Being better informed

FS regulatory, accounting and audit bulletin

PwC FS Risk and Regulation Centre of Excellence

August 2017

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- Prudential: PRA consults on Pillar 2 liquidity
- Asset management: A close look at the impact of the FCA's market study
- Brexit: ESAs issue guidance on firms establishing a presence in EU27

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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.'

Regulatory activity showed no sign of slowing down in the run up to the summer holidays, with important developments on the SM&CR, the IDD and Pillar 2 liquidity last month.

July was a particularly busy month for developments in the consumer credit sector. Firstly, the FCA issued the findings of its thematic review into staff incentives and remuneration. The FCA found that many firms offer incentives which are likely to encourage high-pressure sales. So it's proposing a new rule and guidance to help firms identify the risks their remuneration practices might pose to customer outcomes. And at the end of July, the FCA proposed changes to clarify the rules on assessing creditworthiness and affordability in consumer credit. The FCA also signalled it's planning further reforms in the high cost credit sector next year, highlighting areas of concern such as unarranged overdrafts.

Another important document published by the FCA in July was its MiFID II policy statement. The FCA provided responses to all five of its consultation papers on MiFID II implementation and outlined final rules on the majority of the provisions. Notably, the FCA made what it called 'significant policy changes' to its proposals on research, client classification, best execution, appropriateness and taping conversations. With the MiFID II implementation deadline now less than six months away, firms should be finalising any outstanding compliance tasks and decisions.

In addition, the FCA published its much-anticipated consultation paper on extending the SM&CR to all FCA-regulated firms. The proposals are set to impact a diverse group of financial services businesses, so the FCA has put forward a proportionate, three-tiered approach. The FCA and PRA are also seeking to align the SIMR with the new proposals, so insurance firms should read the consultation carefully too. In our first feature article this month we analyse what the proposals will mean for firms.

In the prudential space, the PRA published its second consultation on Pillar 2 liquidity, proposing a new framework for cash flow mismatch risk, a new reporting template and case-by-case approaches for other risks. It plans to implement the changes in early 2018, with new granular LCR introduced on 1 January 2019. The consultation applies to all PRA-regulated banks, building societies and investment firms, which should assess the impact of the new framework and reporting requirements.

The PRA also revealed its priorities for the year ahead in its business plan for 2017/18. Its focus areas include: planning for Brexit, potential amendments to its supervisory approach to insurers, and developing a supervisory approach to operational resilience and FinTech. The latter links to a recent PRA supervisory statement on cyber underwriting risks, which makes clear that the PRA expects firms to fully understand their exposure to cyber risk and to complete robust portfolio stress tests.

Other important developments for insurers include the FCA's second consultation paper on implementing the IDD, and the PRA's policy statement setting out its expectations for firms investing in illiquid, unrated assets within their Solvency II matching adjustment portfolios.

Meanwhile, firms are pressing ahead with their contingency planning for Brexit. As they do so, the ESAs have provided some helpful clarity on the approach EU Member States should take to firms applying to establish a presence in the EU. EIOPA and ESMA issued guidance on important issues such as transfer of risk and outsourcing, while the EBA published final draft RTS on the information firms must provide to obtain authorisation for new entities.

Finally, in our second feature article we examine the package of competition remedies put forward by the FCA in its Asset Management Market Study final report in June. We review the impact of the reforms on asset managers, and take a look at how the FCA's focus is set to develop further through its related market study into investment platforms.

In the coming weeks and months we expect to see the FCA's first policy statement on implementing the IDD, and the PRA's updated supervisory statement on the IRB approach. We hope you enjoy reading the latest updates.

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Full steam ahead on extending SM&CR

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The FCA and PRA's relentless focus on accountability and culture has led to proposals to extend the Senior Managers Regime (SMR) and Certification Regime (CR) - together the SM&CR - to all FCA regulated firms.

The FCA set out the roadmap to widen the scope of SM&CR in *CP17/25: Individual Accountability: Extending the Senior Managers & Certification Regime to all FCA firms* on 26 July 2017. The PRA and FCA also set out a number of changes to SIMR to align it with SM&CR in their consultation papers *CP17/26: Individual Accountability: Extending the Senior Managers & Certification Regime to insurers;* and *CP14/17: Strengthening individual accountability in insurance: extension of Senior Managers & Certification Regime to Insurers*. In addition, the FCA sets out some minor changes to the SM&CR for banks.

The FCA's regime extension has been on the cards for some time, and firms have been expecting details of the new regime for at least a year. The overall impact will be felt more by firms newly brought into scope of the regime, which will potentially have only just over a year to prepare for compliance.

The FCA attempts to deliver a proportionate regime by categorising firms into three tiers based on their level of risk and complexity. Firms that are complex or pose the highest degree of risk to the financial system will be subject to an 'enhanced regime'; other firms will benefit from the baseline 'core regime' and the very smallest firms (such as sole traders, internally managed AIFs, professional and non-core financial services firms) will be subject to a lighter touch 'limited regime'.

A triple-layer approach

The main body of FCA requirements for SM&CR appears in a 'core regime' which develops the measures under the SM&CR for banks. This core regime contains the baseline SM&CR requirements for all FCA firms and sets out a number of SMFs that will generally apply to all firms. Individuals performing these roles will need to be approved by the FCA in the same way as those currently subject to the FCA's Approved Persons Regime.

Additional measures that reflect the existing SM&CR for banks include conduct rules which apply to all staff in FCA firms, a duty of responsibility for those performing SMFs, and a list of prescribed responsibilities which must be allocated to senior managers (SMs). All SMs will also be required to document their areas of responsibility in individual 'statements of responsibility' and there are similar rules around the reporting of disciplinary actions due to conduct rule breaches as in the SM&CR for banks.

The CR, which requires an annual certification of fitness and propriety for individuals who are able to cause significant harm to the firm or its customers, is also akin to the banking regime. This FCA sets out the roles that will fall within the scope of the CR in CP17/25 and explains that the line management of individuals performing those roles will be caught too. The CR will be limited to those performing a certification function who are either based in the UK or, if based outside the UK, are dealing with UK clients.

