

Being better informed

FS regulatory, accounting and audit bulletin



PwC FS Risk and Regulation Centre of Excellence

July 2016

In this month's edition:

- What Brexit means for EU regulation
- PRA sets out priorities in 2016/17 business plan
- EC seeks to remove barriers to cross-border investment funds
- In-depth analysis of the EU Benchmarks Regulation



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Executive summary



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Welcome to this edition of 'Being better informed', our monthly FS regulatory, accounting and audit bulletin, which aims to keep you up to speed with significant developments and their implications across all the financial services sectors.

June was certainly an eventful month, with the outcome of the UK's EU referendum sending shockwaves through the political and financial worlds. We've been working through the implications for financial services firms and EU regulation, and talking to clients about what the result may mean for them.

Given the leave vote, firms might be tempted to hit the pause button on implementing EU regulatory change, but the reality is that they must continue to comply with existing EU regulation and implement any new EU legislation until the point at which the UK formally leaves the EU. To leave, the UK has to trigger Article 50 of the Lisbon Treaty, which starts the clock ticking on the two-year period for negotiating the UK's withdrawal from the EU. We aren't yet sure when the UK Government will choose to trigger Article 50 – it could be later this year, or possibly as late as summer 2017, after the local elections in France, Germany and the Netherlands. Once political agreement is achieved, the UK and EU will enter into a withdrawal agreement, which will probably specify a later date for the UK's formal withdrawal.

So we are probably looking at an exit that is at least two to three years away, and possibly longer. The likelihood is that most of the key EU financial services legislation

that currently is in the legislative process or in the implementation phase will be effective well before the UK exit date. For example, MiFID II comes into effect on 3 January 2018, so firms have to continue their implementation efforts on it. While the UK is still in the EU, UK regulators do not have the power to give firms leeway on complying with EU law and regulation.

During the run-up to exit, the UK Government and regulators will have a mammoth task to create a new UK legal and regulatory framework that functions independently from the EU. If the timeline to exit turns out to be only two to three years, they will have little choice but to 'cut and paste' EU legislation into the UK laws and rulebooks. Even that is an enormous exercise because UK law and regulation has become so intertwined with the EU framework over the past two decades. The tight timeline wouldn't allow much time for tinkering with the detail of regulation.

Post exit, the UK Government will want to take steps to ensure that London remains an attractive financial centre. Perhaps it will consider eliminating or tempering some of the more controversial or onerous EU regulatory requirements. But it is going to have to strike a balance – the UK will most likely need to keep the vast majority of regulations in place to ensure it remains equivalent to the EU. How much room does

the UK really have to deviate from EU regulation? Much EU regulation over the past six years stems from commitments that the UK and the EU made along with other G20 countries in the aftermath of the financial crisis. The UK won't back away from those commitments just because it is leaving the EU. Also, it has been a key driver behind much of EU regulation, and often goes further in implementing it than EU law requires (i.e. 'gold-plating'). And UK regulators will still need the firepower to fulfil their objectives to preserve financial stability, maintain market integrity and protect investors.

On the EU front, Brexit may have unintended consequences – Perhaps slowing progress on some EU legislation, given the disruption it is causing in Brussels. But in other cases, the speed of developments may pick up – for example, the FTT might progress more quickly given the UK has been obstructing progress.

Passporting has been getting massive media attention, but the coverage has glossed over the nuances of this very technical, complex issue. It's important to recognise that passporting is not generic – It is a complex set of regulatory processes for accessing the single market, covering establishment rights, and the provision of many different financial products and services. For investment firms, the MiFID passport

enables them to conduct securities and derivatives business in multiple EU Member States without having to obtain a licence in each one. For banks, the CRD passport allows them to conduct a broad range of activities including deposit-taking, credit provision and participation in securities issues throughout the EU using the authorisation obtained from their home Member State. Passports also exist under UCITS, AIFMD, the Prospectus Directive and the CRA Regulation, to name a few. And the forthcoming BMR includes third country provisions that firms should consider. At the moment, it is unclear what is likely to happen to UK firms' ability to use passports after the UK leaves the EU. Firms need to work with their industry bodies to lobby the UK Government, to encourage it to prioritise maintaining passporting post-exit, with lengthy transitional provisions to avoid any licensing gaps.

But while firms are working through the implications of Brexit, much of the risk and regulatory landscape remains in 'business as usual' mode. And regulators were of course busy with non-Brexit developments in June. The PRA set out its priorities for 2016/17 in its annual business plan. It intends to further develop its proportionate approach, and consider whether the prudential requirements in CRD IV can be applied more proportionately in areas such as regulatory reporting, disclosure, credit risk and the NSFR. The PRA also published a policy statement on contractual recognition

of bail-in, setting out the final rules and supervisory statement to implementing BRRD. The rules will come into force on 1 August 2016, one month later than planned. Meanwhile, MAR took effect on 3 July 2016, introducing new provisions to prevent and detect insider dealing and market manipulation. So firms need to make sure their policies and procedures reflect the new requirements.

In the asset management sector, the EC issued a consultation paper seeking views on how to minimise barriers to fund distribution across the EU. It is asking for feedback on issues including the use of online platforms to distribute funds, and the impact of varying regulatory fees and distribution costs.

Our feature article this month looks at the BMR, which entered into force on 30 June 2016: what the legislation means for benchmark administrators, contributors and users – and why firms should press ahead with implementation plans despite the EU referendum result.

This summer will continue to be eventful. Over the coming weeks and months, we expect the EBA to issue guidelines on risk factors and risk-based supervision under AMLD4, as well as RTS on strong authentication and communication under PSD2. Also look out for the FCA's upcoming policy statement on increasing transparency and engagement at renewal in general insurance.

We all need to stay calm, positive and focused on making policy and implementing regulation in a considered way, despite the current political uncertainty. Like all catalysts for change, Brexit too can bring opportunity – and firms can help to shape a new regime that will ensure the UK remains a vibrant, competitive place to run financial services businesses.



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EU benchmarks regime marches ahead



Benchmark administrators, contributors and users should prepare for stricter governance and transparency rules as the EU seeks to draw a line under past scandals. After years of negotiation, the much anticipated *BMR* entered into force on 30 June 2016. Unlike previous guidance on regulating financial benchmarks – from IOSCO, ESMA and the EBA – BMR is legally binding. It also captures a broader range of benchmarks than previous guidelines. BMR makes the EU the only major jurisdiction to introduce comprehensive legislation to regulate financial benchmarks.

The objective of BMR is to ensure the accuracy and integrity of indices used as benchmarks in the EU by focusing on conflicts of interest, governance and controls. It also aims to improve the quality of input data and methodologies used by benchmark administrators. And it intends to protect consumers and investors through greater transparency and rights of redress.

BMR represents the culmination of a series of interim attempts to address weaknesses in benchmark processes exposed through recent scandals. Internationally, the *IOSCO Principles for Financial Benchmarks* have been in place since April 2013, but they

aren't legally binding. In the UK, the FCA brought LIBOR into the scope of regulation in 2013 on the recommendation of the *Wheatley Report*, followed by seven additional benchmarks as part of the *Fair and Effective Markets Review* in 2015¹.

Upon implementation, BMR will replace the FCA's MAR 8 (which governs these specific benchmarks) and IOSCO's principles, which govern other UK benchmarks not subject to FCA supervision.

Taking a tailored approach

Over the course of the legislative process, the BMR has widened in scope but also been tailored to various benchmark types. The final text is broader than the EC originally proposed. In addition to benchmarks in financial instruments and financial contracts, it now includes benchmarks used to measure the performance of investment funds in the EU.

Drawing on IOSCO's work, BMR defines a benchmark as:

- any index by reference to which the amount payable under a financial instrument or a financial contract, or the value of a financial instrument is determined or

- an index used to measure the performance of an investment fund with the purpose to track the return of such an index or to define the asset allocation of a portfolio or compute the performance fees.

It isn't a 'one size fits all' approach as proposed by the Council. So the requirements for the majority of benchmark administrators (and indirectly, contributors) are not as onerous as they might have been.

BMR establishes three new benchmark types based on graduated quantitative thresholds and the availability of suitable alternatives. Requirements applicable to each are proportionate to the risks of manipulation or cessation.

'Critical' benchmarks are the most highly regulated, with specific rules governing cessation by administrators and contributors. Competent authorities will determine which benchmarks are critical every two years, based on administrator submissions. They must be:

- deemed critical by the Member State where the majority of its contributors are located

¹ Sterling Overnight Index Average (SONIA), Repurchase Overnight Index Average (RONIA), ICE Swap Rate, WM/Reuters (WMR) London 4pm Closing Spot Rate, LBMA Gold Price, LBMA Silver Price, ICE Brent Index

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- used as a reference for financial instruments, contracts or performance of funds with a total value of at least €500bn or - used as a reference for financial instruments, contracts or performance of funds with a total value of at least €400bn, with limited market-led substitutes, and their cessation would have a significant impact in one or more Member State. Secondly, ‘significant’ benchmarks are used as a reference for financial instruments or financial contracts or to measure the performance of investments funds with a total average value of €50bn. Benchmarks can also be deemed significant if they have limited market-led substitutes and their cessation would cause significant adverse impacts in one or more Member State. And finally, ‘non-significant’ benchmarks are all the others which do not fit the definition of critical or significant benchmarks. Administrators may choose not to apply certain requirements, but must publish an explanatory statement for the decision. Under the BMR, sector-specific benchmarks have separate regimes which in some cases may substitute requirements for the three benchmark types: - Regulated data benchmarks are determined by a formula which includes input data contributed entirely from a	trading venue or data service providers subject to certain transparency requirements under MiFID II. Because the data is already based on regulated inputs, there are fewer data verification requirements. - Interest rate benchmarks are subject to a specific prioritisation of input data, i.e. contributors’ transactions in the underlying market, observations of third party transactions, committed quotes, indicative quotes or expert judgments. Administrators must have independent oversight committees which meet at least quarterly. - Commodity benchmarks are subject to minimum criteria for calculating methodology. Administrators must formalise, document and publish their methodologies for calculating commodity benchmarks. Focus on administrators Similar to the IOSCO principles, BMR focuses primarily on the responsibilities of administrators, although it also imposes requirements on contributors and users. The BMR defines an administrator as ‘a natural or legal person that has control over the provision of a benchmark’. It defines a contributor as ‘a natural or legal person contributing input data’, while the submitter is ‘a natural person employed by the contributor for the purpose of contributing input data’. In contrast, both the MAR 8 and the IOSCO principles use	the term submitter without distinguishing the contributing firm from its employee. Firms should note the difference in terminology because BMR imposes separate requirements to ensure the identity and authorisation of submitters permitted to provide input data on behalf of the contributing firm. The key requirements for administrators are: - Governance and oversight function - an administrator must establish a permanent and effective oversight function to supervise all aspects of its benchmark, including management sign-off of benchmarks prior to dissemination and an annual review of the benchmark’s definition and methodology. - Conflicts of interest - the proposed text would have required administrators to take ‘all necessary steps’ to identify, prevent or manage conflicts, but the final text is less stringent and requires administrators to take only ‘all adequate steps’. Instead of requiring firms to cease benchmarks where conflicts cannot be adequately managed, competent authorities may require independent oversight function with balanced representation of users and contributors. - Input data - to reduce the risk of contributors manipulating submissions, BMR requires the use of transaction-	based data. If none is available, then committed quotes, indicative quotes and estimates may be used. All input data must be verifiable. Where a front office function contributes input data, the administrator must obtain corroborating data and ensure the contributor has adequate oversight and verification procedures. - Methodology - although an administrator must publish its methodology, this does not include the details of ‘black box’ algorithms. To meet transparency requirements, administrators only need to disclose elements sufficient to allow stakeholders to understand how the benchmark is derived and to assess whether it is representative, relevant and appropriate for the intended use. - Code of conduct - where benchmarks are based on input data from contributors, administrators must develop a code of conduct to ensure contributors establish systems and controls in accordance with the regulation. - Supervised contributors - supervised entities (e.g. MiFID II firms, credit institutions, UCITS and AIFMs) which contribute input data to an EU administrator are subject to specific governance and control requirements. These requirements are focused on training, conflict management, record keeping and policies on expert				

judgement. UK contributors subject to MAR 8.2 will be familiar with these requirements, but firms from other Member States that have not been subject to regulatory requirements for contributors may find it more challenging.

Auditing benchmarks

Audits are an integral part of the basic governance framework applicable to all benchmark administrators and contributors. Certain benchmarks require independent external audits under the BMR. Administrators of critical benchmarks must appoint independent external auditors to review compliance with the benchmark methodology and the regulation, at least annually.

Administrators of interest rate benchmarks must appoint independent external auditors to review and report on compliance every two years. Contributors must appoint an external auditor to review input data six months after the administrator introduces the contributor's code of conduct, and subsequently every two years.

And thirdly, administrators of commodity benchmarks must appoint independent external auditors 'with appropriate experience and capability' to review and report on compliance with stated methodologies annually. Reports must be published three months after completion.

Registering administrators

BMR requires ESMA to maintain a public register of all approved administrators located in the EU or in third countries, as well as third country benchmarks endorsed by an EU administrator. EU-supervised entities can only use benchmarks provided by an administrator that is included in the ESMA register. Administrators of critical, significant and sector benchmarks must obtain authorisation from the NCA where they are located to be included in the register. A simplified registration process is available to administrators of non-significant benchmarks.

For third country administrators to be included in the ESMA register, the regulatory regime of the third country where the administrator is located must be deemed equivalent by the EC. Equivalence is granted if the administrator is subject to ongoing supervision and enforcement in a third country which follows the IOSCO principles. The principle of 'prior recognition' permits EU-supervised entities to use foreign benchmarks while awaiting equivalence decisions. The third country administrator must comply with IOSCO principles, as determined by an independent external auditor. Moreover, the third country administrator must have a legal representative in the EU to perform oversight.

BMR introduces another procedure which permits EU administrators or supervised

entities to endorse foreign benchmarks for use in the EU. The endorsing EU entity must have a well-defined role in the control and accountability framework of the third country administrator sufficient to monitor effectively the provision of the benchmark. The endorser has an ongoing duty to verify and demonstrate the provision of the benchmark meets requirements at least as stringent as those under BMR or IOSCO principles. The EU entity must have sufficient expertise to monitor and manage risks, and most importantly, remains fully responsible for compliance with BMR.

There must be an objective reason why the benchmark has to be provided in a third country, such as geographical proximity, specific skills required or legal constraints on input data. There also needs to be an objective reason for its use in the EU, such as a lack of substitutes.

Imposing penalties

BMR gives Member States the power to impose penalties against administrators and supervised entities, including withdrawal or suspension of an administrator's authorisation or taking away profits. Maximum fines can reach three times the amount of the profits gained or losses avoided.

Member States may impose fines up to €500,000 for individuals, or the greater of €1m or 10% of total annual turnover for firms that violate rules on:

- governance and control by administrators
- input data, methodology and reporting infringements
- code of conduct and requirements for contributors
- critical, significant and non-significant benchmarks.

Understanding Brexit's impact

The BMR application date of 1 January 2018 will almost certainly precede the UK's official withdrawal from the EU. So firms should not be tempted to take a break from implementation plans.

The UK Government must tender formal notice of withdrawal to the EU Council under Article 50 of the Lisbon Treaty. This notice starts the clock on the two-year timeframe for withdrawal. The UK and EU will then negotiate a withdrawal agreement specifying the withdrawal date. On that specified date, or when the two-year period ends, the UK officially becomes a third country under EU regulation. The withdrawal process has no timeframe, and the EU has no authority to force the UK to tender notice of withdrawal any sooner. So during the negotiation period and until the withdrawal date, UK firms remain subject to all EU laws and regulations.

We're on an untrodden path here - there is no real precedent for an EU Member State

withdrawing. As a result, the details of the final outcome will be subject to negotiation between the UK Government and the EU Council with the consent of the EP. Possible exit scenarios could be:

- the UK may leave the EU but join the EEA in its own right, adopting EU law and regulation through that route
- the UK could potentially negotiate a bilateral arrangement with the EU, giving it a status somewhere between a third country and a full member
- the parties might not be able to reach agreement on their future relationship, leaving the UK as a third country, in the same situation as other World Trade Organization countries.

Where we'll end up is anyone's guess at this point.

BMR's go-live date is followed by a transitional period of 42 months, during which time EU administrators can continue to provide - and supervised EU entities can continue to use - benchmarks existing on 30 June 2016. Administrators must apply for authorisation or registration by 1 January 2020. Originally designed to give benchmark users and providers more time to comply, the transitional period now has the added benefit of giving the market time to adjust while Brexit negotiations play out.

Regulatory equivalence will be a key component of the UK's negotiations with the EU on what Brexit means for financial

services. This will vary according to different regulations, but for the BMR, since the go-live date will almost certainly precede the UK's official withdrawal from the EU, the UK will most likely be deemed an equivalent regime.

Supervised EU entities can only use benchmarks from authorised or registered administrators listed in the ESMA register. After the UK leaves the EU, LIBOR would fit the definition of a third country benchmark and ICE would be a third country administrator. As such, the UK would be subject to an equivalence decision for

authorisation of its administrators. Strictly speaking, UK firms would no longer fit the definition of supervised entities (MIFID II firms, credit institutions, UCITS or AIFMs) as defined in existing EU legislation. This disconnect means they would not benefit from less onerous registration procedures to get on the ESMA register of approved benchmarks and administrators. It's another area that would benefit from coverage in the withdrawal agreement, and transitional provisions.

Next steps

Despite the uncertain political climate, there is now sufficient regulatory certainty for administrators, contributors and users to take definitive action to prepare for the 2018 go-live date. To determine which benchmarks are in scope of the regulation, firms should undertake a three-step analysis:

- First, analyse whether the benchmark meets the regulatory definition of an index according to Art 3.1.1. Key to this determination is whether the index is being made available to the public. ESMA's technical advice suggests firms which provide bespoke indices to an isolated group could trigger the publication element if a supervised entity uses that figure in a financial instrument or financial contract.

- Second, evaluate whether the index is being used as a benchmark as defined in Art 3.1.7.

- Finally, confirm whether BMR explicitly excludes the benchmark from regulation. For example, index providers which could not reasonably know their index is being used as a benchmark are not subject to the regulation.

Administrators, contributors and users should align their definition of benchmarks with the BMR definition, then categorise their inventory of benchmarks by type (critical, significant or non-significant) and sector (regulated data, interest rate, commodities). Administrators and supervised contributors should review their governance and control frameworks to ensure they are proportionate to the criticality of the benchmark.

Though fewer in number, requirements for contributors and users are as important as those for administrators. Contributors should consider whether input data diverges

from the new regulatory requirement to prioritise verifiable transaction data over data based on discretion and judgment.

Potential problems may arise for EU-supervised firms using benchmarks from jurisdictions where the regulator does not ensure adherence to IOSCO principles. Firms now have a clear imperative to conduct a thorough analysis of all benchmarks they use and ensure they are contained within the ESMA register.

Supervised entities located in the EU will need to find alternative references for their products if the benchmarks they currently use are not registered with ESMA.

Lastly, firms should continue to monitor the development of implementing measures. ESMA plans to publish another consultation paper with draft technical standards in Q3 2016. This will include a non-exhaustive list of governance arrangements for administrators and the elements of the contributor code of conduct.

The details of the UK's exit from the EU may be uncertain, but the obligation of UK firms subject to BMR is unambiguous: prepare for full compliance by 1 January 2018.

