to make representations to the DG Market on this issue. It is expected that</p>

		further meeting(s) will be held between the FMLC Director and the EBA.
c.	Financial Transaction Tax	<p>The FMLC is concerned by the likely impact of the FTT on financial markets. Particular considerations concern the wide scope of application (it will affect all financial instruments except loans), the cascading effect which includes broad anti-avoidance provisions and very limited exemptions and the use of the enhanced cooperation procedure in enacting the legislation.</p> <p>The FMLC has established a working group to consider the legal and operational uncertainties arising from the FTT.</p> <p>It is anticipated that the working group will consider:</p> <ul style="list-style-type: none"> <li>(i) uncertainties relating to the application of the Directive to different types of market transactions;</li> <li>(ii) uncertainties relating to the persons liable for the tax, the manner of collection and enforcement;</li> <li>(iii) uncertainties relating to the impact of the introduction of the tax on pre-existing market contracts; and</li> <li>(iv) uncertainties relating to the application of the anti-avoidance provisions.</li> </ul>
<b>4.</b>	<b>HKMA initiatives – update</b>	<b>Hong Kong Monetary Authority</b>
a.	The development of Near Field Communication (NFC) Mobile Payment Services in Hong Kong	NFC is short range wireless connectivity technology that provides intuitive, simple and safe communication between electronic devices. The communication occurs when two NFC-compatible devices are brought within a short distance, usually less than four centimetres, of each other.

		<p>The HKMA commissioned a study in Q3 of 2012 of the NFC mobile payment infrastructure in Hong Kong. The objective of the study was to identify the appropriate approach for a safe and effective NFC mobile payment infrastructure that will achieve interoperability among all NFC mobile payment servers along four development objectives:</p> <ul style="list-style-type: none"><li>(i) Ability to download multiple payment services from different banks and payment service providers into a single NFC-enabled phone;</li><li>(ii) Payment service continuity despite switching from one mobile phone network operator to another operator;</li><li>(iii) Payment service continuity despite changing one's NFC-enabled phone; and</li><li>(iv) High level security in line with international standards and relevant regulatory requirements.</li></ul> <p>The HKMA supports a market-driven approach for shared infrastructure development. The development of a set of guidelines and standards will help to ensure that Hong Kong's NFC mobile payment infrastructure interconnects in a consistent way and avoids a fragmented infrastructure being established.</p> <p>The HKMA and the Hong Kong Association of Banks will establish a working group to discuss and finalize the common standards and guidelines.</p> <p>The HKMA requires banks to conduct the following procedures before launching a new service:</p>
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<p>b.</p>	<p>Measures announced by the HKMA to strengthen the HIBOR Fixing Mechanism</p>	<p>Following a review of the HIBOR fixing mechanism by the Treasury Markets Association (“TMA”) and submissions by the Hong Kong Association of Banks and in the light of international developments regarding financial benchmarks, the HKMA announced the following measures in February 2013 to enhance the robustness of the HIBOR fixing mechanism:</p> <ul style="list-style-type: none"> <li>(i) The administrator function of the fixing process will be transferred to the TMA;</li> <li>(ii) An effective surveillance and governance structure will be established for the administrator function including the establishment of a Surveillance and Governance Committee with broad representation;</li> <li>(iii) A Code of Conduct will be developed for the reference banks including clear guidance on rate submission;</li> <li>(iv) HIBOR fixings with little market demand are to be phased out;</li> </ul>

		<ul style="list-style-type: none"> <li>(v) Membership of the panel of reference banks is to be reviewed every year instead of every 2 years; and</li> <li>(vi) Independent external audits of the Administrator’s control systems for the fixing process will be conducted periodically.</li> </ul> <p>The HKMA issued the Code of Conduct in May 2013 as a statutory guideline under section 7(3) of the Banking Ordinance. The Code sets out the minimum controls which the HKMA expects reference banks to put in place. The failure by a reference bank to comply with the Code may therefore call into question the adequacy of its systems of control and the fitness and properness of its board and chief executive.</p> <p>The Code provides comprehensive guidance on the rate corroboration process and the hierarchy of supporting data. It stipulates that the senior executives for the treasury, risk control and compliance functions should oversee and be accountable for all matters relating to the benchmark submission process. The senior executive for the treasury function has primary responsibility. Banks must develop independent review processes including quarterly reviews, surprise compliance checks, an annual audit review and an external audit review every 2-3 years. The review results should be reported to senior management and material breaches must be reported to the Board, the Administrator and the HKMA. The published Code is available on the HKMA’s website.</p>
c.	Hong Kong’s latest Prudential Measures for Property Mortgage Loans	The HKMA has been closely monitoring the local property market in view of the increasing risk of an asset price bubble that may undermine the stability of the banking system in Hong Kong. The HKMA has introduced various rounds of macro-prudential measures to strengthen the risk management of