Firms caught within the enhanced regime will be subject to additional requirements over and above the core regime such as additional PRs and a number of additional SMFs. They will also be required to create and maintain responsibilities maps which set out how the PRs are allocated and who has overall responsibility for the firm's activities. Like the banking regime, these maps are single documents intended to provide a collective view of the allocation of responsibilities across the firm, the interaction with existing governance structures and to ensure that the statements of responsibility do not leave any gaps as this could lead to challenge by the FCA.

Limited scope firms benefit from the lightest touch version of the regime. These firms may have as few as one SM.

Though these requirements seem familiar to the existing SM&CR for banks, it is obvious that the new FCA SM&CR regime will be an expensive exercise for firms that are in scope. This will inevitably require these firms to put robust administrative and compliance processes and enhanced record keeping measures in place to ensure that SM actions are justified and adequately documented and that annual fitness and propriety checks are conducted appropriately. But more importantly, firms need to consider that these are emotive issues for staff, particularly in the case of the SMR senior staff. Successful compliance requires firms to think about culture, wider governance and its people.

Overseas staff: out of sight, not out of mind

The FCA confirms that there will be no territoriality limitation on the SMR. So an SM performing a SMF role overseas would still remain in scope. The CR will only apply to individuals in the UK, and will not apply to individuals dealing with UK clients from abroad unless that individual is a material risk taker under the remuneration code.

Both EEA and non-EEA branches will be required to seek approval for a limited number of SMFs. This could represent both procedural and personal challenges for those caught within the web of the regime. Many overseas SMs could feel uncomfortable being subject to this additional layer of regulatory scrutiny so firms should take a sensitive approach when introducing such individuals to new obligations under the SM&CR.

Maximising cultural change with the SM&CR

The principal aim of the SM&CR is to enhance culture and accountability in firms and the new regime will inevitably go some way towards achieving that. But senior managers must apply the SM&CR in line with a strategy, governance and business model that's focused on optimising culture to have maximum impact and be within the spirit of the regime.

A focus on culture in each part of the firm and alignment with the board's desired culture will not only drive meaningful cultural change, but will also provide the senior managers with more comfort in discharging their responsibilities under SM&CR.

How will the insurance industry be affected?

The FCA and PRA intend to align SIMR with the SM&CR, which they confirm in both CP17/26 and CP14/17.

A number of changes will be introduced that insurers need to prepare for such as: the creation of a new CR; widening the scope of the conduct rules; introducing a number of new prescribed responsibilities and FCA SMFs. There are also a few terminology changes such as renaming 'senior insurance manager functions' as 'SMFs' and renaming 'governance maps' as 'responsibilities maps'. This indicates the regulators' desire to harmonise the SM&CR regimes across the board.

The alignment of SIMR and SMR indicates that the FCA and PRA have departed from their original view that insurers pose a different systemic risk to banks and therefore require a different regime.

The introduction of new measures under the SM&CR are not expected to significantly impact insurers which are already subject to SIMR. But the impact on insurance brokers and intermediaries will be high in comparison. They will be subject to the suite of new governance measures under SM&CR and may find the administrative and compliance requirements initially confusing, tricky and expensive to implement.

What do firms need to do?

Firms should engage with the FCA and PRA at an early stage on areas of concern and respond to the consultation papers by 3 November 2017.

A multitude of firms with different structures will be impacted by the extension and changes in scope for SM&CR and some types of firms will be subject to parallel governance regimes which should also be accounted for. So firms should consider the implications for their business based on their specific operating models and engage with the regulator where appropriate. This will include considering what the extraterritorial effects may be where firms have operations outside the UK.

The FCA has confirmed that SM&CR will come into force in 2018. But it has not yet provided a concrete date for implementation. This potentially leaves a one-year time frame for firms to get ready for the new regime which may seem an unrealistic expectation. Banks and insurers originally subject to SM&CR and SIMR had a two-year lead time to start preparing for compliance from when the first consultation was released in 2014. Because of this, firms should start considering how they can align their operations to comply with the high level requirements of SM&CR now rather than waiting until the FCA confirms its approach in a policy statement next year.

Firms should now get into the habit of considering accountability and culture when making decisions on who is responsible for which areas of the business. Robust documentation of the rationale for specific decisions, record keeping and policies and procedures should also be a key focus for firms to prepare for compliance.

Firms will also need to consider the human aspects of SM&CR. Discussing and allocating responsibilities can be highly emotive and individuals subject to enhanced regulatory scrutiny and certification may need comfort and clarification on what the regime means for them personally. Organisations need to engage with their staff from the outset to ensure they understand the changes as and when they come in.

FCA asset management study: the bigger picture

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Some asset managers may have breathed a sigh of relief when the FCA published the final report of its Asset Management Market Study on 28 June 2017. Superficially, headlines suggested that the FCA had opted for some less onerous remedies than those proposed in its interim report in November 2016.

The FCA focused primarily on discrete conduct requirements, as opposed to confronting systemic challenges such as a lack of price competition and high profit margins through broad referrals to the CMA, although the FCA is considering referring the investment consultancy market to the CMA. And the conduct regulator appears to have taken on board some of the industry's concerns about the negative portrayal of active management in the interim report.

Nonetheless, the FCA puts forward a significant package of proposals in the market study final report. And it's important firms bear in mind the increasing scope of the market study and its implications. The work has triggered additional market studies, and the FCA has indicated it will continue to probe competition concerns in the investment product distribution system more broadly. So although the final report represents a retreat from the most onerous of the earlier proposals, firms should remain sensitive to the bigger picture as the FCA's focus continues to expand in the investment advice and distribution markets.

Avoiding an all-in fee

After the interim report firms were braced for the introduction of an all-in fee. This could have required them to absorb the cost of any difference between disclosed prospective charges and the actual charges incurred. The FCA was concerned that the risk of a cost difference is borne by investors, who may end up paying significantly more than the disclosed price. An up-front all-in fee would have shifted that risk to asset managers, with potentially significant implications. But the FCA has altered this approach, instead taking forward proposals on costs and charges disclosure which are in line with impending EU rules.

The FCA had previously proposed a number of remedies which would align the fee that firms disclose to clients with the actual fee they charge, including an estimate of transaction costs. Critics of this approach argued that it could discourage firms from trading even when in the best interests of investors. There were also concerns that asset managers could be forced to impose charges at the upper end of an estimate, to ensure they didn't suffer loss for any discrepancy between the all-in fee and actual costs.