Cross sector announcements

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Regulation

Brexit

Osborne on Brexit impact

Chancellor George Osborne addressed the impact of the referendum result on the UK economy in a *statement* on 27 June 2016. Osborne sought to reassure markets that the UK is in a strong position to confront the challenges ahead. He argued the UK should trigger Article 50 only when there is a clear view on the new arrangements the Government is seeking with the EU. Osborne said there will be no change to the way goods and services are traded, or the way the financial system is regulated, until the UK leaves the EU. But he acknowledged there is already evidence some firms are continuing to put investment decisions on hold. Osborne said this will have an impact on the economy and public finances, and action will be needed to address that.

He added: 'But no one should doubt our resolve to maintain the fiscal stability we have delivered for this country. To all companies large and small I would say this: the British economy is fundamentally strong, we are highly competitive and we are open for business.'

BoE seeks to reassure markets

The BoE published *EU referendum: your questions answered* on 24 June 2016,

outlining its work to promote financial stability following the referendum result.

The BoE says the economy will need to adjust to whatever new trading relationships are put in place, and financial markets can be expected to adjust in anticipation of these changes. It will work to ensure the financial system can effectively function as the necessary adjustments take place, to help contain any effect on jobs and growth.

The BoE says it has 'extensive' contingency plans in place and has tested Britain's major banks against severe stress scenarios that are above those of the current environment.

Prior to the referendum, the BoE worked with financial institutions to build their resilience and readiness. As a backstop, the BoE has more than £250bn of additional funds through its normal facilities for lending. If needed, it is also able to provide substantial liquidity in foreign currency.

The BoE is working closely with the Debt Management Office and HMT, as well as relevant international authorities including foreign central banks.

On the same day BoE Governor Mark Carney delivered a *statement following the EU referendum result*, in which he gave assurances that the Bank had taken all necessary steps to prepare for the result.

He said the BoE will assess economic conditions in the coming weeks and consider any additional policy responses. Carney said the BoE will not hesitate to take additional measures as required to meet its responsibilities.

The FPC is scheduled to meet on 28 June 2016, followed by the publication of its regular Financial Stability Report on 5 July 2016. In addition, the MPC is due to publish its next decision on 14 July 2016.

Carney offers post-Brexit reassurance

Mark Carney, Governor of the BoE, indicated that the economic outlook had deteriorated, in a speech entitled *Uncertainty, the economy and policy* on 30 June 2016. He announced the BoE will enhance its liquidity provision by offering indexed long-term repo operations on a weekly basis until the end of September 2016. This will complement the £250bn of funds that have already been added to the BoE's facilities. He anticipated that some monetary easing will be required over the summer, with the MPC to make an initial assessment on 14 July 2016 and a full assessment including 'the range of tools' to follow in August 2016. Carney noted the MPC's actions would benefit from the BoE's 'joined-up' approach. As an example he said the PRA's supervisory experience would inform judgements on the impact of low interest rates on bank profitability. He also

mentioned the impact prudential rules can have on credit provision.

Carnet reflected that uncertainty had increased in recent years and may persist for some time, acting as a drag on economic activity. He said policymakers should have three objectives in an uncertain world:

- conduct an assessment of the outlook and the risks relating to it
- develop a plan to reduce risks and grasp new opportunities
- minimise the possible confusion about the commitment to core macroeconomic policy frameworks.

In keeping with the third objective, Carney noted that ‘nothing in financial regulation has changed’. He said this will remain the case until the process of the UK withdrawing from the EU is complete, at which point EU law will cease to apply. He said the BoE is continuing to implement the current regulatory framework until any new arrangements take effect.

He concluded by saying contingency plans put in place by the BoE and HMT are working well and the BoE intends to consider ‘a host of other measures and policies to promote monetary and financial stability’ over the coming weeks. But he added a note of caution, saying there are limits to what the BoE can do, as realising the future potential of the economy is ‘not the gift of monetary policymakers’.

Commissioner Lord Hill resigns

EC Commissioner Lord Jonathan Hill announced his intention to resign in a *statement* on 25 June 2016 following the EU referendum result. His resignation will take effect on 15 July 2016. On the following day, the financial services portfolio will be transferred to Latvia's Commissioner and EC Vice-President Valdis Dombrovskis. Under the EU Treaties, there should be one Commissioner per Member State in the EC. EC President Jean-Claude Juncker said he is ready to discuss with Prime Minister David Cameron potential names for a Commissioner of UK nationality as well as the allocation of a portfolio.

Lord Hill said he is ‘disappointed’ with the result of the referendum, but added: ‘What is done cannot be undone and now we have to get on with making our new relationship with Europe work as well as possible.’

FCA reacts to Brexit

Following the outcome of the UK referendum, the FCA *announced on 24 June 2016* that firms must continue to abide by their obligations under UK law, including those derived from EU law, and continue with implementation plans for legislation still to come into effect. It notes that consumers’ rights and protections, including those derived from EU legislation, are unaffected by the result of the referendum and will remain unchanged unless and until the Government changes the applicable legislation. The FCA notes the

longer term impact of the decision on the regulatory framework for the UK will depend on the relationship the UK seeks with the EU in future. It confirms that it will work closely with the Government as it negotiates the UK’s future relationship with the EU.

FCA urges collaboration re post-Brexit regime

FCA Chair John Griffith-Jones delivered a speech entitled *Global regulation in the post-crisis era* at the TheCityUK annual conference on 30 June 2016. Although not his primary topic, Griffith-Jones offered a clear message to those seeking an indication of the regulator’s approach post the EU referendum. He affirmed that neither the role nor the policy objectives of the FCA would change. He further stressed that UK firms would honour their obligations under EU regulation.

While emphasising that his comments did not reflect settled views, Griffith-Jones suggested three prerequisites for the UK financial sector to prosper in the new circumstances and that potentially should form the country’s negotiation platform. Firstly, the post-Brexit financial services strategy should be industry-led and collaborative. Industry participants should not await political decisions. Instead, Griffith-Jones encouraged the audience to identify risks and opportunities, to develop alternative proposals and to inform the Government as it forms its plans for negotiating the UK’s exit.

Secondly, he suggested regulators could learn from successful regulatory policies of the past. Among these he noted the importance of:

- incorporating global standards
- drawing on concepts from other regulatory regimes
- establishing a UK gold standard
- focusing on preventive measures.

Lastly, Griffith-Jones was emphatic that the importance of the conduct agenda would not change. Integrity, in his view, provides the UK with a competitive advantage.

ECB reacts to Brexit

Following the outcome of the UK referendum, the *ECB announced on 24 June 2016* it is closely monitoring financial markets and is ready to provide additional liquidity if necessary. The ECB confirmed it had prepared for the contingency along with other central banks and would continue to fulfil its responsibilities of ensuring price and financial stability in the euro area.

No change for FSCS post referendum

The FSCS *confirmed* in a brief statement on 24 June 2016 there’d be no change to its scope and coverage following the outcome of the UK’s referendum on EU membership.

Capital and liquidity

EBA publishes specialised lending RTS
The EBA published *Final draft RTS on Assigning Risk Weights to Specialised*

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<u>Lending Exposures under Article 153(9) of CRR</u> on 13 June 2016. The RTS set out several factors firms should consider when assigning risk weights to specialised lending exposures and how these should be assessed and combined to determine the final assignment to a category. These factors are relevant to four classes of specialised lending which include project finance, real-estate, object finance and commodities finance. The approach in the RTS requires firms to calculate the weighted average of the assignments of the factors to the categories. The RTS take into account the recent Basel proposals on constraints on the use of internal model approaches. The EBA believes large elements of the framework are aligned with existing frameworks in place at national authorities. But it recognises that some areas, such as the combination of factors and country-specific implementations, might require changes to existing processes. As a result it introduces a one-year phase in of this final draft RTS. Correcting CRD/CRR RTS errors <u>Regulation (EU) No 2016/861 correcting Regulation (EU) No 528/2014 supplementing CRR with regard to RTS for non-delta risk of options in the standardised market risk approach and correcting Regulation (EU) No 604/2014 supplementing CRD IV with regard to RTS with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a</u>	<u>material impact on an institution's risk profile</u> appeared in the Official Journal on 1 June 2016. The first correction clarifies that institutions that exclusively purchase options and warrants may use the simplified approach with regard to the non-delta risk of options in the standardised market risk approach, but they are not obliged to. The second correction qualifies any staff whose remuneration places them in the same bracket as senior management and risk takers as 'material risk takers'. The delegated regulation entered into force on 2 June 2016. Encouraging simple securitisations <u>Opinion of the ECB on (a) a proposal for a regulation laying down common rules on securitisation and creating a European framework for simple, transparent and standard securitisation; and (b) a proposal for a regulation amending CRR</u> appeared in Official Journal on 20 June 2016. This follows a request by the Council in December 2015. The ECB supports the establishment of criteria to identify a subset of securitisations which can be classified as simple, transparent and standardised (STS). It welcomes the proposed CRR amendment's adjustment to capital charges to provide a more risk-sensitive treatment for STS securitisations. The ECB believes the proposed STS criteria to be generally appropriate and the lower regulatory capital charges applied to them	are proportionate to their comparably lower risk profile. The ECB highlights that support for the proposed capital treatment of STS securitisations is predicated on the existence of robust STS criteria, an appropriate attestation procedure and rigorous supervision. The ECB sets out a number of detailed comments and recommendations in relation to these STS criteria, attestation procedures, supervision requirements as well as on the proposed capital treatment of these STS securitisations. CMU CMU inches closer The Council has taken its first steps towards helping companies leap over one of the main regulatory hurdles in issuing debt and equity securities across the EU – by aligning prospectus requirements across Member States. The Permanent Representatives Committee (COREPER) announced in a <u>press release</u> on 8 June 2016 that it had agreed a negotiating stance on new prospectus rules on behalf of the Council. These rules take the form of a directly-applicable regulation, in a departure from the current measure (i.e. the Prospectus Directive). COREPER's draft text, <u>proposal for a regulation of the EP and the Council on the prospectus to be published when securities are offered to the public or admitted to trading</u> - released the same day - notes that reforming prospectus rules via a regulation should reduce the likelihood of	divergent approaches across EU Member States. It's also expected to strengthen confidence in EU market transparency and reduce regulatory complexity. Trilogue between the EC, EP and Council is expected to start after summer 2016 to hammer out the final details. Reviewing financial collateral arrangements The EC <u>reported on the appropriateness of article 3(1) of Directive 2002/47/EC on financial collateral arrangements</u> on 29 June 2016. The EC examined whether the Financial Collateral Arrangements Directive (FCD) has appropriately reconciled its priority of minimising the circumstances where third party credit claims could be deemed invalid or unenforceable, with the latitude given under Article 3(1) for Member States to impose requirements for domestic legal purposes such as admissibility of evidence and creditor prioritisation. The EC found that such requirements function effectively for domestic transactions, and these did not compromise the FCD's objectives. But the EC observed that in cross-border settings it is difficult to establish which national law applies. The EC concluded that such conflicts will be addressed by the CMU agenda, one component of which is proposing rules to determine which national law should apply to third party effects of the assignment of claims.				

Competition

Proposed undertakings for broker merger

Tullet Prebon plc and ICAP plc undertook to divest ICAP's London-based oil desks (and key staff) which provide broking services to customers in Europe, the Middle East and Africa. This is an attempt to pacify the CMA's concerns over Tullet's proposed purchase of ICAP's voice/hybrid broking business. The CMA *announced* on 7 June 2016 it was ready to refer the proposed acquisition for an in-depth 'phase 2' investigation but in a *statement released on 21 June 2016*, the CMA says it's considering the parties' undertakings as an alternative.

The CMA has until 16 August 2016 to decide whether or not to accept the undertakings, provided it doesn't extend the timeline for special reasons.

Oil products make up only one category of 20 overlapping products for which the CMA considered there was a realistic prospect of a substantial lessening of competition.

Gathering intelligence on mergers

The CMA confirmed that merging parties are not obliged to notify it of a merger. Rather, in *Guidance on the CMA's mergers intelligence function* on 17 June 2016, the CMA said it is duty-bound to track merger activity to determine if any unnotified mergers may give rise to a substantial lessening of competition.

The guidance is aimed at legal advisers advising on mergers. It sets out the process by which the CMA may request information from the parties to the merger or third parties, how it will respond to parties contacting the CMA and what it will do after engaging with the main parties.

Does competition work for all?

The FCA linked its view on competition outcomes to its work on vulnerability and access to financial services. In a speech, *Competition Policy in Financial Markets – the view from the regulators*, on 22 June 2016, FCA Director of Competition Mary Starks said big data is giving firms new opportunities to price discriminate. She said this is because the returns gained from switching and shopping around aren't necessarily shared with the market as a whole. Questioning whether it is realistic to expect the 1.4 million over-85s in the UK to shop around like millennials, Starks said the FCA had only just started to scratch the surface of the distributional impacts of competition, signposting further work from the regulator in this area.

Starks also talked about changing attitudes towards firm exits. She explained that firm failure, once seen as the death-knell to a supervisor's career, is an inherent part of competition: firms must be allowed to fail as well as succeed. Starks said regulatory rules have a role to play in minimising the impact on consumers of firm failure. She specifically drew attention to the client asset regime and how it protected the customers

of Alapari, a retail forex firm which entered administration in 2015.

CMA wary of radical changes

The CMA cautioned DFBIS against radical changes to the UK's legislative competition framework in *The CMA's response to the Government's consultation* on 25 June 2016. But the CMA believes incremental refinements may be beneficial.

Among its comments, the CMA supports changes proposed to its panel (in terms of size and appointment term) to improve market investigation times. It suggests removing the possibility of extending the time limit completely. Here, the CMA board would determine whether a 12 or 18-month limit should apply, depending on the scope and complexity of an inquiry. Naturally, the CMA welcomes new fining and investigation powers and an increase to the maximum penalties that may be imposed for a breach of competition law. The CMA also suggests other changes to the competition regime, including measures to recovery penalties against trade associations and protecting those who complain about anti-trust practices.

DFBIS' consultation paper *options to refine the UK competition regime* on 25 May 2016 closed to comments on 24 June 2016.

Competition at the PRA

The PRA will address potential competition issues arising from the wide gap between standardised and internally modelled

capital requirements for prime mortgages. In its first *Annual competition report* on 30 June 2016, the PRA intends to act on its secondary competition objective (SCO) by helping banks enter the market via its New Bank Start-up Unit, proactively identifying where rules or standards need a degree of proportionality and implementing macroprudential policy e.g. loan-to-income ratios.

The report sets out the practical steps taken by the PRA to implement the SCO. These steps include trigger questions aimed at helping PRA staff keep competition in mind when formulating policy, the PRA's research agenda and structural changes within the organisation. The PRA's efforts here were spurred by the criticism it received in the BoE Independent Evaluation Office's March 2016 report – *Evaluating the PRA's approach to its SCO*.

Consumer issues

Taking forward FAMR recommendations

HMT and the FCA have established the Financial Advice Working Group to take forward some of the recommendations of the FAMR. In an *announcement* published on 20 June 2016, the FCA says the working group will progress the three recommendations assigned to it by FAMR:

- work with employer groups to develop a guide to the top ten ways to support employees' financial health, and devise a strategy for rolling this out

- publish a shortlist of potential new terms to describe 'guidance' and 'advice' by Q4 2016
- lead a task force to design a set of nudges and rules of thumb with the aim of increasing consumer engagement, and complete initial testing by Q1 2017.

In *The Financial Advice Working Group Terms of Reference*, published on the same day, HMT and the FCA confirm the group's recommendations and publications will not have regulatory status. The group is due to report to the FCA board and Economic Secretary to the Treasury Harriett Baldwin after 12 months to report on progress. The group is made up of consumer and industry experts.

Corporate governance

IOSCO issues non-GAAP measures framework

Following consultation, IOSCO published a *Statement on Non-GAAP Financial Measures* on 7 June 2016. It sets out a 12-point framework for preparers of financial statements to apply when including non-GAAP financial measures in their financial statements. It includes guidance on:

- defining non-GAAP financial measures and their use
- prominence of presentation of GAAP measures versus non-GAAP financial measures

- reconciliation to comparable GAAP measures

- consistent presentation over time
- definition of recurring and non-recurring items
- accessibility of associated information.

IOSCO developed this framework to help issuers of financial statements provide investors and other users of non-GAAP financial measures with clear, consistent and useful disclosures and reduce the risk that such measures are presented in a way that could be misleading.

UK implements audit reform

The new *EU Audit Regulation and Directive (ARD)* applied from 17 June 2016. The Government has implemented the ARD by amending the Companies Act 2006 and issuing the Statutory Auditors and Third Country Auditors Regulations (SATCAR).

On 17 June 2016, the FRC published final versions of:

- the Corporate Governance Code 2016
- revised guidance on audit committees
- the Ethical Standard for Auditors 2016
- revised International Standards on Auditing (UK and Ireland).

These documents are substantially unchanged from the final drafts issued on 27 April 2016. They reflect the ARD and the results of the FRC's review of ethical

matters and other developments in international standards.

The FRC intends to monitor directly the quality of Public Interest Entity (PIE) audits and certain other retained classes of audit including those of all credit institutions, Solvency II insurers, the Society of Lloyd's and individual Lloyd's Syndicates. This brings some 50 audit firms into scope compared to the present ten firms. The FRC also developed a new audit enforcement procedure, following consultation. This provides an administrative procedure where there has been a breach of regulatory requirements. See *FRC press release*

'Statement from Stephen Haddrill, Chief Executive of the FRC, regarding the implementation of the EU ARD' for more information.

Similarly, the FCA and PRA amended their rules for the ARD requirements from 17 June 2016. The FCA updated its corporate governance rules and included the new audit committee requirements for PIEs in its *Disclosure Rules and Transparency Rules Sourcebook*. The PRA updated its

rulebook to implement the audit committee requirements for regulated firms following publication of *PS16/16 Implementing audit committee requirements under the revised Statutory Audit Directive* on 18 May 2016.

Disclosure

Finding improvements on prospectuses

ESMA reviewed the efficiency and effectiveness of NCAs' prospectus approvals

from January 2013 to December 2014. In *Peer review on prospectus approval process* on 30 June 2016, ESMA concludes that investors may find it difficult to understand prospectuses due their complexity, length, format and the incorporation of information by reference. It is also concerned that the pressure on NCAs to approve prospectuses during peak times runs the risk that the documents are not subject to sufficiently rigorous scrutiny. ESMA expects the findings from the review to feed into the EC's work on the revision of prospectus regulation, a fundamental pillar of CMU.

Financial crime and enforcement

Law Society voices MAR concerns

Citing grave concern among market participants, in a *letter* to the EC published on 2 June 2016 (dated 24 May 2016), the Market Abuse Joint Working Party of the Law Society and the City of London Law Society (MAJWP) called for guidance on the interpretation of MAR.

