

Date: 8 July 2016

Item: TfL Group Banking Arrangements

This paper will be considered in public

1 Summary

- 1.1 TfL has Group banking arrangements with HSBC which enable TfL to manage its cash balances in a well controlled and efficient manner through the aggregation or pooling of all bank account balances within the TfL Group. Banking regulation changes have imposed new requirements on the way banks have to report notional pooling to the central banks. This has necessitated changes to the contractual documentation relating to the pooling arrangements.
- 1.2 As a result, HSBC has updated its standard terms and conditions relating to the pooling arrangements and wishes to replace the existing documentation relating to the balance offset arrangements with the bank's new standard terms and conditions. The new terms and conditions are not significantly different to the existing provisions and do not change TfL's net credit/debit interest position but are intended to address the new regulatory requirements and reporting obligations imposed on UK banks. This paper seeks authority to agree the amended and restated TfL Group banking agreements with HSBC.
- 1.3 Under Standing Orders, the authority sought in this paper is reserved to the Board. On 17 March 2016, the Board delegated to the Finance and Policy Committee authority to approve any matter reserved to the Board from 18 March to 18 July 2016. Authority is sought in the terms specifically required by HSBC now to enable TfL's subsidiary companies to agree the amended and restated TfL Group banking agreements with HSBC at their annual general meetings, which are being held at the end of June and the beginning of July 2016.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and exercise the authority delegated by the Board on 17 March 2016 to:**
- (a) confirm that the TfL Group bank accounts pooling arrangements will be of benefit to TfL;**
 - (b) approve entering into the GLS Terms and Conditions and Supplementary Terms and Conditions for Single Currency Pooling Service and all other documentation relating to the TfL Group bank accounts pooling arrangements;**
 - (c) authorise the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) to:**

- (i) finalise the terms of the GLS Terms and Conditions and Supplementary Terms and Conditions for Single Currency Pooling Service and all other documentation relating to the TfL Group bank accounts pooling arrangements; and**
- (ii) agree and enter into any additional services or change any services under the GLS Terms and Conditions or agree any amendment to the GLS Terms and Conditions or the Supplementary Terms and Conditions for Single Currency Pooling Service;**
- (d) authorise the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate)) of any documentation to be entered into in connection with the GLS Terms and Conditions and Supplementary Terms and Conditions for Single Currency Pooling Service and all other documentation relating to the TfL Group bank accounts pooling arrangements; and**
- (e) authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the GLS Terms and Conditions and Supplementary Terms and Conditions for Single Currency Pooling Service and all other documentation relating to the TfL Group bank accounts pooling arrangements.**

2.2 The following Officers and Subsidiaries shall have delegated authority:

- (a) TfL Officers: the Commissioner, Chief Finance Officer, General Counsel and Director of Group Treasury; and**
- (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

3 Background

3.1 On 6 December 2007, the Board approved the TfL Group banking arrangements with HSBC including:

- (a) the terms of a Facility Letter which provided for a £20m overdraft facility;**
- (b) a balance offset arrangement which enables TfL to pool, or net off, all bank account balances within the TfL Group; and**
- (c) a mechanism for amending the terms of the facility, increasing the overdraft limit and adding or removing subsidiary companies to the facility and netting arrangements.**

3.2 On 23 June 2010, the Board approved:

- (a) a Supplemental Facility Letter with HSBC increasing the overdraft facility to £200m; and**
- (b) a new TfL Group Guarantee in favour of HSBC in respect of TfL's and its subsidiaries' liabilities to HSBC to replace the Composite Guarantee from 2003 (TfL Group Guarantee).**