Perhaps in part due to these challenges, the FCA has decided to focus on a single charge disclosure without requiring that such disclosure be treated as a fee. In addition, the FCA intends to leverage upcoming requirements imposed by MiFID II and PRIIPs instead of developing a new requirement specific to the market study. These regulations will require that all costs and charges must be shown as a single disclosure, including asset management charges and indirect costs such as transaction costs and intermediary charges.

The FCA will explore how to create a standardised template of costs and charges for institutional investors, and will take steps to make fund objectives clearer and more useful for investors. There will clearly be work for firms to do, but the onus is very much on the industry stepping up with new and innovative ways of helping clients, while largely relying on the MiFID II and PRIIPs disclosure requirements that they have already been preparing for.

A new value for money regime

By contrast, the final report largely delivers on the FCA's initial proposals around strengthening the obligations and governance framework for asset managers to strive to achieve 'value for money' for their investors.

Firms will not face an imposed fiduciary duty to act in the best interests of investors. Instead, the FCA has focussed on increased transparency by proposing that firms need to demonstrate they are not enjoying financial advantages that should be passed back to investors. Under this proposal, firms would be required to continuously assess, and annually document, whether they benefit from economies of scale and whether to introduce break points and return savings to investors. In addition to the disclosure obligations, fund managers will have to assess whether charges are reasonable in relation to costs incurred. They will need to explain if they have placed investors in more expensive share classes without any justification in terms of underlying rights and conditions.

Increasing accountability

The disclosure and assessment requirements will likely be strengthened by increased accountability under SM&CR and greater board independence (pending consultation). Under the FCA's recent consultation to extend the banking and insurance SM&CR to all regulated firms, the FCA has proposed requiring the chair of fund manager boards to be listed as a senior manager with responsibility for ensuring the firm complies with the obligation to act in the best interests of investors, and to ensure the independence of directors (see below) and annually document the ongoing assessment of value. The regulator hopes this individual accountability will increase firms' commitment to value-for-money assessments.

More independent boards

Similarly, the FCA is hoping to address some of the perceived conflicts of interest that may impede a full commitment to delivering value for money by requiring the presence of independent directors on the board of authorised fund managers (AFMs). The FCA is proposing a rule requiring AFMs to appoint a minimum of two, and least 25%, independent members to its board. The regulator is also proposing rules limiting the tenure of such independent members at any one firm (although not limiting the total number of independent directorships an individual can hold at one time). Unsurprisingly, such independent directors cannot be a current employee or receive remuneration from the firm, nor can they have worked for or been compensated by the firm during the previous five years.

While firms have concerns around appointing qualified individuals for these positions, the FCA's proposals will prove less disruptive than those set out in the interim report. The FCA had been considering requiring majority board independence or requiring firms to create an additional governance body.

But sequencing, transitional arrangements and timing will be important. Firms will be devising methodologies to assist with value-for-money assessments which will need oversight and challenge from independent directors. Equally the new SMF to act in the best interests of investors will be personally accountable for the appointment of independent directors and the value assessment, but we do not yet know when the FCA's proposals to extend the SM&CR to all regulated firms will be implemented – the FCA has so far only said it will be some time during 2018.

Targeted reforms

The FCA is proposing reforms to how funds treat 'box profits' and their ability to switch investors from one share class to another.

Fund managers have argued that they are unable to address the regulator's concerns that some retail investors in authorised funds are holding more expensive share classes even though cheaper, but otherwise identical, classes in the fund are available. This is because the FCA requires that fund managers obtain express permission from investors before moving them to more suitable share classes.

Consequently, the FCA is proposing to allow a fund manager to undertake a mandatory conversion if:

- such power is set out in the prospectus
- the manager has made all reasonable attempts to inform unit holders
- the manager is satisfied the holder will not be negatively affected by the switch.

The FCA has also banned managers from making money from the acquisition and redemption of dual-priced fund units where they buy units at a lower offer price and then sell them to investors at the higher bid price. While the regulator has not banned such profits when the units are held by the manager for a period of time and subject to profit or loss making valuation fluctuations, the manager will need to provide additional disclosure for such activities.

Next steps

In the short term, firms should engage with the regulator, as a number of the most important proposals are open for consultation and so firms have an opportunity to engage with the regulator on the final form they will take. But where the FCA has set out a clear direction of travel, firms should begin to plan for new rules. For instance, they should prepare for changes around independent directors, increased 'value for money' disclosure, box profits and share class switching.

Long term, though, the outlook is less rosy. The final report lays out an aggressive roadmap of future proposals. For example, the FCA announces plans to consult on an approach to benchmarks whereby managers must explain their reasons for not using a benchmark, and present past performance against the most ambitious target set out for investors. Since one of the core findings of the market study was that neither passive nor active fund managers consistently

outperform benchmarks, the regulator believes these proposals will help investors accurately gauge fund performance.

The scope of the asset management market study has expanded significantly since the original terms of reference. It has directly spawned a separate consultation on investment platforms and will likely lead to a CMA referral for investment consultants and a recommendation that HMT bring consultants within the regulatory perimeter. The market study also provokes potential read-across to substitutable insurance products, and poses a genuine and far-reaching challenge to legacy commission payments to distributors.

The terms of reference for the FCA's investment platform market study extend beyond investment platforms per se and capture the use of such platforms by intermediaries as well wealth managers and other entities that offer similar services or products online. The FCA has also signalled in the investment platform market study terms of reference an interest in looking at distribution more broadly, and so all firms involved in the investment sector should look to engage with this review. The regulator plans to publish the interim report for this study in summer 2018.

Overall, the market study final report shows how the asset management industry can work together with the FCA to reach more pragmatic solutions to market issues. But firms must remember that competition in the sector continues to be an important and evolving area of focus for the FCA, and the regulator's plans to deliver better value for money for investors are far from complete.

Cross sector announcements

In this section:

Regulation

Brexit

Brexit: 'Big task ahead' for FCA

The FCA reflected on its activities and performance during 2016/17, in its *Annual Report and Accounts 2016/17* on 5 July 2017. On Brexit, the FCA says it's providing impartial technical advice to the Government to support the exit negotiations and related legislative change, including on the Repeal Bill. FCA Chairman John Griffith-Jones says the conduct regulator has a 'big task ahead' in preparing amendments to its rules to give effect to Brexit. He adds that further ahead, the FCA may need to boost its capability to design its own policies independently from the EU.