MAR seeks to increase market integrity and investor protection by introducing harmonising measures to curb behaviours that distort the price of securities and harm investor confidence. Included among its measures are rules governing the disclosure and control of inside information, the reporting of transactions by persons discharging managerial responsibilities

Executive summary	EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
(PDMRs) and what constitutes legitimate behaviour. The MAJWP requests guidance either from the EC or the FCA on a number of issues including the meaning of ‘closed periods’, a new provision in MAR which regulates when trading activities may be undertaken by PDMRs. The MAJWP says the current drafting is ambiguous in terms of scope, meaning and application. It suggests this could result in issuers inadvertently breaching the regulations or not following them at all. The MAJWP also requested clarification on: • whether and to what extent market participants are permitted to acquire financial instruments prior to a takeover bid • the warning text to be used on communications in relation to inside information • whether certain buy-back programmes are considered abusive • the retrospective applicability of certain disclosure requirements. Such is the concern about the ambiguity of the text that the MAJWP states it may be necessary to make changes to the primary text at the next opportunity. The MAJWP considers the need for guidance is urgent and required before the commencement of MAR on 3 July 2016.		ESMA and EC nearing MAR guidance ESMA’s draft ITS on the appropriate treatment of inside information for public disclosure (as published in ESMA’s draft technical standards on the MAR) has the support of the EC - almost. In a <i>letter</i> to Steven Majoor, Chair of ESMA, the EC gave its endorsement to the draft ITS subject to ESMA making certain amendments. The letter was published on 10 June 2016. The EC was generally supportive of the ITS, but queried ESMA’s guidance on disclosure requirements for market participants that also fall within the scope of REMIT, a regulation aimed at preserving the integrity of electricity and gas markets. MAR requires market participants to publish inside information which directly concerns that firm, in a timely manner and in a way which allows the public to access and assess the information. This requirement includes emission allowance market participants (EAMPs), which under REMIT have similar disclosure requirements. ESMA was tasked with developing ITS which set out the channels through which disclosure of inside information should be made. Under REMIT, EAMPs may make disclosure via their website, or if using a service provider, via web feeds. But in its ITS, ESMA stated that disclosure by the means permitted under REMIT was ‘insufficient for ensuring effective disclosure of inside information’. Instead, it stated that appropriate channels may include publication on a regulator’s website. The EC disagreed and considered		that requiring EAMPs to employ other channels was unnecessary and ‘disproportionate’. The EC instructed ESMA to amend the ITS and remove these obligations on EAMPs. Subject to this change, the EC will endorse the ITS. ESMA is required to produce draft ITS by 3 July 2016. EC issues MAR RTS The EC published <i>Delegated Regulation ((EU) 2016/908)</i> and <i>Delegated Regulation ((EU) 2016/909)</i> supplementing MAR in the Official Journal on 10 June 2016. EU 2016/908 lays down RTS on the criteria, procedure and requirements for establishing an accepted market practice and the requirements for maintaining it, terminating it or modifying the conditions for its acceptance. Meanwhile EU 2016/909 sets out RTS for the content of notifications to be submitted to local regulators and the form, publication and maintenance of the list of notifications. The Delegated Regulations entered into force on 11 June 2016 and apply from 3 July 2016. EC supplements MAR The EC published four regulations to supplement MAR in the Official Journal on 17 June 2016. The regulations are intended to facilitate the smooth functioning of the market and to assist market participants’ understanding and implementation of MAR when it comes into force on 3 July 2016. In <i>Delegated Regulation (EU) 2016/957</i> the	EC sets out RTS for establishing systems and procedures to prevent, detect and report abusive or suspicious orders and transactions. An example template for submitting a suspicious transaction and order report is included in the annex to the regulation. <i>Commission Delegated Regulation (EU) 2016/958</i> establishes RTS requiring market participants to present and disclose investment recommendations, and investment strategies, other interests and conflicts of interest objectively and in a way that does not mislead other participants and the public. Meanwhile, the RTS provided by <i>Delegated Regulation (EU) 2016/960</i> require the development of systems and procedures to ensure market soundings are disclosed and disseminated appropriately using standard information. Accompanying (EU) 2016/960 is <i>Implementing Regulation (EU) 2016/959</i> which provides ITS including templates around how disclosing market participants should notify, disclose and retain records of market soundings. The regulations enter into force the day after publication in the Official Journal and apply from 3 July 2016. Aligning UK regulation with MAR On 30 June 2016 the UK Government published statutory instrument <i>The FSMA (Market Abuse) Regulations 2016</i> (2016 No.690) - together with an explanatory memorandum - which came into force on 3 July 2016. The regulations amend relevant		

Executive summary	EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
primary and secondary legislation to ensure compatibility with MAR. The regulations replace the market abuse provisions in Part VIII of the FSMA penalties for market abuse. They have also prompted significant changes to the model code in chapter nine of the Listing Rules and parts of the FCA Handbook, including the Code of Market Conduct and chapters two and thr of the Disclosure Guidance and Transparency Rules sourcebook. The key changes introduced under MAR are: - extension of the catalogue of financial instruments covered (including instruments traded on MTFs), other organised trading facilities and certain OTC activities such as derivatives and credit default swaps - application of market abuse rules to EU emission allowances - capture of manipulation of benchmarks in MAR's market manipulation offence - introduction of new offence of attempted market manipulation - introduction of new format for the insider list - creation of a new obligation requiring the issuer to notify the regulator of any delay to a public announcement of inside information	- application of the market abuse regime to disclosure of inside information in the course of market soundings - introduction of a new regime for approval and reporting of persons discharging managerial responsibilities (PDMR) transactions - designation of the FCA as the UK competent authority for the purposes of MAR. On the same day, the FCA issued a consultation on changes to its Knowledge Base due to MAR. In <u>GC16/6: FCA Primary Market Bulletin No. 16</u> the FCA consults on proposed amendments to, and deletions of technical notes. These primarily cover transactions conducted by PDMR, management of inside information and share buy-back programmes conducted during a closed period. The FCA provides a full list of amended technical notes in the bulletin, and asks for comments by 10 August 2016. Also on 30 June 2016, the FCA published <u>PS16/18: Changes to the Decision Procedure and Penalties manual and the Enforcement Guide for the implementation of the MAR</u>. The policy statement responds to <u>CP16/13</u> on the changes required to implement MAR. EC publishes MAR Level 2 acts On 30 June 2016 the EC published two Level 2 acts:	<u>EC delegated regulation (EU) 2016/1052 supplementing MAR</u> with regard to RTS for the conditions applicable to buy-back programmes and stabilisation measures <u>EC implementing regulation (EU) 2016/1055</u> laying down ITS with regard to the technical means for appropriate public disclosure of inside information and for delaying the public disclosure of inside information. Both documents apply from 3 July 2016 and provide detailed procedures related to specific MAR provisions. The EC delegated regulation 2016/1055 refers to Article 3 of MAR, and defines requirements that buy-back programmes and stabilisation measures must satisfy to be exempted. These requirements include the conditions for trading, restrictions on time and volume, disclosure and reporting obligations and price conditions. The EC implementing regulation 2016/1055 provides a detailed procedure to be followed in relation to Article 17 of MAR, obliging issuers to inform the NCA that the disclosure was delayed. Surreal risks? Art trade that doesn't follow internationally applicable standards should be treated by banks and other service companies as higher risk business, according to the Basel Institute on Governance (BIG). In <i>Basel Art Trade Principles on AML - green paper for</i>	<i>consultation</i> on 17 June 2016, BIG sets out proposed guidance explaining what a risk-based approach to AML in the art trade industry looks like. The guidance is primarily aimed at 'art market operators' (all persons and entities engaged in the trade of art objects and intermediaries sitting between buyers and sellers). But firms subject to AML laws and regulations may wish to take notice if they provide services to clients engaged in art trade. BIG is an independent, not-for-profit centre and its recommendations are voluntary. The consultation closes to comments on 30 September 2016. Next steps for FATF The fight against terrorist financing took top place at the FATF's plenary meeting between 22 and 24 June 2016 in South Korea. The <i>outcomes</i> from the meeting, released on 27 June 2016, show FATF's focusing its efforts on introducing a new standard to help protect non-profit organisations from terrorist financing abuse and ramping up efforts to improve international co-ordination. FATF also released a consolidated note on its information sharing standards. It announced plans to engage in technical discussions with the OECD's Global Forum between June and October 2016 to devise ways to better implement international standards on transparency.				

Updating guidance for energy markets

The Agency for the Cooperation of Energy Regulators (ACER) published its fourth edition of *Guidance on the application of Regulation (EU) 1227/2011 of 25 October 2011 on wholesale energy market integrity and transparency* (REMIT) on 17 June 2016.

ACER places particular emphasis on Article 15 of REMIT, which concerns suspicious transaction reports. ACER provides more guidance to regulators on the supervision of the obligations imposed on persons professionally arranging transactions (PPATs). ACER's guidance defines its understanding of PPATs and provides regulators with advice on how to monitor PPATs' compliance with their specific obligations.

ACER is the EU body created by the Third Energy Package to create the Internal Energy Market. It aims to coordinate the work of national energy regulators at EU level, and to work towards a single EU energy market for electricity and natural gas. Under REMIT, ACER is responsible for monitoring wholesale energy markets for market abuse. ACER first published guidance on the application of REMIT in 2011. Subsequent editions were published in 2012 and 2013.

Financial stability

Purchasing more corporate debt

The ECB announced remaining details of the corporate sector purchase programme

(CSPP) in a press release on 2 June 2016. It clarifies that banks, entities that are part of banking groups and investment firms are not eligible issuers for its new CSPP. The CSPP is part of the Eurosystem's expanded asset purchase programme that also includes public sector debt, covered bonds and asset-backed securities.

The *Decision of the ECB on implementation of the CSPP (ECB/2016/16)* came into force on 6 June 2016. The ECB indicated that purchases under the new scheme commenced on 8 June 2016.

Limiting shadow banking exposures

The EBA published the *guidelines - limits on exposure to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of CRR* in final form on 3 June 2016. This follows an earlier *announcement* by the EBA in December 2015.

The guidelines set out the principles that institutions should apply as part of their internal processes and policies for addressing and managing concentration risk arising from exposures to shadow banking entities. It includes criteria for setting an appropriate aggregate limit on exposures to the sector as well as individual limits. It also includes ensuring the risks arising from shadow banking are incorporated into institutions' ICAAP and capital planning.

EU supervisory authorities must confirm to the EBA that they will ensure compliance

with the guidelines by 3 August 2016. The guidelines apply from 1 January 2017.

Reviewing shadow banking risks

The ECB published *Shadow banking in the euro area: risks and vulnerabilities in the investment fund sector* on 27 June 2016.

The ECB describes the growth and change in composition of the shadow banking sector, which it sees as instrumental in cushioning the impact of banks contracting their credit provision after the financial crisis. It finds the risk of fund outflows have risen due to the rapid expansion of the investment fund sector and its growing involvement in capital markets. This has led to an increase in callable equity, declining liquidity buffers and the growing footprint of large asset management companies.

The ECB recommends steps to improve existing measures of leverage such as reviewing the definition of synthetic leverage in UCITS and AIFMD to allow better monitoring of sector-wide risks. It also recommends stress tests at a micro and macro level to inform the potential use of macro-prudential tools.

The ECB concludes that data available to the study suggests vulnerabilities within the investment fund sector are growing, as its links to the wider real economy have strengthened. But limitations to the data mean it is not possible to draw a definitive conclusion.

Driving EU economic growth

President of the Eurogroup Jeroen Dijsselbloem *spoke* on EU economic growth on 21 June 2016. Dijsselbloem claimed that with the right policies, average growth in the eurozone can increase from 1.7% in 2015 to 2%. But while some are pushing for a euro area economic government or even a euro budget, he argued now is not the time to take big steps in deepening or expanding the EU.

Dijsselbloem said the EU should complete the Banking Union, focusing on establishing a solid leverage ratio and reducing existing national options and discretions. He said putting in place a common backstop to the SRF would be necessary, along with an EDIS. Dijsselbloem also stressed the need for adequate treatment of sovereign exposures.

He spoke of the importance of establishing a CMU and removing barriers to the single market to bring new opportunities and boost Member States' economies. Dijsselbloem encouraged Member States to pursue growth through structural reform. For example, he suggested lowering tax for the lower half of the labour market to create new jobs.

ECB reapplies waivers for Greek bonds

The ECB restored credit quality threshold waivers for Greek debt instruments used in Eurosystem monetary policy operations on 22 June 2016. It made the announcement in *Decision of the ECB of 22 June 2016 on the*

eligibility of marketable debt instruments issued or fully guaranteed by the Hellenic Republic and repealing Decision (EU) 2015/300 (ECB/2016/18).

The ECB began applying credit quality thresholds to marketable Greek government debt in February 2015. It says these thresholds are no longer required in light of Greece's new three-year assistance programme. The ECB will still apply special haircuts to marketable Greek instruments used in monetary policy operations.

The decision applies from 29 June 2016.

ESRB explains future priorities

In an *introductory statement* delivered in Brussels to the ECON on 21 June 2016, ESRB Chair Mario Draghi highlighted the future priorities of the ESRB. Draghi indicated the ESRB is continuing to examine how low interest rates affect financial institutions' business models. Beyond the banking sector, he said firms need to improve their strategy, regulatory data and tools for addressing risk. Draghi suggested a framework for leverage requirements for investment funds may be needed along with making use of new sources of data available under existing legislation. He also revealed the ESRB's plan to develop a wider financial stability toolkit including stress tests for asset managers, central counterparties, insurers and pension funds. In addition, Draghi said the ESRB intends to publish a strategy paper soon on recovery and resolution

frameworks for central counterparties and insurers.

During an assessment of market-making sector risks in Europe, he stated the first technical assessment based on macro-stress calculations showed that 95% of asset management firms and investment funds would be able to satisfy redemption claims. Draghi also spoke of systematic aspects to insurance which the ESRB will continue to address, along with climate change risks to financial stability. He gave assurances that the ESRB will also address any financial stability issues relating to IFRS 9.

EIOPA weighs up financial risks

EIOPA published its *Financial Stability Report for June 2016* on 21 June 2016. It considers key risks identified for EEA insurance and occupational pension sectors. EIOPA concludes that the macro-economic and financial environment remain extremely challenging.

EIOPA continues to be concerned by the persistent low interest rates and the possibility of a 'double-hit' scenario which are under review in the 2016 stress test. It is also concerned by uncertainties surrounding geopolitical risks, including the situation in emerging markets and Greece.

The authority includes an article to stimulate debate on the impact of mergers and acquisitions on the European insurance sector based on equity price data.

MPC explains latest vote

The BoE's MPC explained the reasons behind its latest vote in *Monetary Policy Summary and minutes of the MPC meeting ending on 15 June 2016*, published on 16 June 2016. At its June 2016 meeting the MPC voted unanimously to maintain the Bank Rate at 0.5% along with the stock of purchased assets financed by the issuance of central bank reserves at £375bn. It revealed 12-month CPI inflation was 0.3% in May 2016, remaining below the 2% inflation target, due to falling energy and food prices. The MPC discussed the impact of the EU referendum on financial markets, citing this as the biggest risk to markets. It also looked ahead to potential sources of market volatility later in the year, such as the Greek bailout negotiations and elections in Japan, Spain and the US.

The MPC discussed how ongoing rebalancing by China might affect other economies. It said slower growth in Chinese import demand might directly affect some European countries, such as Germany. On balance, it found the news during the month on UK activity earlier in the year had been to the upside, citing strong retail sales growth and an increase in both industrial production and construction output.

The MPC also explained its latest vote as being down to the movements in demand, supply and the exchange rate potentially leading to materially lower growth and higher inflation than in the projections set out in the *May Inflation Report*. This report

was based on an assumption of continued UK membership of the EU. On that assumption, the MPC judged it more likely than not the Bank Rate would need to be higher at the end of that period than at present to return inflation to the target in a sustainable way.

Innovation

ESMA invites views on DLT regulation
ESMA published *Discussion Paper: The Distributed Ledger Technology (DLT) Applied to Securities Markets* on 2 June 2016, asking for input on the regulatory implications of DLT.

ESMA provides commentary on post-trading activities of the key EU regulations which have a direct impact on DLT, including EMIR, the Securities Finality Directive (SFD) and the CSDR. ESMA acknowledges that DLT is not yet widely used, but identifies that increased use could have a considerable impact on securities markets, market participants and infrastructures.

ESMA highlights benefits of DLT such as higher security, greater efficiency in clearing and settlement and reduced costs. But it also notes potential legal and technical challenges. These include scalability (increasing or reducing the size of the architecture), privacy issues and interoperability (the extent to which DLT can work with incumbent systems).

The consultation closes on **2 September 2016**. ESMA will use feedback to develop a position on the use of DLT in securities markets, and to assess whether a regulatory response is needed.

Seeing the fruits of innovation

Christopher Woolard, Director of Strategy and Competition at the FCA, delivered a speech at the Global Digital Banking Conference on 16 June 2016 on innovation in financial services.

He touched on the FCA's progress with Project Innovate, which has so far provided support to 250 firms. Woolard said the project has led to 40 firms being authorised or becoming close to being authorised, allowing them to launch new products such as very short-term insurance and alternative ways of assessing credit worthiness.

He explained the FCA held a TechSprint event in April 2016, where a group of financial services and technology providers discussed how technology could be used to improve accessibility for consumers. Participants discussed ideas such as a multi-lingual artificial intelligence app and a tool to assist sole traders with applying for lending. Woolard said three ideas from the session are likely to be taken forward and developed into products.

He concluded by saying innovation has the potential to deliver tangible benefits to consumers through lower prices and better quality products and services.

BoE embraces FinTech

In a speech on 16 June 2016 Mark Carney, Governor of the BoE, paid tribute to the late MP Jo Cox. But the speech Carney originally intended to give, published on the same day, outlined the ways in which the BoE is embracing emerging technologies.

In his prepared speech, Carney noted the BoE has already disclosed it is drawing up a blueprint to replace its 20-year-old real-time gross settlement system (RTGS). In the meantime, he announced the BoE intends to extend direct access to RTGS beyond the current set of firms, allowing a range of non-bank PSPs to compete on a level playing field with banks.

Carney indicated that the BoE is also open to encouraging new forms of wholesale securities settlement, identifying the potential for Distributed Ledger Technology (DLT) to simplify the settlement chain, bringing lower costs and increased speed. The BoE is also actively exploring the application of DLT in its core activities including the operation of RTGS. But he acknowledged there are a number of challenges that need to be met before it can be used in central banking.

Carney also announced the BoE is launching a FinTech Accelerator to work with FinTech firms to help it harness innovation in central banking. In addition, the BoE is investigating ways to anonymise the data it collects so it can be shared more widely (e.g. regulatory mortgage contract data), so it can

be used to help identify trends in systemic risk and the economy. Carney also added that in the context of calibrating its regulatory approach to FinTech developments, the FPC continues to monitor the regulatory perimeter to ensure it is aligned with technological developments.

Market-based finance

TC quizzes regulators on P2P lending

The TC called on the FCA and the PRA to give an account of their respective policies in relation to P2P lending. It published letters to Tracey McDermott, Acting Chief Executive of the FCA and Andrew Bailey, BoE Deputy Governor for Prudential Regulation, on 1 June 2016. Andrew Tyrie, TC Chair, asked the FCA to explain how:

- it is assured that crowdfunding investors receive accurate information about their investment
- appropriate creditworthiness checks are undertaken and
- how investors are made aware of the risks associated with their investment.

The TC also asked the FCA to comment on the competitive impact of P2P lending on the financial services sector. And the TC sought views from the PRA on the economic resilience of the P2P sector, and the wider prudential impact of P2P loans on the financial services market. Commenting on the requests, Tyrie said the TC does not advocate more regulation. But rather the TC

wants assurance that regulators know about the risks and opportunities that may be attached to crowdfunding, and give appropriate consideration to whether investors need stronger protections. The TC intends to make publicly available the FCA's and the PRA's responses.

Market infrastructure

More clearing classes to come

Mandatory clearing for OTC derivatives denominated in the Norwegian Krone, Polish Zloty and Swedish Kroner edged closer on 10 June 2016 when the EC adopted a delegated regulation supplementing EMIR with regard to RTS on the clearing obligation (C(2016) 3446 final). In a corresponding Annex, the EC set out the specific fixed-to-float interest rate swaps and forward rate agreement classes covered by the regulation. Next, the Council and EP will consider the regulation, which will enter into force 20 days after its publication in the Official Journal.