- 3.3 On 27 March 2013, the Board ratified the approval and execution of a separate guarantee by TfL in favour of HSBC in respect of Crossrail Limited in connection Crossrail Limited being party to the TfL Group banking arrangements (Crossrail Guarantee).
- 3.4 These arrangements have worked well and have enabled TfL to manage its cash balances in a well controlled and efficient manner.
- 3.5 In January 2015, the EU Capital Requirements Directive IV 2013/36/EU and the related Capital Requirements Regulation 575/2013 (the Directive and Regulation) imposed new requirements on the way banks have to report notional pooling to the central banks, which have necessitated changes to the legal documentation relating to the pooling arrangements.
- 3.6 Consequently, HSBC has updated its standard terms and conditions relating to the pooling arrangements and wishes to replace the existing documentation relating to the balance offset arrangements with the bank's new standard terms and conditions based on its Global Liquidity Solutions terms and conditions (GLS Terms and Conditions).
- 3.7 The GLS Terms and Conditions essentially provide a framework of standard contract provisions which apply to HSBC's banking services and under which additional services can be added, such additional services may have their own additional or supplementary terms and conditions.

4 Overdraft Facility

The existing £200m overdraft facility will remain in place under the new TfL Group banking arrangements.

5 Pooling Arrangements

- 5.1 As a result of the leverage ratio requirements introduced by the Directive and Regulation, EU banks' capital requirements are now based on the combined gross debit positions of all accounts, without consideration of any offsetting credit balances. Consequently, UK banks have had to change the mechanism of calculating and reporting credit and debit balances and interest payments.
- 5.2 The pooling arrangements are subject to the GLS Terms and Conditions and Supplementary Terms and Conditions for Single Currency Pooling Service. Under these new terms and conditions the credit and debit balances on each individual TfL Group account is identified and credit or debit interest (as appropriate) is applied on an individual account basis. Credit and debit interest is also calculated on an aggregate balance basis across all TfL Group accounts and any difference between the two methods of calculating debit/credit interest is debited or credited back to the nominated TfL Group accounts as specified by TfL. The revised agreements will not have any financial impact on TfL.
- 5.3 As a result, the GLS pooling arrangements continue to enable TfL to combine all nominated bank account balances within the TfL Group and the net credit/debit interest position remains the same as the current arrangements.

- 5.4 By aggregating debt and credit balances TfL is able to manage daily liquidity, and make investments in sizes which are more practical and efficient and result in best possible investment yields.
- 5.5 The pooling arrangements will cover TfL's bank accounts and all of its subsidiaries bank accounts with the exception of:
- (a) those subsidiaries whose bank accounts need to remain outside the pooling arrangements for regulatory reasons, such as London Transport Insurance Guernsey Limited, London Transport Museum Limited, London Transport Museum (Trading) Limited and TfL Trustee Company Limited; and
 - (b) specific individual accounts where there is a third party interest, such as escrow accounts.
- 5.6 As with the existing balance offset arrangements, the new GLS Terms and Conditions includes a mechanism for adding or removing subsidiary companies and specific accounts to and from the facility and pooling arrangements.
- 5.7 Under the terms of the pooling arrangements, TfL and each subsidiary company in the pooling arrangements guarantees to HSBC the payment of any sums owing under each of the subsidiary's accounts. Each of the relevant subsidiary companies agrees to be bound by the terms of the pooling arrangements.
- 5.8 The GLS Terms and Conditions and Supplementary Terms and Conditions for Single Currency Pooling Service do not materially alter the banking arrangements currently in place and are not expected to adversely affect TfL's banking arrangements from an operational standpoint. The changes, compared to the existing balance offset documentation, are not substantial but are intended to address the new regulatory requirements and reporting obligations imposed on UK banks.
- 5.9 Subject to the Committee approving the recommendations in this paper, each of TfL's subsidiary companies (with the exception of those outside the pooling arrangements as referred to in paragraph 5.5) will be asked to agree and pass resolutions in relation to the pooling arrangements at their annual general meetings.

6 TfL Group Guarantee and Crossrail Guarantee

The existing TfL Group Guarantee and Crossrail Guarantee will continue to apply in respect of TfL and its subsidiaries (other than those outside the pooling arrangements as referred in paragraph 5.5 above).

List of Appendices:

None

List of Background Papers:

EU Capital Requirements Directive IV 2013/36/EU
Capital Requirements Regulation 575/2013

Contact Officer: Simon Kilonback, Director of Group Treasury, Finance.
Number: 020 7535 5300
Email: simonkilonback@tfl.gov.uk