The FCA also published annual reports on *Competition*, *Diversity*, *AML* and *Enforcement annual performance account*.

Bailey sets out post-Brexit vision

Andrew Bailey, Chief Executive of the FCA, set out his views on the importance of an open trading relationship between the UK and EU post-Brexit, in a *speech* on 6 July 2017. In his view, Brexit should not undermine the openness between the UK and EU. He believes the UK should pursue an arrangement of equivalence and mutual recognition to allow reciprocal access for financial services firms post-Brexit. He cited the equivalence arrangements in MiFID II as an example of how the model could function. Bailey believes that post-Brexit there should be four features of regulatory cooperation: comparability of rules, supervisory co-ordination, exchange of information and a mechanism to deal with differences between the UK and EU. Bailey is also of the view that transitional arrangements are important to ensure a smooth path to the new arrangements.

Bailey set out the FCA's priorities for Brexit. He said the FCA is focusing on three broad areas: providing technical advice to the Government, working with the firms it supervises to understand their plans for post-Brexit arrangements, and working with the Government on the Repeal Bill legislation.

Government publishes Repeal Bill

The Government published the *European Union Withdrawal Bill* (known as the Repeal Bill) on 13 July 2017. The Repeal Bill sets out the Government's intention to repeal the European Communities Act 1974, ending the supremacy of EU law in the UK. The Government says it wants to ensure as much certainty and continuity as possible and so the Bill will also convert existing direct EU law (including EU regulations and decisions) into UK law as they apply in the UK at the date of exit. It will also preserve the laws that have been made in the UK to implement EU requirements (such as laws made to implement EU directives).

The Repeal Bill does not make any specific reference to financial services issues but HMT, the PRA and FCA are undertaking a process of considering what aspects of EU financial services legislation will need to be amended to bring it into UK law.

Lords examine post-Brexit FS regulation

The EU Financial Affairs Sub-Committee of the House of Lords launched an *Inquiry into financial regulation and supervision following Brexit* on 24 July 2017. It seeks to examine how financial services regulation can evolve following Brexit to ensure financial stability. In particular the committee intends to consider:

- the scope for the UK to adapt its own regulatory framework
- equivalence and alternatives to equivalence
- differences between UK, EU and international regulatory frameworks
- areas of potential beneficial divergence from the EU regulatory framework
- how to best manage regulatory divergence and shared supervisory concerns, including dispute resolution.

The committee plans to hold public hearings in September 2017 and aims to report with recommendations 'in late 2017 or early 2018'. It seeks evidence on questions it poses and the deadline for written submissions is 29 September 2017.

Capital and liquidity

Developing non-performing loans reduction policies

The ESRB published its policy proposals for *Resolving non-performing loans in Europe* on 11 July 2017. The ESRB notes the high level of non-performing loans (NPLs) of 'around €1tn' at the end of 2016, representing 5.1% of total loans of the EU banking sector. This is higher than other advanced economies such as the US and Japan, although with marked differences across the EU. The ESRB considers that such high levels of NPLs are a threat to macroprudential and financial stability as well as reducing lending capacity to the real economy and slowing economic recovery.

Its short-term proposals include strengthening efforts to improve banks' NPL management, monitoring banks' NPL reduction strategies and setting targets for NPL reduction. In addition, it suggests that policymakers develop blueprints for asset management companies to facilitate NPL disposals and sales, together with EU data standards for NPLs to enable easier due diligence processes.

In the medium term, the ESRB suggests that authorities address the structural impediments to the resolution and disposal of NPLs including the development of a servicing industry. For the longer term, its suggestions include that authorities consider encouraging the set-up of NPL trading platforms.

Updating mapping of CRA ratings

The ESAs proposed *Draft ITS amending Implementing Regulation (EU) 2016/1799 on the mapping of External Credit Assessment Institutions' credit assessments under Article 136(1) and (3) of CRR* and a corresponding Solvency II related *Draft ITS* on 18 July 2017.

The existing ITS map the credit assessment of credit assessment institutions recognised by ESMA to credit risk for the purposes of calculating capital requirements. Since those ITS came into force in October 2016 ESMA has withdrawn one credit assessment institution and added five more. The two draft ITS that the ESAs are consulting on effect these changes. There are no changes to the mapping for the other 25 credit assessment institutions covered in the existing ITS. The consultations close on 18 September 2017.

ESAs consult on credit assessment scale

The ESAs published *Consultation: Draft ITS amending Implementing Regulation (EU) 2016/1800 on the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC* on 18 July 2017. It sets out proposed allocations of credit ratings to credit quality steps for newly recognised external credit assessment institutions. It does not propose any changes in existing allocations.

Adjusting Pillar 2A policies for clarity

The PRA consulted on *CP12/17 Pillar 2A capital requirements and disclosure* on 12 July 2017. It is proposing adjustments to its policies to provide greater clarity, consistency and transparency to its approach.

The PRA intends to set Pillar 2A capital as firm-specific formal capital requirement rather than currently as individual guidance. But the PRA indicates that this does not change its current approach to its overall financial adequacy rule, that it expects firms to maintain their Pillar 2A requirement at all times. It also updates its terminology, introducing the term 'Total Capital Requirement' (TCR) to refer to the sum of Pillar 1 and the Pillar 2A requirement. This replaces the current term 'Individual Capital Guidance' (ICG).

The PRA proposes to set an expectation that firms should disclose their TCR at the highest level of consolidation in the UK. If a firm is not part of a UK consolidation group it expects disclosure of the individual entity TCR. Currently the PRA permits disclosure of the ICG to third parties. It notes that some firms publicly disclose their ICG but the majority don't. Its current policy is for firms not to disclose individual components of Pillar 2A or the level of the PRA buffer, unless required to do so by law or with prior PRA consent. This remains unchanged. The PRA also clarifies its approach to the calibration of the Pillar 2A requirement at the individual entity level where a firm is part of a UK consolidation group, taking a proportionate approach where appropriate.

The PRA plans to apply these changes from 1 January 2018. The consultation closes on 12 October 2017.