ESMA and CFTC cooperate on CCPs

ESMA and CFTC established a MoU under the EMIR that came into effect on 2 June 2016 (the MoU was published on 6 June 2016). The MoU includes cooperation arrangements, including the exchange of information regarding established US CCPs recognised by the CFTC that have applied for EU recognition under EMIR. EMIR delivers cooperation arrangements between ESMA and non-EU authorities whose legal

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and supervisory framework for CCPs are deemed to be equivalent to EMIR by the EC. The two organisations say cooperation will be most useful when regulatory concerns arise, such as changes in a covered CCP's internal rules or procedures. The MoU does not create any legally binding obligations. Fifth extension for qualifying CCPs Still making amends for the delays in CCP recognition, the EC has extended the transitional periods under CRR for the fifth time. This time, the period is set to end on 15 December 2016. It published <i>Commission implementing regulation (EU) 2016/892 of 7 June 2016 on the extension of the transitional periods related to own funds requirements for exposures to CCPs set out in Regulation (EU) No 575/2013 and Regulation (EU) No 648/2012 of the EP and the Council</i> in the Official Journal on 8 June 2016. The EC noted ESMA had yet to authorise two EU-established CCPs. And while it had recognised 16 third country CCPs, some CCPs (most likely from the US) were still waiting. The impasse between ESMA and the CFTC over CCP recognition ended in February this year. We expect to see the remaining hurdles to EU recognition of US-based CCPs come down over the following months. On 2 June 2016, ESMA and the CFTC agreed a <i>MoU</i> under EMIR establishing cooperation arrangements.	Keep all resolution tools on the table Steven Maijoor, Chair of ESMA, gave a speech <i>Recovery and Resolution of CCPs: let's bring the lifeboats in place</i> on 24 June 2016. He reminded his audience of the systemic importance of CCPs, which has been reinforced by some of the post-crisis regulation. He expressed his desire for ESMA to improve the methodology and extend the scope of its annual EU-wide stress tests, for instance by including liquidity risks. Maijoor said it is of primary importance that CCPs develop a recovery plan in line with international standards and present it to their competent authority. He explained how the appropriate resolution tools for CCPs would differ from those used for banks. Maijoor illustrated this with reference to the issuance of contingent convertible bonds and tools relying on the closure of critical services, which he described as unsuitable for CCPs. Similarly, he said elements of resolution that are crucial for banks, such as valuation of assets, are pretty straightforward for CCPs. Resolution authorities should have discretion to select a tool from the widest possible list he argued, but with additional safeguards, before a tool is applied. He said initial margin haircutting should be considered as a last resort after all other tools have been exercised. And this should apply to both clients and clearing members to avoid altering market structures in favour of indirect clearing. Maijoor added any use of pre-funded resources available in non-	depleted default funds could be considered, up to amounts in excess of minimum regulatory requirements under EMIR. This would avoid further calls for contributions the day after resolution. Maijoor announced the EC is expected to issue a proposal for a legislative regime on the recovery and resolution of CCPs towards the end of 2016. He expects the new legislation to contain common principles on recovery and resolution plans without prescribing which recovery and resolution tools should be included in either plan. He gave his view that the recovery and resolution tools to be considered should be defined in RTS with a sequence for use of the tools to be eventually developed. BoE publishes benchmarks minutes On 24 June 2016, the BoE published <i>Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates</i> held on 11 May 2016. The Working Group focused on secured benchmarks and robustness of overnight benchmarks. To further the development of secured benchmarks, the Working Group agreed high-level principles to facilitate post-trade transparency. It agreed providers of market infrastructure should: • make transaction data available to benchmark administrators • submit transaction data populated with settlement identification procedures • provide complete trade records	• impose robust governance standards for submitting data to administrators • document risk and control processes. The Working Group also discussed how to increase liquidity in the overnight lending markets by addressing factors that inhibit transaction volumes of borrowing and lending in unsecured money markets. EU Benchmarks Regulation enters into force The much anticipated <i>Regulation (EU) 2016/1011 of the EP and the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (BMR)</i> entered into force on 30 June 2016. BMR expands the definition of benchmarks to include not only indices used as a reference in financial contracts and financial instruments, but also those used to measure the performance of investment funds. The regulation establishes three benchmark types: critical, significant and non-significant, categorised by qualitative and quantitative thresholds. Each of these is subject to proportionate regulation. Administrators must establish governance and oversight frameworks, and impose codes of conduct on contributors. Input data must be based on verifiable transaction data to reduce the risk of manipulation.				

Executive summary	EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
Unlike previous guidance (e.g. IOSCO principles and ESMA-EBA guidelines), BMR is legally binding. It also captures a broader range of benchmarks than previous guidance. Upon implementation, BMR will replace the <i>FCA's MAR 8</i> and IOSCO's principles, which govern other UK benchmarks not subject to FCA supervision. ESMA plans to consult on RTS and ITS in Q3 2016. BMR requires ESMA to submit final draft Level 2 measures to the EC by 1 April 2017. For a more detailed analysis, see this month's feature article. MiFID II MiFID II pushes on The EC continued to push on with MiFID II Level 2 measures in June 2016, adopting 13 technical standards. The technical standards cover topics including: • market making agreements • passporting • best execution • derivatives trading obligation • business clocks • data relating to orders • benchmarks • pre- and post-trade data aggregation. The EC maintains a <i>list</i> of adopted RTS and ITS. The <i>Directive</i> and <i>Regulation</i> delaying the application of MiFID II were both published in the Official Journal on 30 June	2016. Under the revised timetable, Member States have until 3 July 2017 to transpose the relevant elements of MiFID II, and the new regime will apply from 3 January 2018. Steven Majoor, ESMA chair, <i>spoke</i> at the EP about MiFID II implementation progress on 21 June 2016. Majoor explained that of the 42 draft technical standards submitted to the EC by ESMA in 2015, the EC has decided to introduce changes to three. These technical standards cover non-equity transparency, position limits and ancillary activity. Majoor said ESMA has issued opinions on each of these topics. On non-equity transparency, Majoor explained ESMA shares the EC's view that a cautious approach is desirable and a phased-in approach to transparency provisions is appropriate. But he also set out that ESMA does not agree with the EC's proposed methodology for the phase-in. He argued the EC's proposal risks a delay to bringing greater transparency to bond markets. Regarding position limits, he said ESMA has integrated the EC's requests. A stricter limit of 2.5% will be imposed on agricultural derivatives, while contracts with limited liquidity can benefit from a higher maximum limit. He also outlined the scale of the challenge: ESMA estimates that position limits for approximately 1,500 liquid contracts will have to be established by NCAs before 2018, with ESMA having to	produce an opinion for every single contract. Finally, on the ancillary activity standard, Majoor said ESMA maintains that a capital-based standard has significant drawbacks. But ESMA has developed some metrics the EC could use to perform a capital-based test. ESMA has not put in place any quantitative thresholds around these metrics, because it does not have the data to do so. Protecting investors in bail-in debt ESMA issued a statement, <i>MiFID practices for firms selling financial instruments subject to the BRRD resolution regime</i> on 2 June 2016. The practices cover disclosure, provision of advice, suitability and appropriateness together with conflicts of interest. ESMA advises firms to clearly inform clients of the wider circumstances under which losses can be imposed by a resolution authority and to provide accurate disclosure that the instruments are unsecured and subject to the resolution regime. It also indicates that firms should disclose that in resolution the outstanding amount could be reduced or zero, the firm may fail to meet its repayment obligations and the maturity date and the interest rate can be altered. ESMA expects the compliance function to supervise the preparation of clients' disclosure. ESMA also reminds firms that when performing self-placement they should conduct thorough financial product	suitability assessments. It recommends that firms advising clients should assess the need to collect more information about a client than they would normally do. Those firms should also avoid an excessive concentration of investments in financial instruments issued by the firm itself or entities in the same group. EC formalises MiFID II delay The EC formalised MiFID II and MiFIR implementing delays on 30 June 2016 by amending the original directive and regulation. It enacted the delays through <i>Directive (EU) 2016/1034 of the EP and the Council of 23 June 2016 amending Directive 2014/65/EU on markets in financial instruments and Regulation (EU) 2016/1033 of the EP and the Council of 23 June 2016 amending Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) No 596/2014 on market abuse and Regulation (EU) No 909/2014 on improving securities settlement in the EU and on CSDs.</i> The EC has delayed MiFID II implementation to 3 January 2018. It notes delays are a result of technical issues encountered in implementing the complex new framework. The EC also makes small amendments to the texts. It clarifies dealing on own account exemptions may be used by non-financial entities trading for risk reduction purposes. And the EC provides further detail on what constitutes a packaged transaction and order.				

Both amending documents will enter into force the day after publication in the Official Journal.

EC finalises MiFID passport notifications

The EC adopted MiFID II RTS on passport notifications on 29 June 2016 unamended. It adopted the finalised RTS in *Commission Delegated Regulation (EU) supplementing Directive 2014/65/EU of the EP and the Council on markets in financial instruments with regard to RTS specifying information to be notified by investment firms, market operators and credit institutions*.

Investment firms must provide information to competent authorities during passport notification processes, including:

- investment services change in particulars
- arrangements to facilitate access to an OTF or MTF
- branch or tied agent passporting
- change of branch or tied agent.

It will come into force 20 days after its publication in the Official Journal. Firms may wish to review the final rules to aid them in preparing future passporting applications.

Finalising MiFIR clearing access

The EC adopted *Regulation (EU) supplementing MiFIR with regard to RTS on clearing access in respect of trading*

venues and central counterparties on 24 June 2016. The RTS cover conditions for non-discriminatory access to CCPs and trading venues, other conditions between the parties together with conditions for non-discriminatory treatment of contracts. It also outlines transitional access arrangements and notification procedures between CCPs and NCAs. The RTS are unchanged from the draft RTS that ESMA submitted to the EC.

The RTS will come into force 20 days after their publication in the Official Journal. Apart from the transitional arrangements which apply from the date they come into force, the RTS will apply from the revised MiFIR application date - 3 January 2018.

Specifying MiFIR order data requirements

The EC adopted *Regulation (EU) supplementing MiFIR with regard to RTS for the maintenance of relevant data relating to orders in financial instruments* on 24 June 2016. The RTS specify in an *Annex* the data fields concerning each order that operators of trading venues must record, and provide further details on those data fields. The RTS are unchanged from the final draft ESMA submitted to the EC.

The RTS will come into force 20 days after their publication in the Official Journal. They will apply from the revised MiFIR application date: 3 January 2018.

Ensuring timely clearing of derivatives

The EC adopted *Regulation (EU) supplementing MiFIR with regard to RTS specifying the obligation to clear derivatives traded on regulated markets*

and timing of acceptance for clearing on 29 June 2016. The RTS set out requirements to enable derivatives clearing as soon as is technologically practicable.

The RTS impose requirements on CCPs and trading venues to clearly define the information they need from market participants. Clearing members must ensure agreements are in place whereby the original counterparty to the transaction is replaced by the clearing member as counterparty to the CCP.

The timeliness requirements include:

- derivatives transacted on trading venues must be cleared automatically and instantaneously
- trading venues must assess the appropriateness of client orders within 60 seconds, with real-time notifications if the order cannot be concluded
- trading venues must send transaction data to CCPs within ten seconds
- CCPs must decide to accept or not accept for clearing a cleared derivative transaction concluded on a trading venue within ten seconds, and where non-acceptance occurs CCPs must inform the clearing member and trading venue on a real-time basis

- for bilateral transactions, the clearing member must ensure the counterparties send CCPs the required transaction data within 30 minutes of the conclusion of the transaction.

The RTS also stipulate that when derivatives transactions that are concluded on a trading venue electronically are not accepted by the CCP, the trading venue shall void such contract. But if the non-acceptance is due to a technical or clerical problem, the derivative transaction can be submitted for clearing once more within one hour, provided both counterparties agree.

The RTS will come into force 20 days following publication in the Official Journal. They will apply from the revised MiFIR application date - 3 January 2018.

Operational resilience

Finalising cyber resilience guidance

IOSCO and the Committee on Payments and Market Infrastructures (CPMI) published their final report *Guidance on cyber resilience for financial market infrastructures* on 29 June 2016. The

guidance is the first internationally agreed guidance on cyber security for the financial sector, produced in response to the growing global threat from this issue. It aims to harmonise responses to cybercrime and help FMIs improve their cyber resilience. The document provides supplemental guidance to the CPMI-IOSCO principles for FMIs. It covers: governance, identification,

protection, detection, and response and recovery.

IOSCO and CPMI identify the following as key to improving cyber resilience:

- collaboration among financial institutions and their relevant stakeholders, including calling upon technology companies to help develop effective solutions
- sound governance which starts with a clear and comprehensive cyber resilience framework
- identifying the critical business functions that should be protected, in order of priority, against compromise
- effectively detecting anomalies and events that indicate a potential threat
- resuming critical operations within two hours of a disruption
- regular testing to determine controls' effectiveness and identify gaps.

IOSCO and CPMI note the guidance is also likely to be useful to relevant regulatory and supervisory authorities.

Pensions

News from the ombudsman

Complaints about the pension freedoms introduced last year were in focus for FOS in *ombudsman news issue 133* on 28 June 2016. FOS reveals the majority of the complaints and enquiries it received since the pension freedoms were introduced

concerns delays, with 42% of enquiries and 24% of complaints related to this issue. Delays are followed by requirements to get financial advice and administration. But, only 25% of complaints involving pensions were upheld.

Council agrees revised IORP

On behalf of the Council, the Permanent Representatives Committee approved an agreement with the EP on the revised IORP Directive, widely known as IORP II. In a *press release* published on 30 June 2016, the Council said Member States will have two years from publication in the Official Journal to transpose the directive into their national laws and regulations. The directive is expected to be approved by the EP at first reading. It will then be submitted to the Council for adoption. In an accompanying *item note* also published on 30 June 2016, the committee details its amendments to the directive.

Remuneration

Calling for remuneration guidelines compliance

The EBA confirmed that *Guidelines on sound remuneration policies under Article 74(3) and 75(2) of CRD IV and disclosures under Article 450 of CRR (EBA/GL/2015/22)* have been translated into all the EU official languages on 27 June 2016. This follows publication of the *final guidelines* in December 2015.

The guidelines set out the requirements for remuneration policies, corresponding

governance arrangements and processes that should be applied when remuneration policies are implemented. In particular the EBA seeks to ensure correct and consistent calculation of the bonus cap by setting out specific criteria for mapping all remuneration components into either fixed or variable pay. It details how specific remuneration elements such as allowances, sign-on bonuses, retention bonuses and severance pay are recognised over time.

The PRA and FCA announced in a *news release* in February 2016 that the UK will comply with the guidelines except in relation to applying bonus caps to all firms. In contrast to the EBA, the PRA and the FCA will apply proportionality to bonus caps. All UK large and systematically important CRD IV-regulated firms will continue to apply the bonus cap. But the UK regulators will retain the current approach of requiring smaller firms to determine an appropriate ratio between fixed and variable remuneration for their business while not applying the bonus cap.

NCAs must notify the EBA of their compliance with the guidelines (or reasons for non-compliance) by 30 August 2016. The guidelines apply from 1 January 2017.

Collecting more remuneration information

In an *update* on 30 June 2016, the PRA reminded firms that it expects those within the scope of its remuneration requirements to ensure their remuneration policies,

practices and procedures are clear and documented. To evidence this, firms should complete a remuneration policy statement using PRA templates. The PRA has amended the templates, including collecting information on how firms adjust their profits as part of the process for determining the bonus pool using the incremental movement between the prudent valuation adjustment returns.

Reporting

Yet more reporting on internal approaches

Benchmarking data reporting commenced as of 30 June 2016 as a result of the publication of the *Decision of the EBA on data for supervisory benchmarking (EBA/DC/2016/156)* on 2 June 2016. This follows the EBA's agreement to amendments made by the EC to the related RTS and ITS announced on *12 May 2016*. Supervisory authorities must submit all end-2015 benchmarking data received from institutions to the EBA by 14 July 2016.

CRD IV Article 78 requires competent authorities to assess annually the internal approaches used by institutions to calculate their own funds requirements for credit and market risk. It also requires the EBA to prepare a report to assist competent authorities in their assessment. The EBA uses benchmarking data submitted by institutions based on these RTS and ITS. They specify the benchmarking portfolios,

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templates and reporting instructions for the purposes of preparing this benchmark data. PRA maintains liquidity reporting The PRA reviewed its position on the requirement for firms to report FSA047 and FSA048 returns with an <u>update</u> published on 30 June 2016. As set out in <u>CP27/14</u> <u>CRD IV: Liquidity</u> and stated in <u>PS11/15</u> <u>CRD IV: Liquidity</u>, the PRA confirmed its intention to maintain these until further notice. The PRA plans to address the obligation on UK branches of third country firms to report FSA047 and FSA048 separately at a later date. Retail products EC adopts KIDs The EC adopted a <u>Delegated Act on key information documents (KIDs) for PRIIPs</u> on 30 June 2016, which are substantially unchanged from those submitted for endorsement by the JCESA in April 2016. KIDs should be prepared consistently across the EU, giving retail investors access to simple and comparable information on investment products in the banking, insurance and securities sectors. Individuals selling or advising retail investors on the purchase of a PRIIP must provide the KID to them in good time, so they can fully consider it when making their investment decision. The Delegated Act comes into force on 31 December 2016 and firms must produce	their initial KIDs by 1 January 2017. Firms will need to review and republish KIDs at least annually thereafter. The <i>Annexes to the Delegated Act</i> include a template that firms must follow and details of how to assess and present the risk, performance scenarios and costs. These also explain how to calculate the summary risk indicator, which is an aggregation of market and credit risk represented by a number between one and seven. This must be set out in a standard way, regardless of the type of investment product. Supervision FCA issues latest data bulletin On 8 June 2016 the FCA published its <i>Data Bulletin June 2016</i> revealing that as of 31 March 2016, it has authorised 30,309 of the 33,853 consumer credit firms that make up the market. The FCA confirmed it had received 36,582 consumer credit applications, including 10,939 new-to-market firms. The FCA has given authorisation decisions to 32,753 firms, leading to 1,694 companies withdrawing applications and 53 being refused. In the bulletin, the FCA reports that between 1 December 2015 and 29 February 2016, it received 232 complaints, 143 of which are now closed. It said more than half of those complaints were in February 2016 due to its role in Lloyd's decision to call its Enhanced Capital Notes at par. The FCA also revealed that between 1 October 2015 to 31 March 2016, it reviewed	1,977 financial promotions. This led to the FCA requiring firms to amend or withdraw promotions in 69 cases. The majority of these cases were in the consumer credit (41%) and retail investments sectors (38%). The quarterly update shows that in Q1 2016, the FCA requested 12 attestations. Wholesale banking firms received three requests, as did long-term savings and pension firms. Lastly, between 1 January 2016 and 31 March 2016 the FCA commissioned ten skilled person reports, four of which were for banks. It said that nine of the ten reports involved a skilled person being appointed by the authorised firm, with just one report where the FCA contracted directly with a skilled person. Establishing Jersey and UK supervisory co-operation The BoE published a <u>MoU</u> it entered into with the PRA and the Jersey Financial Services Commission (JFSC) on 1 June 2016. The aim of the MoU is to create a formal basis for co-operation, including for the exchange of confidential information and investigative assistance. The authorities' intention is for the MoU to facilitate effective supervision and resolution, help identify risks to the financial system and address emergency or crisis situations, especially where such situations involve firms with cross-border operations in Jersey or the UK. As long as they are not prevented by other regulations, the three authorities are	expected to provide confidential information under the MoU. But because the PRA and BoE are treated as one authority, unless told otherwise, they may exchange confidential information provided under the MoU without having to notify or consult JFSC. The MoU is a statement of intent and does not create any legally enforceable rights or obligations for the authorities. EC adopts proposal incorporating ESA regulations The EC adopted a <u>proposal for a decision</u> of the Council on the position to be taken by the EU within the EEA Joint Committee on incorporating certain regulations into the EEA Agreement. The regulations to be incorporated are those which establish the ESAs. The proposal for a decision, <u>announced</u> on 2 June 2016, also proposed to incorporate a number of other EU acts relating to the financial sector into the EEA Agreement. These include: • AIFMD • SSR • EMIR • CRA Regulations. In its announcement, the EC explained that incorporating these acts into the EEA Agreement would ensure strong and co-ordinated financial supervision throughout the EEA.				