		<p>banks in their property mortgage lending business.</p> <p>In September 2012, the HKMA issued guidelines to banks to tighten the underwriting criteria for loans to borrowers with multiple property mortgages, and introduced a ceiling for loan tenor of all new property mortgage loans of 30 years.</p> <p>In February 2013, the HKMA further introduced three new prudential measures:</p> <ul style="list-style-type: none"><li>(i) to require banks to apply more prudent criteria to assess the repayment ability of mortgage loan applicants, by assuming a mortgage rate increase of at least 3 percentage points (instead of the previous 2 percentage points). This measure applies to mortgage loans for all types of properties;</li><li>(ii) to lower the maximum loan-to-value ratio of mortgage loans for commercial and industrial properties by 10 percentage points from the existing applicable levels. The new ratio limits range from 20% to 40%, depending on whether the mortgage applicants have existing properties under mortgage; whether their income is mainly derived in Hong Kong; and whether the loans are assessed based on the net worth of the mortgage applicants; and</li><li>(iii) to limit the maximum loan-to-value ratio and debt-servicing ratio of mortgage loans for all standalone car park spaces to the levels applicable to non-residential property mortgage loans (with a maximum loan-to-value ratio of 40% and maximum debt-servicing ratio of 60%), and to limit the maximum loan tenor for car park spaces to 15 years.</li></ul>
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<b>5.</b>	<b>MAS initiatives – update</b>	<b>Monetary Authority of Singapore</b>
a.	The appointment of ICBC as RMB Clearing Bank for Singapore	<p>MAS and the People's Bank of China (PBC) have signed a Memorandum of Understanding on Renminbi (RMB) Business Cooperation. MAS and PBC will cooperate closely in reviewing the conduct of RMB businesses and clearing arrangements in Singapore and to establish regular dialogue to review RMB liquidity conditions and discuss issues concerning the stability of the RMB market.</p> <p>PBC also signed an RMB Clearing Agreement with the Industrial and Commercial Bank of China (ICBC) Singapore branch following PBC's appointment of ICBC Singapore branch as the RMB clearing bank in Singapore on 8 February 2013. As part of RMB clearing arrangements, PBC has granted the clearing bank in Singapore a RMB foreign exchange conversion quota to allow participating banks to conduct foreign exchange conversion in China via the RMB Clearing Bank in Singapore for</p>

		<p>the settlement of eligible cross-border trade.</p> <p>MAS had released a consultation paper to invite comments on the proposed regulatory requirements for RMB conversion in China via the RMB Clearing Bank in Singapore. The proposed regulatory requirements set out –</p> <ul style="list-style-type: none"> <li>(i) the criteria for eligible cross-border trade transactions;</li> <li>(ii) the requirements for the verification by participating banks and merchant banks by reviewing the necessary document in respect of the eligible cross-border trade transactions and the retention of such records; and</li> <li>(iii) certain reporting requirements by the participating banks.</li> </ul>
<p>b.</p>	<p>Key points in the Monetary Authority of Singapore (Amendment) Bill</p>	<p>The amendments amend the MAS Act in four key areas:</p> <ul style="list-style-type: none"> <li>(a) To extend the principal objects of MAS and to amplify its functions;</li> <li>(b) To expand the range of tools available to MAS for the resolution of distressed or insolvent financial institutions – <ul style="list-style-type: none"> <li>(i) To ensure that MAS is able to deal effectively with a financial institution in distress in order to minimise losses to depositors, policy owners and consumers of financial services, and to maintain stability in the financial system;</li> <li>(ii) The FIs include finance companies, merchant banks, operators and settlement institutions</li> </ul> </li> </ul>

		<p>of designated payment systems, approved exchanges, approved clearing houses, licensed trade repositories and designated financial holding companies;</p> <p>(iii) The MAS (A) Act enhances MAS’ resolution tool-kit by adopting relevant recommendations by FSB’s Key Attributes as follows:</p> <ul style="list-style-type: none"> <li>a. MAS is vested with the power to issue directions to a non-regulated entity that is incorporated and established in Singapore. This power applies where the entity belongs to a group of companies of which a financial institution regulated by MAS is part of and where the entity is significant to the business of such a group;</li> <li>b. MAS may apply to Court to claw back the salary, remuneration or benefits given to a director or executive officer under certain circumstances, for example when the director or executive officer has failed to discharge his duties; and</li> <li>c. MAS may share information with a foreign resolution authority if the information is necessary in the resolution of a FI;</li> </ul> <p>(c) To update the regulatory framework for the issuance of securities by MAS, including the regulation of primary dealers of these securities</p>
c.	Key points in the Financial Institutions (Miscellaneous	The Financial Institutions (Miscellaneous Amendments) Act 2013, which came into operation on 18 April 2013, amends the Banking Act, Business Trusts Act, Finance Companies Act, Government