Client assets

IOSCO assesses client asset protection

IOSCO published its final report *Thematic Review of the Adoption of the Principles set forth in IOSCO's Report: Recommendations Regarding the Protection of Client Assets* on 27 July 2017. IOSCO intended that its report, published in 2014 and containing eight principles, would assist regulators in enhancing their supervision of intermediaries holding client assets. It applies not only to the regulation and oversight of intermediaries, but also the conduct of intermediaries, including their responsibilities and relationship with clients.

IOSCO's review covers 36 jurisdictions out of an IOSCO membership of 115, including 15 G20 jurisdictions. It shows that the majority of jurisdictions have a client asset protection regime aligned with the

principles, with EU countries, the US and Canada having the highest level of application.

It reports that principle three – appropriate arrangements to safeguard clients' rights in client assets, with respect to the selection of third parties with whom client assets are placed – is the least well aligned of the principles by the jurisdictions surveyed.

CMU

Clarifying prospectus rules

As part of the wider CMU agenda, ESMA published a series of consultative draft technical standards on 6 July 2017. Through the consultations, ESMA aims to make the prospectus regime more proportionate and thereby strengthen EU public securities offerings.

In its *Consultation Paper on the format and content of the prospectus*, ESMA proposes a number of tailored changes for all securities offered to the public or admitted to trading on a regulated market, such as removing the requirement that auditors provide a report on profit forecasts. This consultation also covers the draft rules for the new Universal Registration Document which will provide issuers with improved opportunities for 'shelf offerings' where companies can offer additional rounds of securities offerings without having to submit multiple prospectuses.

In its *Consultation Paper on EU Growth Prospectus*, ESMA provides a proposed framework for a lighter, more proportionate disclosure document for small and medium-sized enterprises. The proposal identifies the minimum disclosure requirements, their order of presentation and the format and content of the summary.

Finally, in its *Consultation paper on scrutiny and approval* ESMA outlines its expectations for the criteria NCAs should use when reviewing the completeness, comprehensibility and consistency of the prospectus.

The consultations close for comments on 28 September 2017.

Proposing an EU investor-state mediation regime

Recognising the importance of coherent alternative dispute mechanisms for cross-border investment, the EC may create a new pan-EU legal framework for investment mediation. The EC published an *inception impact assessment* on 25 July 2017 as part of its wider CMU initiative.

Investors currently rely on arbitration provisions in bilateral investment treaties (BITs) between EU Member States to challenge their treatment by Member State authorities. Given that use of arbitral panels under such treaties is deemed incompatible under EU law because of the lack of judicial review for disputes between purely EU parties, the EC is considering establishing an alternative framework. Since intra-EU arbitration accounted for 20% of investor-state arbitration globally, and as intra-EU investment is on the decline, the EC considers this an important issue.

The most substantive solution proposed by the EC in its inception report is creating an EU legal framework for mediation and creating dedicated mediation agencies either in individual Member States or at the EU level. As a non-legally binding mechanism voluntarily entered into, mediation presents some of the efficiency and self-tailoring benefits of arbitration while still being compatible with EU law. But at the moment, diverging rules and approaches across Member States has resulted in under-utilisation of mediation.

With the preliminary impact assessment completed, the substantive impact assessment will follow as an identified CMU priority item.

Conduct

FSB reports progress to G20 Leaders

The FSB published a *Progress report for G20 Leaders on Reducing misconduct risks in the financial sector* on 4 July 2017. It considers recent actions taken and recommended by the FSB and the standard-setting bodies aimed at reducing misconduct risks in the financial sector. It considers measures to strengthen financial institution governance, actions directed at authorities' capacity to address misconduct risk and actions directed at improving market structures and practices. It includes a table of further steps that are planned to reduce misconduct risk and strengthen trust in the financial system.

Competition

CMA gives account of its work

The CMA published its *Annual Report and Accounts 2016/2017* on 12 July 2017. In its role in enforcing competition law, it imposed fines totalling £100m and disqualified a company director, underlining the focus being placed by regulators on personal responsibility. Among the CMA's final reports published following market studies were the results of its investigation into the retail banking sector, which resulted in an extensive package of remedies. The CMA also published an interim report on its study of digital comparison tools.

Alongside its annual report, the CMA published its *Impact Assessment 2016/2017* where it reports on its financial benefit to consumers. It estimates that its work in the areas of competition law enforcement, consumer protection enforcement, merger control and market studies and investigations has resulted in benefits to consumers in excess of £3bn since its inception in 2014. This compares to average annual running costs of £66m.

CMA streamlines market investigations

The CMA announced a new approach to market investigations in *Updated guidance on the CMA's approach to market investigations – Consultation response,*

published on 5 July 2017. Its *Market Studies and Market Investigations: Supplemental guidance on the CMA's approach,* published alongside its consultation response, reflects the changes.

The CMA expects the following changes to result in a more streamlined process:

- earlier assessment of potential remedies to competition issues
- reduction in reporting stages including the consolidation of provisional findings and provisional remedies in to a Provisional Decisions Report
- earlier engagement with stakeholders through hearings
- inclusion of market investigation preparatory work as part of market studies work
- an option for intervention in the investigative process by the CMA Board in an advisory role.

The revised approach means that investigations will be completed within 18 months. This reflects legislative changes to the Enterprise Act 2002 by the Enterprise and Regulatory Reform Act 2014 which included a requirement to reduce the time limit of market investigations from two years to 18 months.

Do competition remedies penalise consumers?

The FSCP challenged competition authorities that remedies which rely on consumer engagement to drive competition are less effective than firms doing more to make switching easier, in a *position paper* on 17 July 2017.

Research commissioned by the FSCP found that the expectations placed on consumers by competition authorities are unrealistic given the complexity of market products and the way comparison tools are constructed. The FSCP considers that competition authorities must do more to address firms' exploitation of consumers' behavioural biases, such as inertia, and ensure that firms do not penalise customer loyalty. It also calls for the FCA to ensure that price comparison website and switching services work in favour of consumers, and to develop consumer outcomes measures that support competition. The FSCP welcomes feedback on the position paper.

FCA reveals 'SM&CR for all' vision

The FCA proposed to extend the SM&CR to all FCA-regulated firms on 26 July 2017. In *CP17/25: Individual Accountability: Extending the SM&CR to all FCA firms*, the FCA puts forward a three-tiered approach based on firms' level of risk and complexity. The 350 largest asset managers, intermediaries and insurance brokers, credit firms and non-bank lenders will be subject to the 'enhanced regime', which is most similar to the existing SM&CR. Other firms will be subject to the baseline 'core regime', while a few firms (such as sole traders or internally managed AIFs) will experience a lighter touch 'limited regime'.