Balancing confidentiality and disclosure

The TC published a *letter* that its chair Andrew Tyrie sent to Andrew Bailey, then Deputy Governor for Prudential Regulation at the BoE, on 7 June 2016 regarding the disclosure of supervisory information. In it, Tyrie asks for further clarification on supervisory confidentiality, IRB modelling, intrusiveness of regulation and resolution and bail-in, following earlier exchanges of letters.

Tyrie observes that a significant amount of information remains confidential between supervisors and banks, potentially restricting unnecessarily information which would be useful to the market. He requests that the PRA sets out its approach to supervisory confidentiality and considers what information might be made public in future on the grounds of market or regulatory efficiency. The TC also has concerns about the quality of IRB modelling. Tyrie requests the PRA provide assurances on the robustness of IRB modelling and the degree of reliance on those models.

Additionally, Tyrie identifies the risk that the PRA could be regarded as a shadow director as a result of more intrusive practices. He urges the PRA to obtain 'persuasive legal assurance', and he requests 'renewed assurances' from the PRA on this point. Finally, citing recent examples that cast doubt on the workability of resolution regimes and bail-ins in practice, the TC

wants to know how these episodes have informed the PRA's thinking on resolution in a UK context.

Evaluating FiCOD

The EC published its *consultation document on FiCOD* on 9 June 2016. It is seeking to gather evidence on FiCOD and its implementation to date as part of its regulatory fitness and performance programme. The EC wants to consider whether or not the current FiCOD regulatory framework is proportionate, fit for purpose and delivers on its objective to identify and manage group risks.

In particular, the EC is assessing whether FiCOD has: contributed to enhanced financial stability, safeguarded creditors' and policyholders' interests and promoted the competitiveness of financial conglomerates. The EC asks questions on:

- scope – including identifying appropriate entities and activities as well as thresholds and waivers
- group risk management – including capital adequacy, corporate governance, risk management processes, risk concentration and intra-group transactions
- supervisory powers and co-ordination – including enforcement and sanctions.

The consultation closes on **20 September 2016**.

Advising on supervisory convergence

The Securities and Markets Stakeholder Group (SMSG) published advice to ESMA in *Position Paper on Supervisory Convergence* on 13 June 2016. The SMSG

advises ESMA on one of the key strategies, supervisory convergence, that ESMA intends to pursue between 2016 and 2020.

The SMSG recommends ESMA establishes a Q&A mechanism for the most important regulatory issues on its website, allowing market participants to contact ESMA easily with queries and feedback. It explains that if ESMA was to focus its peer reviews of NCAs on supervision and enforcement, it could improve consistency in supervisory outcomes. With regards to enforcing supervisory convergence, the group encourages ESMA to pay attention to NCAs and how they supervise markets, with particular focus on Union law.

If ESMA was to reflect on its peer reviews, covering NCAs' compliance with ESMA's guidelines, the SMSG says it would make them more efficient. A further suggestion from the SMSG is to introduce a hotline, allowing stakeholders to share their experiences with ESMA.

The SMSG says it is not yet in a position to contribute further on the issue of peer reviews, but it plans to discuss the topic in the second half of 2016.

FCA updates handbook

The FCA published details of board-approved updates to its handbook following a series of consultations.

In *Handbook Notice No 34* published on 24 June 2016, the regulator says its handbook now reflects changes made to the Disclosure Rules and Transparency Rules sourcebook in relation to the composition, responsibilities and requirements for audit committees. An updated fees section details the increase in fees and levies for 2016/17 to fund the FCA and PSR's work. Meanwhile, the FCA made a number of consequential changes to give effect to MAR, which takes effect on 3 July 2016. In addition, the regulator sets out details of the changes made to the Supervision Manual to improve the quality of the data the FCA collects and lower the reporting burden firms face. The changes clarify the type and format of information that should be provided to the regulator in relation to product sales data, conduct breach reporting, credit union prudential reporting requirements, annual reports and accounts reporting, consumer credit forms, non-EEA subgroup reporting and Mortgage Lenders and Administrators Return notes.

Granting South African CRA regime equivalence

ESMA issued a *press release* on 30 June 2016 announcing its decision to grant equivalence to the South African regulatory framework governing their CRAs. The decision permits EU CRAs to endorse credit

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ratings issued by a South African subsidiary or parent for use in the EU. ESMA entered into a cooperation agreement with the South African Financial Services Board which supervises CRAs within its jurisdiction. The MoU between the two regulators is effective as of 30 June 2016. <i>PRA sets out 2016/17 priorities</i> The PRA issued its <i>Annual Report and Accounts for 2016</i> on 30 June 2016. The document includes the PRA's business plan for 2016/17 and a review of 2015/16. Over the next year, the PRA plans to enhance its medium-term framework for the stress testing of banks and insurers. It intends to further implement the BRRD and work with international banks to improve their solvent wind down plans. It also intends to implement its evolving approach to branches and subsidiaries of international banks. The PRA's priorities for 2016/17 include taking a comprehensive approach to IT risk, cyber risk and operational resilience. In addition, it plans to support the CMU in the EU, including developing sustainable securitisation markets. An important component of the PRA's future work is its intention to take a more proportionate approach to banks' size and business models. The PRA also plans to take this approach to supervising firms' governance. The PRA invites comments on its annual report and the extent to which its objectives	have been advanced. The consultation closes on 30 September 2016. <i>Regulators confirm 2016/17 fees</i> The PRA, the FCA and the PSR confirmed their fees for 2016/17 in <i>PS18/16: Regulated fees and levies: rates for 2016/17</i>, <i>PS16/16: FCA regulated fees and levies 2016/17</i> and <i>PS16/17: PSR regulatory fees 2016/17</i> all published on 30 June 2016. All regulators summarised the feedback received to their respective consultation papers <i>CP10/16</i>, <i>CP16/9</i> and <i>CP16/11</i> and their responses. The PRA made one change to its proposals, introducing a discount for non-directive firms (including a number of mutual societies) to protect them from the full impact of an increase in costs allocated to the A3 and A4 fee blocks. PS18/16 confirms the fee rates the PRA consulted on to meet its 2016/17 annual funding requirement of £257.3m. The PRA also confirms plans to recover the costs associated with implementation of the Financial Services Banking Reform Act 2013 through a ring-fencing implementation fee for firms that are ring fencing their core activities in line with the Act. The PRA's budgeted costs for the implementation of ring fencing in 2016/17 are £7.9m. The regulator's online fees calculator for 2016/17 is now available for firms to use. The FCA also made a change to its proposals, accepting respondents' views that the consumer buy-to-let flat periodic	<i>ESMA outlines 2015 achievements</i> ESMA published its <i>Annual Report 2015</i> on 15 June 2016 outlining progress in meeting its 2015 objectives. It sets out its achievements in the areas of supervisory convergence, risk monitoring, single rulebook work and general supervision. ESMA identifies the creation of its Supervisory Convergence Standing Committee, production of additional regulatory guidelines and EMIR college process as its key convergence successes. It highlights its ad-hoc publications on	fee of £200 should only be allocated to firms that do not have permission to carry out any regulated activities. The FCA confirms it will increase the variable rate for full permission consumer credit firms by 68% to £1.30 per £1,000 of annual income. The variable fee for limited permission firms remains unchanged. Like the PRA, the FCA will recover costs incurred in relation to implementing the new ring-fencing regime. For the FCA, the implementation cost for 2016/17 is £6.4m. Fees paid by firms in relation to the FOS and the Money Advice Service remain unchanged. The PSR confirms that all proposals will be implemented as set out in CP16/11 with the exception of a change in disclosure requirements for card payment systems. Following an underspend in 2015/16, the PSR is refunding £5m to payment service providers which paid fees in 2015/16 and are liable to pay fees in 2016/17.	heightened market risk and its CCP stress testing programme as its risk monitoring accomplishments. On its single rulebook work, ESMA points to its RTS on MiFID II, EMIR, short selling, MAD, UCITS and AIFMD as its key contributions. It states that adoption of a risk-based approach to supervision is its greatest supervisory success. ESMA notes this approach led to greater focus on improving user access to trade repositories and sharper assessments of CRA management functions. <i>EIOPA's year in review</i> EIOPA published its <i>Annual Report 2015</i> on 15 June 2016. It identifies its top five achievements in 2015 as: • finalising the Insurance Single Rulebook, and producing the second set of Solvency II ITS and guidelines • establishing a new strategic approach for a comprehensive risk-based and preventative framework for conduct supervision and the first thematic review on mobile phone insurance • implementing the process and methodology for the monthly release of the Risk Free Rate required under Solvency II • consulting on the requirements for a Pan-European personal pension product			

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- conducting a balance sheet review and stress test of Romania's insurance sector.

EIOPA also provides information on its financial performance for the year.

Trading

ESMA on the liquidity mirage

ESMA published a *report* on order duplication and liquidity measurement in EU equity markets on 6 June 2016. ESMA examined the practice of order duplication, where traders replicate the same order on multiple venues to improve execution.

ESMA argues it is common practice for traders to immediately cancel unmatched duplicated orders on other venues after one of their duplicated orders has been filled. It believes this duplication and immediate cancellation has become part of the trading strategy for many market makers and institutional investors to ensure execution in fragmented markets. ESMA's data finds this practice is particularly evident in large-cap stock trading, high-frequency trading (HFT) and where trading is more fragmented.

ESMA points out that previous studies have shown fragmented trading can increase liquidity in equity markets. But it says the practice of duplicating and cancelling orders can lead to an overestimation of liquidity in EU equity markets. It suggests enhanced measures should be used to give a more accurate picture of available liquidity.

The report is the second part of ESMA's work on HFT. It published its first report in 2014, and found the level of HFT varies widely between EU venues. For both reports, ESMA used unique data it collected, covering a sample of 100 stocks on 12 trading venues in nine EU countries for May 2013.

Consistently waiving

ESMA published *Waivers from Pre-trade Transparency - CESR positions and ESMA opinions* on 20 June 2016. ESMA intends to help NCAs maintain consistency in the pre-trade transparency waivers they grant.

Under MiFID, operators of regulated markets (RMs) and MTFs are required to make public bid and offer prices and the depth of trading interests in shares that are admitted to trading on RMs. But operators of RMs and MTFs are permitted to waive the pre-trade transparency requirements based on the type and size of orders or the market model.

ESMA's predecessor, CESR, developed a mechanism through which the waivers sought by operators of RMs and MTFs were considered by CESR after a request to do so from the relevant NCA. ESMA sets out CESR positions and ESMA opinions on functionalities subject to the waiver process, and endorses all decisions previously adopted by CESR.

The pre-trade transparency regime is being amended under MiFID II, which will enter into effect on 3 January 2018. ESMA plans

to continue to develop opinions about the compliance of systems with the waiver regime as it develops. As this happens, ESMA intends to update the table to encourage ongoing supervisory convergence.

Wholesale products

Setting standards for reference price transactions

The newly-formed FICC Markets Standards Board (FMSB) published a *Transparency Draft* on 30 June 2016 of proposed standards for reference price transactions (RPTs). The FMSB was formed after the Fair and Effective Markets Review concluded a standards-setting body was needed to improve understanding and awareness of appropriate conduct in the fixed income, commodity and currency markets.

RPTs are contracts where all the terms except the execution price are agreed up front, and the execution price is determined at a later stage by a reference price. But since dealers hedge their exposures under RPTs in most circumstances, the proposed FMSB standards emphasise that dealers should manage the potential conflicts of interest. While such hedging means the dealer may be able to offer a lower spread to the client, the hedging activity can also exert pressure on the underlying instruments and affect the reference price.

As a result, the FMSB's proposed standards focus on managing the potential conflicts of

interest, whereby dealers are required to ensure their clients' interests are protected and the potential impact of hedging is explained to clients. Likewise, dealers should ensure their hedging is solely aimed at risk mitigation and never performed for the purpose of influencing or manipulating the reference price. Relevant factors in this are whether hedging is aligned with normal market volumes and whether new significant open risk positions are created. As RPTs and their hedges are part of the dealer's wider portfolio activities, adherence to these principles should be measured in regard to aggregate positions as opposed to individual transactions.

Although analogous transactions exist in the currencies and commodities markets, the application of the standards to fixed income markets is limited.

Banking and capital markets

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Regulation

Capital and liquidity

Banks warned against gaming the system

The Basel Committee warned banks not to engage in transactions that have the aim of reducing regulatory capital deductions in its statement on capital arbitrage transactions published on 2 June 2016.

The Basel Committee reports these transactions involve strategies that can be complex, artificial and opaque. The Committee considers they pose risks that have the effect of reducing the capital requirements without reducing the risk in the financial system and so undermining the calibration of minimum regulatory capital requirements.

Basel III addresses the regulatory deductions that banks apply to regulatory capital. The Basel Committee indicates that supervisory authorities have received many requests to review or approve transactions that seek to alter the form or substance of these items, e.g. proposals for structured transactions that result in deferred tax being reclassified in a way that avoids its deduction from regulatory capital.

EBA drafts Pillar 3 guidelines

The EBA published Consultation Paper: Guidelines on disclosure requirements

under Part Eight of Regulation (EU)

575/2013 on 29 June 2016. It sets out guidelines on regulatory disclosure requirements based on an update of the Pillar 3 requirements by the Basel Committee in January 2015. The EBA

drafted guidelines to allow EU institutions to implement the revised pillar framework (RPF) in a way that is compliant with the requirements of part eight of the CRR.

These disclosure requirements apply to all institutions meeting the requirements in Article 6.10 and 13 of the CRR, ensuring proportionality via firms' risk profile and use of materiality.

But, the EBA limited the draft guidelines' scope of application to G-SIIs and O-SIIs, plus any other institution opted in to the guidelines on the basis of a supervisory decision.

These guidelines cover the general requirements for disclosures, risk management, scope of application, credit risk, counterparty credit risk and market risk.

Although it was in the scope of the RPF, the EBA left out securitisation along with other part eight CRR requirements such as own funds and leverage ratio, as already covered in other delegated regulations or guidelines.

The consultation closes on **29 September 2016**. The EBA plans to finalise the

guidelines by the end of 2016, and for them to apply from year-end 2017 disclosures. But the EBA recommends that G-SIIs implement a limited subset of disclosures relating to RWA and capital requirements for year-end 2016. This is to provide users with information suitable for comparison with international peers in line with the implementation date for the RPF.

ECB assesses capital instruments

The ECB published *public guidance on the review of the qualification of capital instruments as Additional Tier 1 and Tier 2 instruments* on 6 June 2016, specifying what information ECB-supervised institutions should provide to the ECB. The ECB encourages informal dialogue with institutions particularly where instruments have new or complex features. The ECB will use the information to review the eligibility of the instrument for inclusion in additional tier 1 and tier 2 capital. The information required includes:

- an independent third party legal opinion confirming the instrument meets the relevant conditions
- for additional tier 1 instruments, the minimum amount of CET1 capital that would be generated if the instrument were fully written down or converted to CET1 capital, after deduction of any foreseeable tax liability.

The guidance applies to all capital instruments issued after 6 June 2016.

Compensation schemes Helping DGSs cooperate

Under Article 14(5) of DGSII, DGSs must have written cooperation agreements in place with schemes in other Member States. To support this process, the EBA announced on 8 June 2016 that its *Guidelines on cooperation agreements between DGSs* have been translated into all the EU official languages.

In the guidelines, the EBA sets out the minimum core elements for cooperation agreements together with the general approach to follow when setting up cooperation agreements so that DGSs treat home and cross-border depositors similarly.

The EBA also provides a template multilateral framework cooperation agreement (MFCA) in an *Annex*. In due course it intends to publish details on its website of who has signed up to the MFCA.

NCAAs must notify the EBA of their compliance with the guidelines (or reasons for non-compliance) by 8 August 2016 and implement them by 8 December 2016.

Competition

Auditing SME undertaking compliance

The CMA set out findings from the 2015 audit into eight banks' compliance with the SME bundling undertakings. In *SME banking 2002 behavioural undertakings: CMA report on compliance 2015*, the CMA confirms each of the eight banks subject to the 2002 SME undertakings had complied

with the bundling obligations. It also confirms the banks had met the requirements of the 2014 agreement to improve staff awareness of the undertakings and assist the CMA in an annual assessment of overall compliance with the bundling undertakings (the 2014 Agreement).

To help banks (and in particular internal audit teams), the CMA sets out best practice in ensuring compliance. This covers processes around loan applications and staff training. It includes a handy checklist for compliance with the 2014 Agreement.

The SME bundling undertakings stop banks from requiring customers to open or maintain business current accounts as a condition of providing, maintaining or servicing loan or deposit accounts. They are the only set of undertakings the CMA wanted to retain in the cull proposed in its *Provisional decision on the review of 2002 SME banking undertakings* on 17 May 2016.

FCA welcomes CMA's provisional remedies

The FCA welcomed the CMA's provisional decision on remedies in its retail banking market investigation in an *announcement* on 3 June 2016. The FCA outlined its support for the CMA's provisional decision to make recommendations to the FCA to take forward a number of remedies. These remedies are primarily focused on service quality information, prompts and overdraft measures. The FCA said once the CMA's

investigation has concluded and the final remedies are confirmed (expected in August 2016), it will publish a response to the final report. The response will set out details of the work the FCA intends to carry out to develop and implement the relevant remedies.

BBA backs trade association merger

The BBA issued a *press release* on 10 June 2016 announcing its members voted in favour of a trade association merger with the Council of Mortgage Lenders, Payments UK and UK Cards Association. The press release said 94% of the BBA's members were in favour of the proposal to create a single trade body representing the financial services industry.

The merger comes in response to the proposed consolidation set out in November 2015 by The Financial Services Trade Associations Review, an independent review into the effectiveness and efficiency of financial services trade associations. The review, led by former Ofcom Chief Executive Ed Richards, was set up by a steering committee of major UK banks and a building society. The Building Societies Association, along with the Intermediary Mortgage Lenders Association, voted against the merger.

Plans for the new body will now be taken forward by an interim main board representing the new trade association.

Consumer issues

Debating bank branch closures

The Government issued a *press release* on 15 June 2016 announcing an upcoming debate on bank branch closures, due to take place on 30 June 2016. MPs are concerned about the impact of branch closures on local communities, small businesses and older citizens.

The Backbench Business Committee, which considers requests for debates from any backbench MPs, scheduled the debate. Christian Matheson is to open the debate alongside Conservative MP James Heapey and Liberal Democrat MP Mark Williams.

EBA's focus for the coming year

In its annual *Consumer Trends Report* published on 21 June 2016, the EBA identified eight trends likely to impact consumers and other market participants (and on which it may take action) in the coming year. The report covers all products that fall under the EBA's consumer protection mandate including mortgages, personal loans, deposits, payment accounts, payment services and electronic money. Using a combination of sources, including third party data and input from national authorities, trends identified by the ECB include a rise in household indebtedness, an increase in fees and charges for payment accounts and potentially inappropriate selling practices such as cross-selling. Foreign currency loans came under the EBA's scrutiny for the first time in 2016,

particularly in relation to mortgages and virtual currencies. These issues will drive the EBA's 2017 work programme and it may now implement measures to address them where its mandate permits. In addition, the EBA will continue to monitor innovation such as blockchain technology and the potential fraud risks associated with the rise in contactless payments.