	<p>Amendments) Bill</p>	<p>Securities Act, Money-changing and Remittance Businesses Act, Payment Systems (Oversight) Act, Securities and Futures Act and Trust Companies Act.</p> <p>New provisions have been introduced in these Acts to allow for voluntary transfer of the business of certain FIs and to empower MAS to take over the management of such institutions in distress or to appoint a statutory manager to do so. These changes correspond to the changes in the MAS Amendments.</p>
<p>d.</p>	<p>Key points in the Insurance (Amendment) Bill</p>	<p>The Insurance (Amendment) Act (the “Insurance (A) Act”) came into effect on 18 April 2013. The Insurance (A) Act enhances MAS’ powers to better achieve its supervisory objectives, improves the clarity of its policy intent, aligns the provisions with other Acts administered by MAS and updates some provisions that are outdated.</p> <p>The key points in the Insurance (A) Act are as follows:</p> <ul style="list-style-type: none"> <li>(i) Enhancement of MAS’ supervisory powers include powers to do the following – <ul style="list-style-type: none"> <li>a. direct an insurer to remove key persons, including the Chairman and Chief Executive, from office or from employment in certain circumstances, for example where the management or governance of an insurer is being carried out in a way that is detrimental to policy owners;</li> <li>b. inspect the overseas branches and subsidiaries of Singapore-incorporated insurers;</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>c. Furnish supervisory information such as inspection reports to foreign regulators and insurers' head offices, subject to confidentiality requirements, and allow foreign regulators to inspect their insurers operating in Singapore with the MAS' approval;</li> <li>d. impose conditions on an insurer before cancelling the insurer's licence e.g. insurer may be required to submit proof that its insurance liabilities have been fully discharged, to ensure that the rights of policy owners are not adversely affected; and</li> <li>e. impose asset maintenance requirements on an insurer.</li> </ul> <p>Alignment of provisions in the Insurance Act with other Acts administered by the MAS.</p>
<b>6.</b>	<b>SNB initiatives – update</b>	<b>Swiss National Bank</b>
a.	Revision of Financial Market Infrastructure Oversight Rules	<p>The Swiss National Bank (SNB) will revise the implementing provisions in the National Bank Ordinance providing rules on the oversight of financial market infrastructures (FMI). In this regard the National Bank Ordinance specifies how to determine whether a FMI is systemically important or not. And if so, which minimum requirements such FMI has to meet.</p> <p>The revision is intended to ensure the consistent implementation of the new CPSS-IOSCO Principles for Financial Market Infrastructures (CPSS-IOSCO PFMI) in Switzerland.</p> <p>Also, the revision aims to help create a legal and regulatory framework for central counterparties (CCPs) located in Switzerland which is substantially equivalent to that in the European Union (EU).</p>

		<p>This is a prerequisite for Swiss CCPs being able to offer their services in the EU. In this regard particular attention has been paid to the European Market Infrastructure Regulation (EMIR). The SNB had launched a public consultation on the revised National Bank Ordinance which ended in May. The revised rules are planned to come into force mid this year.</p>
b.	New Financial Market Infrastructure Act	<p>In order to safeguard the competitiveness of the Swiss financial centre and to strengthen financial stability in the context of financial market infrastructures a second initiative is on its way: A new cross-sector Financial Market Infrastructure Act is being prepared. The aim of this new piece of legislation is to implement the G-20 obligations and the FSB recommendations on OTC derivatives trading, as fully as possible and at the same time as other financial centres. In addition, the existing regulation in the area of financial market infrastructure has to be adapted to international standards, in particular the CPSS-IOSCO Principles for Financial Market Infrastructures (CPSS-IOSCO PFMI). Again, in order to secure EU market access, regulation that is equivalent to that in the EU will be required.</p> <p>In August 2012 the Federal Council instructed the Federal Department of Finance, in co-operation with the SNB and the Swiss Financial Market Supervisory Authority (FINMA), to commence work on the project and to submit a consultation draft to the Federal Council by this summer. According to the current schedule the new legislation is unlikely to come into force prior to the beginning of 2015.</p>
c.	New Financial Services Act	<p>Following the 2008 financial crisis there have been various national and supranational initiatives to enhance client protection with regard to certain financial services and products. In Switzerland, the Swiss Financial Market Supervisory Authority (FINMA) analysed the situation and proposed a package of measures designed to improve client protection.</p>