The consultation closes on 3 November 2017. The FCA plans to consult later this year on technical changes relating to the extension of the SM&CR, such as how firms will transition into the new regime. It then intends to issue a policy statement next year, and for the rules to come into force at an as yet unspecified date in 2018.

For more detailed analysis of what the proposed changes will mean for firms, see our feature article on p. 3.

Consumer credit

Managing remuneration risks

The FCA published *CP17/20: Staff incentives, remuneration and performance management in consumer credit* on 4 July 2017. It sets out how consumer credit firms should manage risks related to how they pay and manage the performance of their staff.

The FCA reviewed the incentives and performance management policies and practices for sales and collection staff at 98 consumer credit firms. They found that high risk financial incentives and/or performance management practices are likely to encourage high-pressure sales or collections, inadequate or ineffective controls, and/or a lack of appreciation of the risks their incentives pose and the controls needed to address them.

The FCA is therefore keen to see how firms are managing risks arising from their incentives and performance management. The consultation closes on 4 October 2017.

PRA stressed about consumer credit

The PRA asked firms to confirm the resilience of their consumer credit portfolios on 4 July 2017. In a *statement* summarising findings from a review, it highlights weaknesses in asset quality and underwriting practices for consumer credit products.

The PRA considered credit cards, unsecured personal loans (UPL) and motor finance lending in its review and found evidence of a relaxed approach by firms to risk management. It is concerned that dependency on 0% promotional offers on credit cards results in poor forecasting which could lead to credit losses; for UPLs it believes that some long-term high-value loans could increase the prudential risk for lenders. And in the motor market, the PRA believes the popularity of Personal Contract Purchase creates explicit risk exposure in relation to the guaranteed future value (GFV) of the vehicle.

The PRA has asked relevant firms with material exposures to consumer credit to confirm they ensure:

- credit scoring adequately captures medium-term risk
- stress-testing approaches don't under-estimate potential downturn risk
- loss leader segments are explicitly reported and monitored
- buffers are applied in relation to the returns from new products
- FCA CONC rules are interpreted and applied prudently across the product range
- appropriate affordability checks are undertaken
- suitable governance arrangements are in place.

Firms must demonstrate that they have made appropriate assumptions in relation to the value of new business and expected income for credit cards, that underwriting assessments for UPLs take account of consumer indebtedness and motivation and that GFVs are set prudently. Firms' responses to supervisors must also include evidence of board approval for their approaches. The BoE plans to bring forward the assessment of stressed losses on consumer credit lending in the Bank's 2017 Annual Cyclical Scenario (ACS) stress test for major firms. The PRA will work with firms not captured by the ACS stress test.

FCA proposes consumer credit affordability changes

The FCA clarified its rules and guidance on creditworthiness and affordability in consumer credit, in *CP17/27: Assessing creditworthiness in consumer credit* on 31 July 2017. After reviewing existing affordability processes, the FCA found that most are appropriate, but practices vary considerably. It also found evidence both of practices that were too lenient and those that were overly stringent.

The FCA is therefore seeking to clarify rules in respect of:

- the distinction between affordability and credit risk
- the factors that should be used when designing affordability checks that are appropriate and proportionate in relation to individual lending decisions
- the appropriate role of income and expenditure information in lending decisions
- expectations around firms' policies and procedures which should focus on outcomes, having regard to the risks of the credit and customer characteristics.

But the FCA does not propose to issue prescriptive guidance, expecting firms instead to assess creditworthiness proportionately and in relation to a customer's individual circumstances.

As well as creating some new affordability rules, the FCA introduces the concept of 'affordability risk'. Its new definition of this term sets out the factors that firms should consider when assessing whether credit is likely to be affordable for the borrower.

The proposals apply to all consumer credit agreements but exclude non-commercial loans (where the lender is not acting in the course of a business) and small value, restricted use credit loans. Certain pawn broking agreements are also exempt, as are unarranged overdrafts.

The FCA invites responses to its consultation by 31 October 2017. Impacted firms should review their policies and procedures in line with the proposed new definitions and rule changes.

FCA highlights new concerns in HCSTC

The FCA published its *Feedback Statement (FS17/2) on High-cost credit and review of the HCSTC price cap* on 31 July 2017 following its Call for Input in November 2016. It also published a *Technical Annex 1: CRA data analysis of UK personal debt* focusing on high cost credit (HCC) products, a *Price cap research summary report* on its survey of consumers' experiences of HCSTC products and a *Price cap research technical report*.

The FCA concludes that the price cap on HCSTC should stay at its current level and plans a review in three years' time. It found the cap improved outcomes for consumers but plans to keep a close eye on implications for consumers moving to longer-term loans.

Looking more broadly at the HCC sector, the FCA sees credit ratings for HCC consumers worsening as they continue using HCC products. To address the problem, the FCA will focus the next stage of its review on overdrafts, rent-to-own (RTO), home-collected credit and catalogue credit.

The FCA raises a red flag on unarranged overdrafts, as it questions whether they have any place in a modern banking market. It makes clear its intention to make changes in this market, saying that maintaining the status quo is not an option.

For the RTO sector, the FCA will review whether more affordable alternatives exist and whether there are constraints on new or existing credit providers entering the market. It has similar concerns that the business model for home-collected credit may incentivise long-term debt. While on catalogue credit, its focus will be on arrears and lack of transparency around interest-free periods.

The FCA plans to issue a consultation to address its concerns about HCC products in spring 2018.

Consumer issues

Tightening consumer rights law

The EC *consulted* on changes to consumer law on 5 July 2017. Prior to publishing the consultation, the EC conducted a fitness

check of consumer and marketing law and evaluated the Consumer Rights Directive. The EC seeks views on its proposals to raise awareness and improve enforcement of consumer law rights and redress including:

- greater transparency around parties to online contracts
- extending consumer rights where consumers provide data instead of paying with money
- redress for consumers harmed by unfair commercial practices
- more effective financial penalties to tackle breaches of consumer laws
- simplifying some rules and requirements.

The consultation takes the form of a short survey. Published alongside the consultation, an *Inception Impact Assessment* considers the likely impact of the planned legislative proposals. The consultation closes on 8 October 2017.