The report provides a summary of action taken by the EBA in relation to the issues identified in last year's report. These include: three sets of guidelines on creditworthiness assessments, arrears and foreclosure and product oversight and governance.

The EBA intends to publish its 2017 work programme later in 2016.

Corporate governance

ECB requires governance improvements

Many ECB-supervised institutions need to make improvements in their internal governance and risk appetite frameworks (RAFs), the ECB concluded in its *SSM supervisory statement on governance and risk appetite* published on 21 June 2016.

The ECB focuses on good practices it observed, setting out supervisory expectations regarding RAFs and firms' boards. It aims to help firms be in line with international best practice.

The ECB says boards should challenge, approve and oversee management's

implementation of strategic objectives, governance and corporate culture. It also states boards should have an adequate composition and effective organisation to challenge senior management. It recommends firms establish comprehensive RAFs to strengthen risk awareness, strongly involving boards in their validation process and monitoring. For sound risk management, RAFs should define the level of risk tolerance firms are willing to take in relation to both financial and non-financial risks.

In the report, the ECB also calls on firms to deploy risk metrics and limits more consistently, closely monitor them and report back to the board regularly. The RAFs need to be aligned more closely with firms' business plans, strategy development, capital and liquidity planning and remuneration schemes, the ECB says.

The ECB identifies follow-up supervisory actions for 2016 as well as areas for on-site inspections. And it issued follow-up letters to all the firms involved setting out specific recommendations. Joint supervisory teams intend to follow up on the implementation of these recommendations. The ECB plans to carry out deep-dive investigations on a sample of firms on specific governance areas, such as the oversight role of the board on risk and control functions. It adds it will use the annual SREP to assess implementation of the measures and action plans banks have agreed to remedy the relevant findings.

Financial stability

Securing the future of EU banking

Member of the ECB Executive Board Yves Mersch gave a speech *Grasping the new normal of the banking industry – a view from a European Central Banker* at the European Financial Congress on 14 June 2016. He explained Europe's banks are operating in a 'new normal' environment. To secure the future of Europe's banking sector, he stressed regulators must strike the right balance between change and stability.

Mersch touched on the competition banks are facing surrounding financial intermediation, including from P2P lenders and technology firms. Further consolidation in the banking sector, he suggested, could improve its overall profitability. He mentioned distributed ledger technology (DLT) in the payments field, suggesting it could increase pressure on some bank activities. But Mersch also explained DLT has the potential to lower back-office costs and make market infrastructures more resilient.

Mersch explained the importance of establishing a framework around resolution and deposit insurance that makes it possible for banks to fail without threatening financial stability. He spoke on how the ECB must address legacy issues while establishing an EDIS and ensuring a high level of protection for depositors across the EU. The BRRD toolkit, Mersch believes, is

key to dealing with failing banks, including at the intervention stage. He said it will be essential for banks and investors to have certainty on the overall level of capital requirements and the application of the new resolution framework.

Turning the tide on de-risking

The IMF called on the public and private sector to make co-ordinated efforts to mitigate the risk of financial exclusion and the knock-on effects on financial stability due to de-risking in the correspondent banking sector. In *the withdrawal of correspondent banking relationships: a case for policy action* on 30 June 2016, the IMF said that de-risking has reached critical levels in some affected countries, paving the way for systemic impacts and macroeconomic consequences. It wants to see timely implementation of the FSB's 2015 action plan to assess and address the decline in correspondent banking.

Market-based finance

Using securitisations to support the economy

Outgoing EC Commissioner Lord Jonathan Hill delivered a *speech* at the EP's Public Hearing on Securitisation on 13 June 2016. He explained that securitisations allow banks that receive monthly mortgage repayments to combine loans and offer them to investors in return for a share of those repayments. He said this allows banks to reduce borrowing costs or support more lending to the wider economy.

He mentioned the EC's goal for securitisations to free up more lending for investment in the wider economy, while fulfilling the criteria of 'simple, transparent and standardised' (STS). Lord Hill said this criteria – proposed by the EC – builds on work by the Basel Committee, IOSCO, the ECB and other bodies.

With regards to 'simple', he said securitisations can only bring together comparable loans, meaning that banks can't, for example, mix mortgages with car loans. To ensure transparency, Lord Hill stated banks need to make available relevant information to investors and regulators, electronically and free of charge. He revealed the EC is proposing a framework to improve cooperation between national supervisors and the ESAs to ensure these rules are followed, with ESMA playing a key role in this. Any assets in STS securitisations, he explained, would have to be credit worthy according to the rules of the MCD and the CCD. Lord Hill said this framework would create 'empowered investors', because it would give them access to reliable information to make their own judgements rather than having to rely on rating agencies.

He added that STS securitisations will help channel funding to the wider economy, diversify funding sources and present investors with more opportunities.

Market infrastructure

EMMI progresses Euribor reforms

The European Money Markets Institute (EMMI) continues reform of Euribor to bring the euro benchmark in line with tighter regulatory standards. On 21 June 2016, the Euribor administrator published *the Path Forward To Transaction-Based Euribor and Pre-Live Verification Program Guidelines*, detailing progress to date and next steps in its transition to a new methodology.

The BMR, which goes live on 1 January 2018, requires verifiable, transaction-based input data. Euribor is a critical benchmark which represents the cost at which banks borrow in wholesale unsecured euro-denominated money markets. Current input data includes expert judgment and quotes from contributors. The new methodology will require EMMI to determine panel banks' contributions based on daily submissions of raw data. The objective is to improve transparency, mitigate the risk of manipulation and ensure the benchmark accurately reflects underlying economic reality.

In response to comments on its 2015 consultation paper, EMMI is expanding the timeframe for its pre-live assessment. The administrator now plans to execute the 'seamless transition' stage over a six-month period from September 2016 to February 2017. The Pre-Live Verification Program provides EMMI with an updated assessment

of the impact of the new methodology because the original proposal was based on data from 2012-13. Furthermore, the testing conducted during the assessment will help EMMI determine whether to proceed with full implementation of the transaction-based methodology during Q2 2017 as planned.

Payments

Payments on the move

The EPC published the third edition of its *White paper on mobile payments* on 1 June 2016. The EPC updates its overview of the use of the mobile channel for making SEPA payments. Market penetration achieved by mobile phones and the wide range of services they offer presents an ideal channel for SEPA payment instruments, it says.

The revisions were prompted by a number of recent developments in the market, such as:

- new technology allowing mobile devices to emulate a contactless card
- the increased use of payment 'tokens' or substitute data instead of real customer data in payment transactions to offer enhanced security
- new stakeholders entering the market such as Token Service Providers
- the advent of PSD2.

The EPC considers the different uses of and opportunities offered by these developments, and invites comments by

1 September 2016. It plans to publish an updated version of the paper in December 2016.

No caps on IFR

The transparency provisions of the Interchange Fees Regulation (IFR) are now applicable, the EC announced on 9 June 2016. The IFR entered into force in June 2015, its aim being to regulate the amount and divergence in fees charged by card scheme operators and banks for card transactions. The EC adopted a phased approach to implementing the changes introduced by the IFR. The cap on the fees and the competition provisions were

applicable from December 2015. Meanwhile the transparency provisions – which give customers the right to choose which means of payment they use (for example either VISA or AMEX) and give retailers

information about the fees they are paying – came into force on 9 June 2016. Other recently activated provisions include the requirement for payment schemes and processing entities to be separated to prevent anti-competitive activities. And the provision for customers to have the right to request their bank shows all the brands and products it offers on the customer's device or card was also activated.

ECB assesses TARGET2

The ECB published a *disclosure report* on 30 June 2016 on how its TARGET2 system meets the principles for systemically important payment systems set out in the

Regulation of the ECB on oversight requirements for systemically important payment systems (ECB/2014/28).

TARGET2 is the real-time gross settlement payments system for the settlement of euro transactions within the eurozone. In the report, the ECB details how TARGET2 complies operationally with each of the 18 principles. It also includes links to a number of publicly available documents about the operation of TARGET2.

Consolidating Target2

An (unofficial) *consolidation of the ECB's Decision of 24 July 2007 concerning the terms and conditions of Target2-ECB* was published in the Official Journal on 15 June 2016. The document incorporates amendments to the original 2007 decision made by nine later decisions.

Target2 is the second generation of the Eurosystem's real-time gross settlement system. It settles inter-bank and customer payments, as well as payments related to monetary policy operations and large-value payments relating to FMs like CCPs.

Recovery and resolution Liabilities excluded from bail-in

Delegated Regulation (EU) 2016/860 specifying further the circumstances where exclusion from the application of write-down or conversion powers is necessary under Article 44(3) of BRRD was published in the Official Journal on 1 June 2016. The regulation specifies the conditions associated with the exceptional

circumstances under which a resolution authority may exclude liabilities from the scope of bail-in. This includes where it is not possible to bail-in a liability within a reasonable timeframe. The regulation identifies the time when the write-down amount has to be determined. It indicates the time by which bail-in tasks need to be performed as relevant for the determination of a 'reasonable time' and sets out factors relevant to assess these.

It also sets out the requirements for assessing the exclusion of liabilities in the other exceptional circumstances specified in BRRD: where it is necessary to preserve critical functions and/or core business lines, to avoid widespread contagion or to avoid a decrease in value (leading to holders of non-excluded liabilities being better off if a liability was not bailed-in). The regulation came into force on 21 June 2016.

Maintaining records for resolution

The EC adopted Delegated Regulation (EU) supplementing BRRD with regard to RTS specifying a minimum set of the information on financial contracts that should be contained in the detailed records and the circumstances in which the requirement should be imposed on 7 June 2016. The regulation specifies that institutions maintain these records on an ongoing basis where supervisory authorities or resolution authorities expect to take resolution actions in the relevant circumstances. This information must be made available to those authorities within

the timeframe set in their request. This approach ensures that institutions likely to be placed into an insolvency procedure are not automatically subject to this requirement.

The regulation specifies in an *Annex* 43 data items relating to financial contracts that should be maintained. The EC explains the list of data items could serve as a basis for supervisory authorities or resolution authorities to exercise their discretion and impose similar requirements in relation to RRRPs. It is expected to enter into force 20 days after its publication in the Official Journal.

Reporting under BRRD

The *Commission Implementing Regulation laying down ITS on reporting to the EBA when authorities have applied simplified obligations under Article 4 of BRRD* was published in the Official Journal on 17 June 2016.

Competent and resolution authorities may apply simplified obligations to firms in relation to their recovery and resolution plans if the firms are not systemically important. The EBA needs the authorities to report when and how they have applied simplified obligations so the EBA can report to the EC, EP and Council by 31 December 2017 on the application of simplified obligations and any divergence in implementation at a Member State level.

The regulation sets out uniform formats, templates and definitions for the

identification and transmission of information to the EBA. It also provides for two reporting periods:

- 1 January 2015 to 30 April 2016 for which the EBA must receive information by 6 August 2016
- 1 May 2016 to 30 April 2017 for which the EBA must receive information by 1 June 2017.

The regulation came into force 20 days after publication in the Official Journal, on 7 July 2016.

Disclosing intragroup support agreements

Regulation (EU) 2016/911 laying down ITS with regard to the form and the content of the description of group financial support agreements in accordance with BRRD appeared in the Official Journal on 10 June 2016. The ITS require firms that are party to these agreements to disclose the details on their website in a form that is accessible to the public. This ensures transparency and allows stakeholders the opportunity to assess the risks and the potential obligations arising together with the chances of a recovery of the group resulting from these support agreements. The ITS entered into force on 30 June 2016.

PRA rules on contractual recognition

The PRA released PS17/16: The contractual recognition of bail-in: amendments to PRA rules on 29 June 2016. PS17/16 completes the UK implementation of Article 55 of the

BRRD which requires firms to include in certain non-EU law contracts in respect of liabilities, a term recognising the right of the BoE as resolution authority to bail in the liability. The PRA also sets out in PS17/16:

- feedback on its consultation paper in March 2016 (CP 8/16 The contractual recognition of bail-in: amendments to Prudential Regulation Authority rules)
- its final rules on contractual recognition
- its final supervisory statement covering what firms should take into account when determining whether contractual recognition is impracticable (SS17/16 The contractual recognition of bail-in: impracticability).

The PRA amended its definitions of an 'unsecured liability', 'material amendment' and 'excluded liability' in the PRA Rulebook to add clarity and ensure consistency with the contractual recognition provisions the EC adopted in BRRD RTS - C(2016) 1691, published in March 2016.

The final rules will come into force on 1 August 2016 rather than 1 July 2016 as previously expected. The PRA originally issued a modification by consent in November 2015 to suspend until 30 June 2016 the requirement for contractual recognition in respect of certain liabilities whilst the consultation was carried out. It will now contact firms to confirm whether they wish to have the extension applied and

has published a further modification by consent and modification direction.

Reporting **AnaCredit timeline tweaks confirmed**

The draft decision and regulation concerning AnaCredit the ECB released on 20 May 2016 were both swiftly published in the Official Journal on 1 June 2016 as: Decision (EU) 2016/868 of the ECB of 18 May 2016 amending Decision ECB/2014/6 on the organisation of preparatory measures for the collection of granular credit data by the ESCB (ECB/2016/14) and Regulation (EU) 2016/867 of the ECB of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13).

In the regulation, the ECB sets the date from which firms need to start collecting credit data for AnaCredit as 1 September 2018. And in the decision, it pushes back its implementation timeline for completing phase 1 in AnaCredit from the end of 2016 to 30 September 2018. But even though it may seem like firms have been given a brief reprieve, the ECB's given national central banks the opportunity to require reporting from 31 December 2017, the date the regulation applies. This means firms that are 'reporting agents' – i.e. legal entities or foreign branches resident in a reporting (that is, eurozone) Member State which are subject to the AnaCredit reporting requirements – should start preparing now.

Retail products

FCA settles payment shortfalls

In CP 16/16: Minor Handbook changes related to mortgage borrowers with a payment shortfall published on 10 June 2016, the FCA consults on steps to address divergent practices among creditors in relation to customers unable to meet their contractual obligations.

Under MCOB 12.4.1BR, when a customer has a payment shortfall, payments received from the customer should be allocated in the first instance towards paying off the balance on the shortfall (minus any interest or charges). But the FCA identified instances of firms taking different approaches to this rule, due in part, the regulator believes, to a lack of clarity about the definition of the term 'payment shortfall'. The FCA proposes to address the issue by changing the wording in the handbook to make it clear that any payments received by customers with shortfalls should be applied only to the shortfall and not to any charges or interest the shortfall has attracted. To underscore the clarification, the regulator also proposes to update the definition of 'payment shortfall' in the glossary. The regulator believes this will make it clear that a payment shortfall relates solely to a missed contractual payment and not to any interest, charges or other ancillary items.

Comments on the consultation are invited by **10 August 2016**.

Executive summary	EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
EBA sets mortgage benchmark rate In line with the MCD, on 4 June 2016 the EBA published the text of its <i>Decision</i> specifying details of the benchmark rate to be used to give customers illustrative information about their mortgage credit product. Under the MCD, creditors are required to provide customers with pre-contractual information to help them understand the agreement and their contractual obligations. Where the product is based on a variable rate, the information must contain an illustration of the annual percentage rate of charge and the maximum instalment amount the customer may be required to pay. The benchmark rate has been provided by the EBA, as required by the MCD, to be used by creditors when the borrowing rate is not capped, where the creditor is not using an alternative external rate and a benchmark rate has not been specified by the regulator of the Member State. The EBA benchmark rate is calculated by way of a formula. The formula is based on underlying historical rate data relevant to the Member State where the agreement is being written, and is set out in the Annex to the decision. Supervision EBA looks to extend proportionality stance On 13 June 2016 the EBA published <i>Management Board – Final Minutes</i> for a board meeting held on 5 April 2016. The	board decided the EBA would extend its proportionality assessment to regulations other than the reporting framework. It agreed to a QIS to support the analysis of an EBA stance on the Basel Committee reforms. It also agreed to an EBA opinion setting the regulatory sequencing of operational risk deliverables while requesting that firms make good use of the currently applicable legal framework. On market risk, the board decided the EBA should start developing own-initiative guidelines on the treatment of structural exchange rate under Article 352(2) of the CRR. EBA sets out priorities The EBA reflected on its recent achievements and looked ahead to future areas of focus in its <i>Annual Report 2015</i>, published on 15 June 2016. EBA Chair Andrea Enria says over the coming year the organisation plans to reduce the volume of regulation it produces and focus on understanding the effects and impact of the new regulatory framework. He said the EBA intends to take a more proportionate approach to rule making. The EBA's planned activities for 2016 include: produce a feedback statement and finalise the guidelines on remuneration for sales staff (planned for late summer 2016)	publish a feedback statement and finalised RTS on passporting notifications under PSD2 (planned for summer 2016) - finalise the draft ITS for the revised Financial Reporting Regulation, allowing firms one year for implementation. In the report, the EBA sets out its key areas of focus for 2016. These include: promoting a common approach to the calibration of the leverage ratio, enhancing the framework for credit risk, implementation of IFRS 9, monitoring supervisory convergence through onsite reviews, and enhancing the consistency of RWAs. The EBA counts completing the single rulebook and improving consistency in prudential regulation among its key achievements in 2015. It also lists the following among last year's achievements: contributing to a sounder remuneration framework, developing a framework for securitisations and covered bonds, and enhancing the framework for the IRB approach to credit risk. Progress on Banking Union? The Council issued its <i>conclusions on the EC's roadmap to complete the Banking Union</i> in a press release on 17 June 2016. The Council invites the EC to put forward proposals by the end of 2016 for: - amendments to existing legislation to implement TLAC and review MREL	- a common approach to the bank creditor hierarchy to enhance legal certainty in resolution - amendments to CRD IV and CRR to harmonise or clarify options and national discretions for Member States and to implement remaining Basel reforms, including the introduction of a leverage ratio (possibly set higher than 3% for systemic banks) and NSFR. Meanwhile the Council intends to continue constructive work at a technical level on EDIS. It notes that negotiations at a political level will start as soon as the necessary progress has been made on measures to promote risk reduction. The Council commits to an annual assessment of progress towards completing the Banking Union.				

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Asset management

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Regulation

Alternative investment

ESMA releases ELTIF final draft RTS

ESMA published a *final report* on its draft RTS under the ELTIF regulation on 8 June 2016. An ELTIF is a type of AIF managed by an authorised AIF manager under AIFMD. The report summarises the feedback ESMA received to its consultation in July 2015 and includes the full text of the draft RTS. The draft RTS covers the following:

- the criteria to determine the circumstances in which the use of financial derivatives solely serves hedging purposes
- the length of life of an ELTIF
- criteria for the assessment of the market for potential investors
- criteria for the valuation of assets to be divested
- the specifications on the facilities available to retail investors.

ESMA has submitted the draft RTS to the EC for endorsement. By complying with ELTIF regulations fund managers gain access to investors across the EU, including

retail investors – subject to specific conditions.

In a related *press release*, ESMA outlines that following discussion with the EC it will postpone the delivery of its ELTIF RTS on the cost disclosure information that must be included in the ELTIF's prospectus. This is to take into account the ongoing work on cost disclosure for the PRIIPs regulation.

Funding UK broadband infrastructure

HMT is thinking about putting up 50% of the total capital for a new infrastructure fund that's to invest in businesses or projects operating in and around the UK broadband sector. In *Broadband Investment Fund: request for proposals* (RfP) on 16 June 2016, HMT asks interested fund managers to provide proposals on what an optimum investment amount in the fund would be to help its decision-making process. Only fund managers meeting the requirements HMT sets out in the RfP are invited to comment. These include criteria concerning funds' authorisation, structure and sector focus, investment strategy, organisation and operations, management team/key personnel, track record, fundraising capability and fees.