		<p>In March 2012, the Federal Council instructed the Federal Department of Finance, with the assistance of the Federal Office of Justice and FINMA, to commence work on a project to prepare the legal basis for creating a cross-sector (bank services, insurance services, advisory services, etc.) Financial Services Act regulating financial products and services and their distribution. Apart from overcoming the shortcomings identified in Swiss consumer protection, the new piece of legislation aims at implementing international standards and thereby facilitating market access and safeguarding the reputation of the Swiss financial market. Again, particular attention is being paid to the European legal and regulatory framework, i.e. the Markets in Financial Instruments Directive (MiFID), in order to facilitate EU market access.</p> <p>Another important prerequisite for strengthening competition between Swiss providers is the uniform structuring of regulatory requirements relating to the provision of financial services. This should revolve around technical aspects such as the complexity of products or the need for consumers to be protected, and should essentially be applied to the same degree for all providers, with the necessary differentiation. By having similar prerequisites, competitive distortions between providers can be avoided.</p> <p>As regards timing, a consultation draft to the Federal Council is expected to be ready by autumn this year.</p>
d.	Opening of SNB's Branch in Singapore	Against the background of the sharp extension in foreign exchange reserves and the growing importance of Asian financial markets, the SNB has decided to open a branch in Singapore, to ensure a more efficient management of its asset in the Asian-Pacific region. A local presence allows the SNB to extend its coverage of markets in Asia, and will facilitate its round-the-clock operations on the foreign



		<p>exchange market – for example, to enforce the minimum exchange rate, which the SNB has introduced in September 2011.</p> <p>Since 2009, the SNB’s foreign exchange reserves have increased substantially. To reduce concentration risk, the SNB aims for a broad diversification of its investments, and has turned to new markets as a result. Asia’s economic importance has grown considerably in recent years, as have its bond and stock markets. In 2010, the SNB had already expanded its basket of reserve currencies to include the Australian and Singapore dollar in addition to the Japanese yen. Since the first quarter of 2012, it is also investing in the South Korean won. Further investment opportunities are also being examined – this includes both bonds and equities.</p> <p>After evaluating a number of locations in the Asia-Pacific region, the SNB has chosen Singapore. The branch has been registered with the Accounting and Regulatory Authority Singapore (ACRA) in March 2013. It is planned that operations start mid this year with eight staff members.</p>
<b>7.</b>	<b>FMLG initiatives – update</b>	<b>Financial Market Lawyers Group (Federal Reserve Bank of New York)</b>
a.	CFTC External Business Conduct Rule Implementation	<p>On May 1, certain aspects of the Commodity Futures Trading Commission’s (CFTC) External Business Conduct Rules (EBCR) went into effect for registered swap dealers (SDs) and major swap participants (MSPs). The EBCR are practices and requirements such as heightened know-your-client (KYC) requirements, as well as new pre-trade disclosure requirements related to material risks, characteristics, conflicts, and incentives, that are intended to bring greater transparency to market participants.</p>

		<p>The EBCR are required of SDs and MSPs when dealing with non-SD/MSP counterparts. To implement the rules, the industry worked with the International Swaps and Derivatives Association (ISDA) to develop a Protocol.</p> <p>The implementation date for the EBCR was originally scheduled for December 31, 2012, but because take-up of the Protocol by that date was not robust, the CFTC provided a compliance date extension to May 1, 2013.</p> <p>One of the main concerns in the FX market has been about the application of the EBCR to prime brokerage. The CFTC responded to concerns on April 30 with a No-Action Letter that provides for the allocation of certain EBCR between a Prime Broker and Executing Dealer that are both Swap Dealers. In conjunction with ISDA, the FMLG worked on putting together a Derivatives/FX Prime Brokerage Business Conduct Protocol to implement the allocation of EBCRs permitted by the CFTC’s No-Action Letter.</p>
b.	US Debt Ceiling/Budget	<p>At the beginning of 2013, Congress agreed to suspend the U.S. federal government’s borrowing limit of \$16.4 trillion.</p> <p>Republicans have pushed for fiscal concessions, such as tax reform or entitlement cuts, as part of any deal to increase the debt limit while the White House and the U.S. Treasury have been adamant that increasing the debt limit is not open to debate.</p> <p>Republicans in the House passed a bill that would prioritize interest payments on the nation’s debt in the</p>

		<p>event Congress does not vote to increase the federal borrowing limit. The bill's sponsors suggest that such legislation would ensure that there will be no missed obligations that could trigger formal default. It seems unlikely that the measure will pass the Senate.</p> <p>Because of increased tax revenues and other factors, the next necessary rise in the borrowing limit is expected to be sometime in the autumn.</p>
<b>8.</b>	<b>Other</b>	