Financial crime and enforcement

Supervising AML professional body supervisors

HMT published a further *AML supervisory review: consultation* accompanied by draft regulations, *The Oversight of Professional Body Anti-Money Laundering Supervision Regulations* 2017 on 20 July 2017. This follows an earlier *consultation and call for information* in March 2017 seeking views on the mandate and powers of the new Office for Professional Body AML Supervision (OPBAS), to be hosted by the FCA. This concerns the AML supervision of Professional Body Supervisors (PBSs) by the FCA. PBSs comprise 22 legal, accounting and other professional bodies.

The Government seeks views on whether the draft regulations 'deliver on its intentions'. It aims to set up OPBAS to help ensure PBSs comply with their obligations under the Money Laundering Regulations 2017 (SI 2017/692) concerning their supervision of AML compliance of their members. HMT also provides feedback on the earlier consultation. The draft regulations cover the information, direction and enforcement powers of OPBAS. The consultation closes on 17 August 2017.

Setting AML professional body supervisor expectations

The FCA published the guidance consultation *GC17/7 Office for Professional Body AML Supervision (OPBAS): a sourcebook for professional body supervisors (PBSs)* on 24 July 2017. When the *oversight regulations*, currently in draft, come into force, OPBAS becomes responsible for overseeing the adequacy of AML supervision by PBSs of its members. OPBAS is to be created within the FCA.

The FCA explains that OPBAS's objective is to ensure PBSs meet the standards expected of them when carrying out their AML supervision. In addition, it seeks to encourage collaboration and information sharing between PBSs, statutory supervisors, law enforcement agencies and others. The FCA intends the draft sourcebook to aid this by making clear OPBAS's expectations of PBSs. The coverage of the sourcebook includes governance, risk-based supervision, information sharing, guidance for members and enforcement.

The FCA plans the guidance to take effect from 1 January 2018. The consultation closes on 23 October 2017.

The FCA also published a letter to the professional body supervisors on *OPBAS* on 24 July 2017. The letter provides a summary of the approach that OPBAS intends to adopt once it is operational.

FCA finalises PEPs guidance

The FCA provided feedback in *FG17/6: The treatment of politically exposed persons for AML purposes* on 6 July 2017 on its consultation about the treatment of politically exposed persons (PEPs).

AMLD4, transposed into the UK by Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, requires the FCA to provide guidance on performing due diligence on PEPs. The FCA confirms that all customer due diligence is now required to be on a risk-sensitive basis in relation to PEPs.

In changes to the guidance following the consultation, the FCA clarifies that while UK PEPs are now caught under the regulations, they are to be treated as low risk. Specific reference is made to siblings of PEPs who as a family member of a PEP are also subject to checks. The FCA sets out that all risk factors must be considered in determining the risk posed by a PEP and firms must have documented evidence of checks made.

Financial stability

Warning on shadow banking complacency

The FSB published its *Assessment of shadow banking activities, risks and the adequacy of post-crisis policy tools to address financial stability concerns* on 3 July 2017. The FSB highlights that the aspects of shadow banking considered to have contributed to the financial crisis have declined significantly and generally no longer pose financial stability risks. It attributes this in part to regulatory reforms, changing risk appetite and rejection of particular products and funding models.

At present the FSB identifies no other new financial risks from shadow banking that warrant regulatory action. But it notes that the size and considerable growth of collective investment vehicles, where accompanied by significant liquidity transformation, could prove disruptive in market stress. And the FSB points to the need to act on the recommendations to

address the structural vulnerabilities from asset management activities it identified in its January 2017 *report.*

The FSB warns that shadow banking activities are bound to evolve over time and that there is more to be done to improve the more forward-looking identification of potential financial stability risks. And it reports the FSB member authorities' agreement of measures to address residual gaps relating to monitoring, data collection and policy together with the enhancement of system-wide oversight.

ESRB's contributions in 2016

The ESRB published its *Annual Report 2016* on 28 July 2017. The ESRB identifies four main risk areas as threats to EU financial stability. These include the reversal of risk premia and weakness in the balance sheet of financial firms. It also issued warnings to eight Member States, including the UK, on the medium-term vulnerability of the residential real estate sector.

Working closely with the EC, the ESRB contributed to the review of the EU macroprudential policy framework and the macroprudential framework for banking. It also organised conferences and workshops on macroprudential policy, with discussions centred on the low interest rate environment, standardised OTC derivatives and scarcity of safe assets.

Market infrastructure

Lobbying for third country FMI oversight

ESMA confirmed its views on the future of the EU's third country regime in a *letter* to the EC dated 7 July 2017. ESMA supports recent proposals by the EC to develop the EU's approach to third countries, including increasing access to information for third country authorities and improved monitoring of developments in third country legal and political frameworks.

ESMA notes that the UK's exit from the EU leaves a significant number of market infrastructures and corresponding activity that will be located outside the EU but which will remain of 'utmost importance to EU financial markets'. ESMA also strongly supports the enhanced role for EU authorities in overseeing certain CCPs located in third countries, as proposed in the EC's recent *amendments to EMIR*. ESMA encourages the EC to consider similar third country regime proposals for other FMIs and key market players including CRAs, TRs, benchmarks and possibly trading venues and data providers.

Accessing FMIs by firms in resolution

The FSB published *Guidance on Continuity of Access to FMIs for a Firm in Resolution* and *FMI-Annex to the FSB's Key Attributes of effective resolution regimes* on 6 July 2017. It had previously found that continuity of access could be prejudiced by FMIs retaining a wide discretion to terminate or suspend access for a firm in resolution. The FSB now sets out in greater detail arrangements to support continuity of access from the perspective of the providers of critical FMI services, the users of those services and the supervisory and resolution authorities for both providers and users.

FMI providers must clarify their rules and contractual arrangements and communicate their expectations to users. They must also regularly test the effectiveness of their rules and procedures in a resolution scenario. But the FSB recognises that a provider can stop continuity of access if a user doesn't meet its obligations under the FMI's rules or contractual arrangements.

FMI users should prepare contingency plans for continuity of access to critical FMI services and address any financial and liquidity requirements for maintaining access. They should also inform resolution authorities about their reliance on critical FMI services and provide them with up-to-date mapping of providers and key services. The annex to the guidance sets out indicative information requirements that firms should provide to resolution authorities.