It also explains the Government's aim is to support the ultrafast broadband industry's growth. Proposals are due by **29 July 2016**.

CMU

Cross-border funds barriers?

The EC consulted on *CMU Action on Cross-border Distribution of Funds (UCITS, AIF, ELTIF, EUVECA AND EUSEF)* Across the EU on 2 June 2016. The EC seeks feedback on how to minimise potential barriers to fund distribution across the EU, as part of the EC's push towards an EU CMU.

The EC states cross-border marketing of funds is strong within the EU but sales across Member States are more limited. It identifies fund registration procedures, diversity of marketing requirements, varied fund administration requirements and tax issues as the main barriers to better distribution of funds. The EC asks for insight on:

- differing marketing restrictions between EU jurisdictions
- the impact of varying regulatory fees and distribution costs
- cross-jurisdictional administration requirements
- use of online platforms to distribute funds

- regulatory notification processes across the EU
- taxation.

The EC would like a quantitative underpinning to responses, with firms providing real examples of challenges faced when distributing funds cross-border. The consultation closes on **2 October 2016**.

Financial stability

Dealing with asset management systemic risk

The FSB published *Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities* on 22 June 2016. The FSB focuses on liquidity mismatches for open-ended funds. It acknowledges that to date open-ended funds have been resilient as they are subject to a wide variety of liquidity protections. But the FSB seeks to address the dangers posed by certain funds offering daily redemption despite investing in less liquid asset classes. The FSB feels that regulators lack adequate information to assess liquidity risk at both the level of the individual fund and systemically. The FSB proposes that investment funds provide additional information around:

- liquidity buffers and use of credit lines
- contingent funding, such as inter-fund lending

- liquidity assessments at portfolio and individual holding levels.

Further, the FSB seeks to ensure there is better alignment with redemption policies and investment objectives, such as exploring whether open-ended funds offering daily redemptions should be prohibited from investing in illiquid assets, or be required to impose restrictions on redemptions or be reconstituted as a closed-end fund.

In addition, the FSB looks at ways to create more transparency over the use of leverage, calling on IOSCO to develop standards around the measurement and reporting of synthetic leverage build-up via derivatives. Specifically, the FSB feels there needs to be more uniformity in how netting and hedging affect leverage calculations. The FSB also seeks to reduce the risks associated with funds engaging in securities lending. It considers that regulators should verify and confirm that asset managers adequately cover potential credit losses from the indemnification provided to their clients.

The consultation period closes on **21 September 2016**.

Investment funds

Council sets out MMFs proposed regulation

The Council set out the general approach to a proposed regulation for MMFs, in *Proposal for a Regulation of the EP and the Council on MMFs* published on 10 June 2016. In an accompanying *item note*, the Council invites the presidency to start negotiations with the EP on the basis of the general approach, with a view to reaching an agreement at first reading. The proposal aims to preserve the integrity and stability of the internal market by promoting more resilient MMFs and limiting contagion channels. It proposes rules on the composition of the portfolio of MMFs and aims to harmonise prudential requirements across Member States. And it states that investment undertakings with characteristics similar to MMFs (e.g. certain UCITS and AIFs) should also comply with the rules.

The proposed regulation states that MMFs should hold on an ongoing basis, a minimum amount of liquid assets that mature daily or weekly. It adds that, given MMFs may invest in assets with different maturity ranges, they should be classified as either short-term MMFs or standard MMFs. The objectives of short-term MMFs is to offer money market rate returns while ensuring the highest possible level of safety

for investors, while the objective of standard MMFs is to offer returns slightly higher than money market returns (and therefore invest in assets with an extended maturity). In addition, the proposed regulation suggests competent authorities collect more information about MMFs to ensure they are able to detect, monitor and respond to risks in the market.

Retail products

Reviewing UCITS IV

HMT published its *five year post-implementation review of UCITS IV* on 30 June 2016, assessing the effectiveness of both the directive and the transposition into UK regulation. HMT observes that since the directive allowed Member States little flexibility in how it should be implemented, and consequently the UK made no substantive policy choices during implementation, any weaknesses can only be addressed by amendments to the EU rules. HMT believes this review will add to CMU's efforts to improve cross-border investment fund marketing and streamline financial services regulation more generally. The review identifies the following issues with UCITS IV, with an underlying theme being the costs associated with implementation differences between Member States:

- the cross-border marketing notification is supposed to take ten days but can take up to six weeks
 - significant variance between Member States on the cost of registration fees
 - requirements in certain jurisdictions that UCITS establish a physical presence
 - costs around notice to unit holders and tax implications are impeding UCITS mergers, so preventing economies of scale
 - some states are requiring management companies to bear the costs of rebalancing portfolios in mergers, in addition to legal, advisory and management costs.
- Overall, and despite these issues, HMT found UCITS IV has been an effective correction to the limitations of UCITS III.

Supervision

Addressing asset management data gaps

IOSCO published a *Statement on IOSCO's Priorities Regarding Data Gaps in the Asset Management Industry* on 22 June 2016, outlining the areas where national regulators need to do more to gather information on systemic risk build-up. IOSCO calls for increased data collection concerning:

- derivatives usage by open-ended collective investment schemes, their portfolio composition, leverage and liquidity profiles
- leverage and derivatives exposure of separately managed accounts
- increased use of leverage metrics across the asset management industry
- consistent use of internationally agreed standards of entity and transaction identifiers.

IOSCO also urges regulators to improve their capabilities to process such data, for example through the use of centralised data hubs and employing dedicated statistics units.

Insurance

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Regulation

Financial stability

FSB publishes resolution planning guidance

The FSB published *Developing Effective Resolution Strategies and Plans for Systemically Important Insurers* on 6 June 2016. It developed this guidance with the IAIS to assist authorities to apply the *Key Attributes of Effective Resolution Regimes for Financial Institutions*, published in October 2014. The guidance covers:

- objectives of resolution strategies for insurers
- considerations in determining a preferred strategy
- the strategic analysis underlying the development of the resolution strategy, including the assessment of the business conducted by the insurer, the identification of critical functions and shared services, cross-border operations, funding and liquidity issues, and availability of policy holder protection schemes
- issues that should be addressed as authorities develop an operational

resolution plan that builds on the resolution strategy, including cross-border cooperation and exit strategies.

The FSB believes aspects of this guidance may also be relevant for insurers identified by their national authority as systemically important even if they are not classified as a global systemically important insurer.

IAIS updates assessment methodology

The IAIS published *Global Systemically Important Insurers: Updated Assessment Methodology 2016* on 16 June 2016.

Following consultation, the IAIS updated the method it uses to assess whether insurers are classified as 'global systemically important'. It modified certain indicators to improve responsiveness and the connection with systemic risk and data quality. The 2016 methodology uses absolute reference values for derivatives trading, financial guarantees and reinsurance indicators. It also covers all types of insurance and reinsurance, and other financial activities of global insurers. The FSB is expected to publish the 2016 list of global systemically important insurers applying the updated methodology in November 2016.

The IAIS also published *Systemic Risk from Insurance Product Features* on 16 June

2016. It provides a framework explaining why certain product features and related activities may raise the potential for an insurer to pose systemic risk upon failure. It also explains why the IAIS has replaced the 'non-traditional, non insurance' product label with an assessment of product features.

Reporting

EIOPA proposes amended reporting templates

EIOPA published a *Draft amendment to the ITS on the templates for the submission of information to the supervisory authorities* on 2 June 2016. It also issued the findings from the related consultation process, *Final report on the proposal for amendments to ITS on the templates for the submission of information to the supervisory authorities*. The updated templates reflect recent amendments introducing tailored treatments for infrastructure investments. EIOPA submitted this draft ITS to the EC for endorsement.

EIOPA also published a *public working draft* of the accompanying adapted XBRL taxonomy (version 2.1.0) for market testing and feedback, with the aim of issuing the final version in July 2016.

EIOPA updates XBRL taxonomy

EIOPA updated *The list of known issues of 2.0.1* and List of validations on 17 June

2016. The list of validations documents compliance tests for data submitted in the quantitative reporting templates.

PRA confirms NDF reporting

The PRA published PS19/16: Reporting requirements for non-Solvency II insurance firms on 30 June 2016. It sets out final reporting requirements for insurers outside the scope of Solvency II (known as NDFs). It plans to insert the requirements in the PRA rulebook in two parts, one for insurance companies and the other for friendly societies.

Following feedback from the consultation process, the PRA made some minor formatting amendments to the *Non-Solvency II Firm (except friendly societies) reporting templates*. It also clarified that the automatic 'grandfathering' of IPRU(INS) waivers in effect before 1 January 2016 and not expired by 1 July 2016 will only take place if firms still satisfy the statutory tests under which the waiver was granted under FSMA.

The PRA has not changed the *Non-Solvency II Firm - friendly society - reporting templates* in response to the comments it received from the consultation. But it plans to remove the requirements to appoint an actuarial function holder and a with-profits actuary from the actuarial requirements part of the rulebook.

Retail products

Spotlight on IDD governance

Preparations for the implementation of the IDD are well underway following EIOPA's release of *preparatory guidelines on the product oversight and governance arrangements for insurers and distributors*. The guidelines were released on 2 June 2016 but were originally created on 18 March 2016.

The guidelines provide early guidance and support to local financial regulators and to firms which are preparing for the implementation of the product oversight and governance requirements under the IDD. The guidelines should establish consistent, efficient and effective supervisory practices with regard to product oversight and governance arrangements.

Because they have been created for local financial regulators in the EU, the guidelines will not impose direct requirements on firms. Instead firms are expected to comply with the supervisory or regulatory framework imposed by their relevant financial regulator. Regulators are expected to take a risk-based approach to the application of the guidelines. Because of this, EIOPA explains that non-compliance with the guidelines will not necessarily lead to enforcement action against firms. Instead

they will form a basis for regulator-to-firm discussions on appropriate remedial action.

The guidelines will be subject to review by EIOPA after the relevant delegated acts referred to in the IDD have been adopted.

Solvency II

EIOPA's advice on infrastructure corporates

On 30 June 2016 EIOPA published:

- *Technical advice on the identification and calibration of other infrastructure investment risk categories, i.e. infrastructure corporates*
- *Final report on CP16/004 on the request to EIOPA for further technical advice on the identification and calibration of other infrastructure investment risk categories, i.e. infrastructure corporates*
- *Frequently asked questions - Technical advice on the identification and calibration of infrastructure investments risk categories, i.e. infrastructure corporates.*

It developed this advice for the EC following the introduction of investments in infrastructure projects in the form of SPVs as a separate asset class under Solvency II. EIOPA recommends that the infrastructure projects asset class is expanded to allow

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certain infrastructure corporates to be treated as infrastructure projects provided there is an equivalent level of risk. It also suggests that for lower risk, high-quality infrastructure corporates that do not qualify as infrastructure projects, the risk charges for equity investments is reduced. But, EIOPA has not found sufficient evidence to conclude the spread shocks for infrastructure corporates other than 'project-like' corporates should be lower than currently foreseen in the Delegated Regulation. EIOPA also recommends that insurers be required to conduct adequate due diligence, establish written procedures to monitor the performance of their exposures and perform stress testing on the cash flows and collateral values supporting their investment. <i>EIOPA updates Q&As</i> In June 2016, EIOPA updated questions and answers on: <i>guidelines on reporting and public disclosure</i> <i>the final report on the ITS on the templates for the submission of information to the supervisory authorities (CP14-052)</i> <i>the final report on the ITS on procedures, formats and templates of</i>	<i>the solvency and financial condition report (CP14-055).</i> <i>Stress testing</i> <i>EIOPA updates 2016 stress test</i> EIOPA updated its <i>Stress test 2016 webpage</i> on 1 June 2016. It amended its 2016 stress test specifications, technical information and reporting template, as well as issuing an automatic update function for templates already completed. EIOPA also published answers to questions on the 2016 stress test on a weekly basis in June 2016. Selected insurers are required to submit stress test information to their national supervisor by 15 July 2016. <i>Supervision</i> <i>FCA issues ICOBS auditor modification</i> The FCA published a <i>Modification by consent of ICOBS 8.4.4 R(1)</i> on 7 June 2016. It will enable 'The Employer's Liability Trading Office (ELTO) to be classed as 'an auditor' for the purposes of ICOBS 8.4.4R (1)(c). This will allow it to perform data assurance reports on behalf of its members concerning the maintenance of employers' liability registers. The modification is available to all firms that are members of ELTO. To comply with ICOBS 8.4.4R (1)(c), if a firm appoints ELTO to prepare the report:	- the requirements of SUP 3.4.2 R will be satisfied to the extent that the firm takes reasonable steps to ensure ELTO has the required skill, resources and experience to prepare the report - SUP 3.8.7 G and SUP 3.5.4 G, to which it refers, are not applicable to the extent that ELTO does not have a recognised supervisory body. Firms wishing to use the modification should email or write to the FCA's Central Waivers Team. <i>IAIS consults on regulation of mutuals</i> The IAIS published a <i>Draft application paper on the regulation and supervision of mutuals, cooperatives and community-based organisations (MCCOs) in increasing access to insurance markets</i> on 16 June 2016. It gives general details of the MCCO sector which is made up of a diverse range of institutions including mutuals, mutual benefit organisations, cooperatives, friendly societies, burial societies, fraternal societies, community-based organisations, risk pooling organisations and self-insuring schemes. It then considers the role of MCCOs in enhancing access to insurance markets and how the IAIS Insurance Core Principles can be applied to MCCOs. The comment period ends on 19 July 2016.	- the requirements of SUP 3.4.2 R will be satisfied to the extent that the firm takes reasonable steps to ensure ELTO has the required skill, resources and experience to prepare the report - SUP 3.8.7 G and SUP 3.5.4 G, to which it refers, are not applicable to the extent that ELTO does not have a recognised supervisory body. Firms wishing to use the modification should email or write to the FCA's Central Waivers Team. <i>IAIS consults on regulation of mutuals</i> The IAIS published a <i>Draft application paper on the regulation and supervision of mutuals, cooperatives and community-based organisations (MCCOs) in increasing access to insurance markets</i> on 16 June 2016. It gives general details of the MCCO sector which is made up of a diverse range of institutions including mutuals, mutual benefit organisations, cooperatives, friendly societies, burial societies, fraternal societies, community-based organisations, risk pooling organisations and self-insuring schemes. It then considers the role of MCCOs in enhancing access to insurance markets and how the IAIS Insurance Core Principles can be applied to MCCOs. 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It looks at recent developments for general insurance firms including its 'Dear CEO' Letter of 4 December 2015, CP19/16 'Solvency II: Changes to internal models used by UK insurance firms' and the actuarial function within the SIMR. <i>Accounting</i> <i>PwC Publications</i> <i>IFRS and UK GAAP update</i> Our publication <i>IFRS and New UK GAAP quarterly update</i> considers reporting requirements as at 30 June 2016. It looks at new standards, interpretations and other guidance applying at this date. It also sets out new IFRS standards that are published but effective at later dates, and have to be disclosed by IFRS reporters plus a summary of the latest topical issues. <i>Impact of referendum on financial reports</i> Our publication <i>In brief - Impact of EU Referendum Result on Financial Reports</i> provides an overview of some potential accounting and reporting issues arising		

Executive summary	EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
from Brexit and relevant guidance under IFRS. It considers the disclosure of significant risks and uncertainties and impairment testing. <i>IFRS News</i> Our <u>June 2016 issue</u> covers: - Investor survey - Impact on corporate reporting - IFRS 15 and the insurance industry - An overview - IFRS 9 Financial Instruments - Questions and answers - Cannon Street Press - Agenda Consultation - Insurance and IFRS 9 - IFRS 2 Share-based payments - Conceptual Framework - Disclosure Initiative - Leases lab - How to implement the new guidance - IC rejections - IAS 19. <i>Reconsidering income statement presentations</i> Our publication <u>In brief - Reconsidering income statement presentations</u> looks at best practice for income statement		presentation and the use of alternative performance measures. The FRC Corporate Reporting Review Team plans to look at companies' compliance with the following publications: - IAS 1 amendments which are part of the IASB's 'disclosure initiative' (effective for financial years beginning on or after 1 January 2016) - ESMA's 'Guidelines on Alternative Performance Measures' (effective for information published on or after 3 July 2016) - FRC's PN 108 'FRC seeks consistency in the reporting of exceptional items'. Our guide considers which areas boards - and those responsible for reporting - need to consider to update their reporting in line with best practice. <i>Illustrative condensed interim financial statements</i> Our <u>UK illustrative condensed interim financial statements 2016</u> reflect standards that are required to be applied by an existing preparer of IFRS/new UK GAAP financial statements with an annual period beginning on or after 1 January 2016. Key developments include: - ESMA guidance on alternative performance measures			- amendment to IAS 34 on cross referencing to other information - updated guidance from the FRC on going concern and viability - changes to the FCA's Disclosure and Transparency Rules. Preparers should check for IASB pronouncements or EU endorsements made after 1 May 2016 that may apply to their interim financial statements. This publication also provides additional PwC guidance on how to present this information.		

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
14/07/16	<u>CP16/10: Proposed implementation of the Enforcement Review and the Green Report</u>	FCA
15/07/16	<u>Consultation on prudential treatment of problem assets – definitions of non-performing exposures and forbearance</u>	Basel Committee
15/07/16	<u>CP16/16: Solvency II: matching adjustment</u>	PRA
18/07/16	<u>Consultation on methodology to derive ultimate forward rate under Solvency II</u>	EIOPA
19/07/16	<u>CP16/14: UCITS V Level 2 Regulation, SFTR and consequential changes to the Handbook</u>	FCA
19/07/16	<u>Consultation on application paper on the regulation of mutuals and cooperatives in increasing access to insurance markets</u>	IAIS
21/07/16	<u>CMA's consumer powers: updated guidance</u>	CMA
22/07/16	<u>GC16/5 - Proposed guidance on wind-down planning</u>	FCA
25/07/16	<u>Draft regulatory technical standards on disclosure of encumbered and unencumbered assets under Article 443 of the CRR</u>	EBA
29/07/16	<u>CP17/16: Regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements</u>	PRA
29/07/16	<u>Broadband investment fund: request for proposals</u>	HMT
05/08/16	<u>CP20/16: Solvency II: consolidation of Directors' letters</u>	PRA
05/08/16	<u>CP19/16: Solvency II: Changes to internal models used by UK insurance firms</u>	PRA

Executive summary	EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
Closing date for responses	Paper						Institution
10/08/16	<u>CP16/16: Minor Handbook changes related to mortgage borrowers with a payment shortfall</u>						FCA
10/08/16	<u>GC16/6: Primary market bulletin no. 16</u>						FCA
11/08/16	<u>Consultation on LCR disclosure</u>						EBA
12/08/16	<u>Consultation on SEPA Cards Standardisation Volume</u>						EPC
12/08/16	<u>CP21/16: Pillar 2 liquidity</u>						PRA
16/08/16	<u>Capping early exit charges for members of occupational pension schemes</u>						Department for Work and Pensions
17/08/16	<u>CP22/16: Solvency II: Monitoring model drift and standard formula SCR reporting for firms with an approved internal model</u>						PRA
18/08/16	<u>CP16/15: Capping early exit pension charges</u>						FCA
01/09/16	<u>Consultation on updated white paper on mobile payments in Europe</u>						EPC
02/09/16	<u>Consultation for the fitness check of EU consumer and marketing law</u>						EC
02/09/16	<u>Discussion paper: the Distributed Ledger Technology applied to securities markets</u>						ESMA
08/09/16	<u>Reference price transactions standard for the fixed income markets</u>						FICC Market Standards Board
20/09/16	<u>Consultation on the supplementary supervision of financial conglomerates</u>						EC
21/09/16	<u>Proposed policy recommendations to address structural vulnerabilities from asset management activities</u>						FSB

Closing date for responses	Paper	Institution
29/09/16	<u>Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013</u>	EBA
30/09/16	<u>Green paper: Basel Art Trade Principles on AML</u>	Basel Institute on Governance
30/09/16	<u>PRA annual report and accounts 2016</u>	PRA
02/10/16	<u>Consultation on cross-border distribution of funds across the EU</u>	EC
31/10/16	<u>Feedback on FRS 102</u>	FRC

Forthcoming publications in 2016

Date	Topic	Type	Institution
Accounting			
TBD 2016	RTS on consolidation methods	Technical standards	EBA
TBD 2016	Communication between supervisors and auditors	Guidelines	EBA
TBD 2016	Developments in the market with regard to providing statutory audit services to public interest entities	Advice	EBA
TBD 2016	Accounting for expected credit losses	Guidelines	EBA
Asset management			
Summer 2016	UCITS V implementation and other changes to the Handbook affecting investment funds – PS to CP15/27	Policy statement	FCA
TBD 2016	UCITS V Level 2 Regulation, SFTR and consequential changes to the Handbook – PS to CP16/14	Policy statement	FCA
Authorisations			
TBD 2016	ITS and RTS on authorisation of credit institutions under CRD IV	Technical standards	EBA
TBD 2016	ITS on common procedures, forms and templates on authorisation under CRD IV	Technical standards	EBA
CASS			
Q4 2016	Asset segregation under AIFMD	Guidelines	ESMA
TBD 2016	Client money rules for insurance intermediaries – PS to CP 12/20	Policy statement	FCA

Date	Topic	Type	Institution
Conduct			
Q4 2016	MAR	Guidelines	ESMA
TBD 2016	Internal governance under Article 74 CRD IV	Guidelines	EBA
TBD 2016	Suitability of members of the management body and key function holders under Article 91(12) CRD IV	Guidelines	EBA
TBD 2016	The collection exercise of approved higher maximum ratios for variable remuneration under Article 94(1)(g)(ii) CRD IV	Guidelines	EBA
TBD 2016	Remuneration provisions under Article 161(2) CRD IV	Report	EBA
TBD 2016	Diversity practices benchmarking under Article 91(11) CRD IV	Report	EBA
TBD 2016	Remuneration benchmarking and high earners data under Articles 75(1) and (3) CRD IV	Report	EBA
TBD 2016	Strengthening accountability in banking: a new regulatory framework for individuals – PS to CP 14/13	Policy statement	FCA
TBD 2016	Smarter consumer communications: removing certain ineffective requirements in our Handbook – PS to CP15/32	Policy statement	FCA
TBD 2016	Fair, reasonable and non-discriminatory access to regulated benchmarks – PS to CP 15/18	Policy statement	FCA
February 2017	Implementation of the Benchmarks Regulation	Consultation	FCA
Financial crime, security and market abuse			
August 2016	Risk factors under AMLD4	Guidelines	EBA
August 2016	Risk-based supervision under AMLD4	Guidelines	EBA

Date	Topic	Type	Institution
September 2016	Consultation paper on RTS on central contract points under AMLD4	Consultation	EBA
TBD 2016	Enhanced due diligence under AMLD4	Guidelines	EBA
TBD 2016	Simplified due diligence under AMLD4	Guidelines	EBA
TBD 2016	RTS on central contract points under AMLD4	Technical standards	EBA
TBD 2016	RTS on mitigating the risk of third countries prohibiting the application of equivalence for anti-money laundering or financing of terrorism standards under the AMLD4.	Technical standards	EBA
Insurance			
Summer 2016	Increasing transparency and engagement at renewal in general insurance markets – PS to CP 15/41	Policy statement	FCA
Mortgages			
July 2016	Application of MCD rules for passporting firms – Handbook notice to CP16/8	Handbook notice	FCA
Payments			
July 2016	RTS on the separation of payment card schemes and processing entities under the IFR	Technical standards	EBA
July 2016	RTS specifying the cooperation and exchange of information – notification under PSD2	Technical standards	EBA
August 2016	RTS on strong authentication and communication under PSD2	Technical standards	EBA
TBD 2016	ITS regarding a standard presentation format of a fee information document, statement of fees and common symbols	Technical standards	EBA

Date	Topic	Type	Institution
TBD 2016	RTS on standardised terminology for payment account services	Technical standards	EBA
TBD 2016	RTS on central contact points under PSD2	Technical standards	EBA
TBD 2016	The minimum monetary amount of professional indemnity insurance under PSD2	Guidelines	EBA
TBD 2016	RTS on standardised terminology for banking services under PAD	Technical standards	EBA
TBD 2016	ITS on the standardised format of documents and symbols (including consumer testing) under PAD	Technical standards	EBA
<i>Pensions</i>			
Q4 2016	Secondary annuity market – PS to CP16/13	Policy statement	FCA
<i>Prudential</i>			
TBD 2016	Money Market Funds Regulation – advice and technical standards	Advice	ESMA
TBD 2016	Impact of LCR	Report	EBA
TBD 2016	Disclosure of LCR	Guidelines	EBA
TBD 2016	Intraday liquidity risk	Guidelines	EBA
TBD 2016	Report and advice on NSFR	Report	EBA
TBD 2016	Downturn loss given default (LGD) calculation	Guidelines	EBA
TBD 2016	LGD in default ELBE and IRB shortfall calculations	Guidelines	EBA
TBD 2016	PD computation	Guidelines	EBA
TBD 2016	RTS on eligible collateral within the CRM framework	Technical Standards	EBA

Date	Topic	Type	Institution
TBD 2016	RTS on conditional guarantees	Technical Standards	EBA
TBD 2016	RTS on the definition of default thresholds for past due items	Technical Standards	EBA
TBD 2016	Default of an obligor, including QIS	Guidelines	EBA
TBD 2016	Corrections to the modified duration of debt instruments	Guidelines	EBA
TBD 2016	RTS on assessment methodology	Technical Standards	EBA
TBD 2016	Incremental default and migration risk	Guidelines	EBA
TBD 2016	Stress in correlation trading portfolios	Guidelines	EBA
TBD 2016	RTS on exclusion of CVA for third-country NFCs	Technical Standards	EBA
TBD 2016	Stressed VaR	Guidelines	EBA
TBD 2016	Implicit support with regard to securitisation	Guidelines	EBA
TBD 2016	The Supervisory Formula Method on securitisation under Article 262(3) of CRR	Guidelines	EBA
TBD 2016	Securitisation retention rules	Guidelines	EBA
TBD 2016	Proposals for simple, standard and transparent synthetic securitisation	Guidelines	EBA
TBD 2016	RTS on disclosures of unencumbered assets	Technical Standards	EBA
TBD 2016	Stress testing	Guidelines	EBA
Recovery and resolution			
July 2016	Administrative penalties under the BRRD	Report	EBA

Date	Topic	Type	Institution
July 2016	Benchmarking report of recovery plans – governance and coverage of entities	Report	EBA
July 2016	ITS on MREL reporting templates	Technical Standards	EBA
September 2016	Report on reference point for setting the target level for resolution financing arrangements	Report	EBA
September 2016	CP on the FCA's implementation of the Recovery and Resolution Directive resulting from supervisory feedback and EBA Guidelines/Binding Technical Standards	Consultation	FCA
TBD 2016	The reference point used for setting the target level for resolution financing arrangements	Report	FCA
Securities and markets			
Summer 2016	Implementation of the MiFID II directive – retail	Consultation	FCA
Q3 2016	MiFID II/MiFIR topics	Guidelines	ESMA
Autumn 2016	Implementation of the MiFID II directive – CP 3	Consultation	FCA
Q4 2016	SFTR RTS and ITS	Technical standards	ESMA
Q4 2016	RTS on the clearing obligation	Technical standards	ESMA
Q4 2016	RTS on CCP requirements	Technical standards	ESMA
Q4 2016	CCPs stress test recommendations	Report	ESMA
TBD 2016	Policy statement to CP 15/43 on MiFID II implementation	Policy statement	FCA
Structural reform			
TBD 2016	RTS, ITS and guidelines on core credit institutions and trading entities	Technical standards	ESMA

Date	Topic	Type	Institution
TDB 2016	Ring-fencing: disclosures to consumer by non-ring-fenced bodies – PS to CP 15/23	Policy statement	FCA
Supervision, governance and reporting			
Summer 2016	Remuneration requirements for sales staff	Guidelines	EBA
Q3 2016	Report on trends, risks and vulnerabilities	Report	ESMA
October 2016	Statement on the common enforcement priorities for 2016 year-end financial statements	Statement	ESMA
Q4 2016	Proposed implementation of the Enforcement Review and the Green Report – PS to CP16/10	Policy statement	FCA
Q4 2016	RTS on European Single Electronic Format	Technical standards	ESMA
Q4 2016	Advice to the EC on depository frameworks of non-EU jurisdictions under Article 21(6) of AIFMD	Advice	ESMA
Quarterly	Risk dashboard	Report	ESMA
TBD 2016	IT risk supervision	Guidelines	EBA
TBD 2016	UCITS V Level 2 Regulation, SFTR and consequential changes to the Handbook	Policy statement	FCA

Main sources: ESMA 2016 work programme; EBA 2016 work programme; EC 2016 work programme; FCA policy development updates.

Glossary

ABC	Anti-Bribery and Corruption	BCR	Basic capital requirement (for insurers)
ABI	Association of British Insurers	BIBA	British Insurance Brokers Association
ABS	Asset Backed Security	BIS	Bank for International Settlements
ACER	Agency for the Cooperation of Energy Regulators	BoE	Bank of England
AIF	Alternative Investment Fund	BMR	EU Benchmarks Regulation
AIFM	Alternative Investment Fund Manager	BRRD	Bank Recovery and Resolution Directive 2014/59/EU
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU	CASS	Client Assets sourcebook
AIMA	Alternative Investment Management Association	CCA	Consumer Credit Act 1974 (as amended)
AML	Anti-Money Laundering	CCB	Countercyclical capital buffer
AMLD3	3rd Money Laundering Directive 2005/60/EC	CCD	Consumer Credit Directive 2008/48/EC
AMLD4	4 th Money Laundering Directive 2015/849/EU	CCPs	Central Counterparties
AQR	Asset Quality Review	CDS	Credit Default Swaps
ASB	UK Accounting Standards Board	CEBS	Committee of European Banking Supervisors (predecessor of EBA)
Banking Reform Act (2013)	Financial Services (Banking Reform) Act 2013	CESR	Committee of European Securities Regulators (predecessor of ESMA)
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework	CET1	Common Equity Tier 1
Basel III	Basel III: International Regulatory Framework for Banks	CFTC	Commodities Futures Trading Commission (US)
Basel Committee	Basel Committee of Banking Supervision (of the BIS)	CGFS	Committee on the Global Financial System (of the BIS)
BBA	British Bankers' Association	CIS	Collective Investment Schemes

Executive summary		EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
CMA	Competition and Markets Authority							
CMU	Capital markets union							
CoCos	Contingent convertible securities							
Co-legislators	Ordinary procedure for adopting EU law requires agreement between the Council and the European Parliament (who are the ‘co-legislators’)							
COREP	Standardised European common reporting							
Council	Generic term representing all ten configurations of the Council of the European Union							
CRA1	Regulation on Credit Rating Agencies (EC) No 1060/2009							
CRA2	Regulation amending the Credit Rating Agencies Regulation (EU) No 513/2011							
CRA3	proposal to amend the Credit Rating Agencies Regulation and directives related to credit rating agencies COM(2011) 746 final							
CRAs	Credit Rating Agencies							
CRD	‘Capital Requirements Directive’: collectively refers to Directive 2006/48/EC and Directive 2006/49/EC							
CRD II	Amending Directive 2009/111/EC							
CRD III	Amending Directive 2010/76/EU							
CRD IV	Capital Requirements Directive 2013/36/EU							
CRR	Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms							
CSD	Central Securities Depository							
CSDR	Central Securities Depositories Regulation (EU) 909/2014							
CSMAD	Criminal Sanctions Market Abuse Directive 2014/57/EU							
CTF	Counter Terrorist Financing							
DFBIS	Department for Business, Innovation and Skills							
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union							
DG MARKT	Internal Market and Services Directorate General of the European Commission							
DGS	Deposit Guarantee Scheme							
DGSD	Deposit Guarantee Schemes Directive 2014/49/EU							
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act (US)							
D-SIBs	Domestic Systemically Important Banks							
EBA	European Banking Authority							
EC	European Commission							
ECB	European Central Bank							
ECJ	European Court of Justice							
ECOFIN	Economic and Financial Affairs Council (configuration of the Council of the European Union dealing with financial and fiscal and competition issues)							
ECON	Economic and Monetary Affairs Committee of the European Parliament							
EDIS	European Deposit Insurance Scheme							
EEA	European Economic Area							
EEC	European Economic Community							

Executive summary		EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
EIOPA	European Insurance and Occupations Pension Authority							
ELTIF	European long-term investment fund							
EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EU) No 648/2012							
EP	European Parliament							
EPC	European Payments Council							
ESA	European Supervisory Authority (i.e. generic term for EBA, EIOPA and ESMA)							
ESCB	European System of Central Banks							
ESEF	European Single Electronic Format							
ESMA	European Securities and Markets Authority							
ESRB	European Systemic Risk Board							
EU	European Union							
EURIBOR	Euro Interbank Offered Rate							
Eurosystem	System of central banks in the euro area, including the ECB							
EUVECA	European Venture Capital Funds Regulation (EU) 345/2014							
FAMR	Financial Advice Market Review							
FASB	Financial Accounting Standards Board (US)							
FATCA	Foreign Account Tax Compliance Act (US)							
FATF	Financial Action Task Force							
FC	Financial counterparty under EMIR							
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Executive summary	EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
G-SIBs	Global Systemically Important Banks			IMF	International Monetary Fund		
G-SIFIs	Global Systemically Important Financial Institutions			IORP	Institutions for Occupational Retirement Provision Directive 2003/43/EC		
G-SIIs	Global Systemically Important Institutions			IOSCO	International Organisations of Securities Commissions		
HCSTC	High Cost Short Term Credit			IRB	Internal Ratings Based		
HMRC	Her Majesty's Revenue and Customs			ISDA	International Swaps and Derivatives Association		
HMT	Her Majesty's Treasury			ITS	Implementing Technical Standards		
IA	Investment Association			JCESA	Joint Committee of the European Supervisory Authorities		
IAIS	International Association of Insurance Supervisors			JMLSG	Joint Money Laundering Steering Committee		
IASB	International Accounting Standards Board			JURI	Legal Affairs Committee of the European Parliament		
IBA	ICE Benchmark Administration			KYC	Know your client		
ICAAP	Internal Capital Adequacy Assessment Process			LCR	Liquidity coverage ratio		
ICAS	Individual Capital Adequacy Standards			LEI	Legal Entity Identifier		
ICOBs	Insurance: Conduct of Business Sourcebook			LIBOR	London Interbank Offered Rate		
IDD	The Insurance Distribution Directive (EU) 2016/97 – also known as IMD2			MA	Matching Adjustment		
IFRS	International Financial Reporting Standards			MAD	Market Abuse Directive 2003/6/EC		
ILAA	Internal Liquidity Adequacy Assessment			MAR	Market Abuse Regulation (EU) 596/2014		
ILAAP	Internal Liquidity Adequacy Assessment Process			Material Risk Takers Regulation	Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the EP and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile		
ILS	Insurance-Linked Securities			MCD	Mortgage Credit Directive 2014/17/EU		
IMAP	Internal Model Approval Process			MCOB	Mortgages and Home Finance: Conduct of Business sourcebook		
IMD	Insurance Mediation Directive 2002/92/EC						

Executive summary		EU benchmarks regime marches ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
Member States	countries which are members of the European Union							
MiFID	Markets in Financial Instruments Directive 2004/39/EC							
MiFID II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MiFIR							
MiFIR	Markets in Financial Instruments Regulation (EU) No 600/2014							
MLRO	Money Laundering Reporting Officer							
MMF	Money Market Fund							
MMR	Mortgage Market Review							
MPC	Monetary Policy Committee							
MREL	Minimum requirements for own funds and eligible liabilities							
MTF	Multilateral Trading Facility							
MoJ	Ministry of Justice							
MoU	Memorandum of Understanding							
MPC	Monetary Policy Committee							
NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution							
NCA	National competent authority							
NDF	Non-Directive Firms – firms that do not fall within Solvency II							
NFC	Non-financial counterparty under EMIR							
NIS Directive	Proposal for a directive of the EP and Council concerning measures to ensure a high common level of network and information security across the EU							
NSFR	Net Stable Funding Ratio							
OECD	Organisation for Economic Cooperation and Development							
Official Journal	Official Journal of the European Union							
OFSI	Office of Financial Sanctions Implementation							
OFT	Office of Fair Trading							
Omnibus II	Second Directive amending existing legislation to reflect Lisbon Treaty and new supervisory infrastructure (2014/51/EU). Amends the Prospectus Directive (Directive 2003/71/EC) and Solvency II (Directive 2009/138/EC)							
ORSA	Own Risk Solvency Assessment							
O-SIIs	Other systemically important institutions							
OTC	Over-The-Counter							
OTF	Organised trading facility							
PAD	Payment Accounts Directive 2014/92/EU							
PIFs	Personal investment firms							
PPI	Payment Protection Insurance							
P2P	Peer to Peer							
PERG	Perimeter Guidance Manual							
PRA	Prudential Regulation Authority							
Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis							
PRIPs Regulation	Regulation on key information documents for investment and insurance-based products (Regulation 1286/2014)							

Executive summary	EU benchmarks regime marchés ahead	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
PSD2	The revised Payment Services Directive (EU) 2015/2366			SEPA	Single Euro Payments Area		
PSP	Payment service provider			SFT	Securities financing transaction		
PSR	Payment Systems Regulator			SFTR	Securities Financing Transactions Regulation (EU) 2015/2365		
QIS	Quantitative Impact Study			SFO	Serious Fraud Office		
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)			SIMF	Senior Insurer Manager Function		
RDR	Retail Distribution Review			SIMR	Senior Insurer Managers Regime		
REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011			SM&CR	Senior Managers and Certification Regime		
RFB	Ring-fenced body			SME	Small and Medium sized Enterprises		
RONIA	Repurchase Overnight Index Average			SMF	Senior Manager Function		
RRPs	Recovery and Resolution Plans			SOCA	Serious Organised Crime Agency		
RTS	Regulatory Technical Standards			Solvency II	Directive 2009/138/EC		
RWA	Risk-weighted assets			SONIA	Sterling Overnight Index Average		
SCR	Solvency Capital Requirement (under Solvency II)			SPV	Special purpose vehicle		
SCV	Single customer view			SREP	Supervisory Review and Evaluation Process		
SEC	Securities and Exchange Commission (US)			SRB	Single Resolution Board		
Securitisation Regulation	Proposal for a Regulation of the EP and Council laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (COM(2015)472/F1)			SRF	Single Resolution Fund		
				SRM	Single Resolution Mechanism		
				SSM	Single Supervisory Mechanism		
				SSR	Short Selling Regulation (EU) 236/2012		
				SUP	FCA supervision manual		
				T2S	TARGET2-Securities		

TLAC	Total Loss Absorbing Capacity
TR	Trade Repository
TC	Treasury Committee
TPR	The Pensions Regulator
UCITS	Undertakings for Collective Investments in Transferable Securities
UCITS V	UCITS V Directive 2014/91/EU
UKLA	UK Listing Authority
UTI	Unique Trade Identifier
XBRL	eXtensible Business Reporting Language

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