Finally, the FSB notes the key role that supervisory and resolution authorities for FMI providers and users must play in facilitating continuity of access. They should do this by sharing information and setting expectations for the various parties involved.

Providing CCP resilience and recovery guidance

The Committee on Payments and Market Infrastructures (CPMI) and IOSCO published the *Resilience of CCPs: Further guidance on the Principles for Financial Market Infrastructures (PFMI)* and the *Recovery of FMIs* on 5 July 2017. The CPMI and IOSCO intend that both the resilience and the recovery guidance should be read in conjunction with the *PFMI.* They do not impose additional standards beyond those set out in the PFMI. These reports coincide with FSB guidance on CCP resolution and resolution planning issued on the same day.

The resilience guidance focuses on financial risk management for CCPs, in particular on governance, credit and liquidity stress testing, coverage, margin, and a CCP's contribution of its financial resources to losses. The CPMI and IOSCO suggest that CCPs check their rules, procedures, governance arrangements and risk management framework and make sure they're consistent with the resilience guidance by the end of 2017.

For the recovery guidance, the CPMI and IOSCO update their 2014 guidance to clarify: operationalisation of recovery plans, replenishment of financial resources, non-default related losses and transparency with respect to recovery tools and how they would be applied.

The CPMI and IOSCO state that FMIs and relevant authorities should treat the

updated recovery guidance as supplemental guidance on, and a menu of tools for, alignment with the PFMI.

Providing CCP resolution guidance

The FSB published final *Guidance on CCP resolution and resolution planning* on 5 July 2017.

The FSB intends the guidance to assist authorities in their resolution planning and to promote international consistency. It sets out the powers that resolution authorities need to maintain the continuity of critical CCP functions. It also provides details on the use of loss allocation tools and the steps authorities should take to develop resolution plans and establish crisis management groups for relevant CCPs.

The FSB's latest guidance complements (but does not replace) its *Key Attributes of Effective Resolution Regimes for Financial Institutions* and guidance in the *FMI Annex* to the Key Attributes. The FSB consulted on the guidance in February 2017 and on 24 July 2017 published an *overview of responses to the consultation.* Based on further analysis and experience of CCP resolution planning, the FSB aims to decide by the end of 2018 whether it needs to issue any additional guidance.

ESRB offers CCP recovery and resolution thoughts

The ESRB delivered an *Opinion on a central counterparty recovery and resolution framework* on 25 July 2017. It analyses the EC's draft legislative proposals on CCP recovery and resolution published in April 2017. The ESRB supports the EC's plans but makes a number of suggestions to enhance proposals:

- recovery actions harmonised by secondary legislation
- bolstering financial stability powers of CCP supervisory authorities
- completion of impact assessment and analyses of existing financial resources
- additional resolution tools and clarification of their use
- clearer cross-border cooperation and input from bank resolution authorities
- additional clarification for suspension of clearing obligations and use of public financial support.

The ESRB also provides thoughts on composition of CCP supervisory colleges. It asks the EC to consider these in line with recent proposals on changes to CCP supervision and location policy.

FCA warns on LIBOR transition

Andrew Bailey, the FCA's Chief Executive, delivered a speech on *The future of LIBOR* on 27 July 2017. He argued a lack of active underlying markets for LIBOR benchmarks creates the need to transition to alternative reference rates. Bailey noted panel bank support for LIBOR expires at the end of 2021 and advised forward planning to ensure a smooth transition to alternate reference rates.

MiFID II

Calculating bond liquidity under MiFID II

ESMA issued *MiFID II Transitional Transparency Calculation* (TTC) on 3 July 2017. It also published *Q&As* which are used to determine waivers and deferrals of pre- and post-trade transparency requirements for non-equity instruments.

MiFID II RTS 2 classifies bonds as liquid instruments. Consequently, these TTCs assess liquidity and calculate large-in-scale (LIS) and size-specific to the instrument (SSTI) for structured finance products, emission allowances and derivatives only. ESMA plans to publish TTCs for LIS and STTI by bond type in August 2017. Liquidity assessments for individual bonds and TTCs for equities and ETFs are due in early December 2017.

FCA issues sixth MiFID II consultation

The FCA issued *MiFID II Implementation – Consultation Paper (CP) VI* on 3 July 2017. The FCA seeks industry comment on a proposal to bring recognised investment exchanges operating MTFs and OTFs within the scope of the FSCS. Further proposals include Handbook changes to the Decision Procedure and Penalties Manual, the Enforcement Guide, Prospectus Rules and the Glossary required as a consequence of HMT's final legislation implementing MiFID II in the UK. Comments are due by 7 September 2017. The FCA plans to finalise rules covered in this CP by November 2017.

Finalising the UK MiFID II regime

The FCA issued *MiFID II Implementation – Policy Statement (PS) II (17/14)* on 3 July 2017.

The FCA provides responses to all five of its consultation papers on MiFID II implementation and outlines its final rules on the majority of the provisions. Notably, the FCA made what it called 'significant policy changes' to its proposals on research, client classification, best execution, appropriateness and taping conversations.

The FCA specifies the areas where its requirements exceed the minimum standards in MiFID II, which result from it applying MiFID II to a wider range of firms, maintaining current UK regulatory standards and as a consequence of its new policy decisions.

Where necessary, firms should have submitted applications for authorisation and or variations of permission by 3 July 2017. The FCA emphasises that it cannot guarantee that applications received after that date will be completed in time. It advises firms that file late to implement contingency plans, in case they do not receive authorisation before MiFID II goes live on 3 January 2018.

EC finalises RTS

The EC published a final *RTS* on 11 July 2017, regarding the proposed acquisition of a qualifying holding in an investment firm under both MiFID and MiFID II. It includes an exhaustive list of information a proposed acquirer must include with its notice to NCAs assessing the acquisition. On the same day, the EC published a draft *ITS* and *annexes* with standard forms, templates and procedures for NCAs consulting with one another upon notification of a proposed acquisition of a qualifying holding in an investment firm.

ESMA consults on suitability guidelines

ESMA consulted on guidelines *on certain aspects of the MiFID II suitability requirements* on 13 July 2017. ESMA intends to encourage convergence in the implementation of suitability requirements under MiFID II, building on and refining its 2012 suitability guidelines.

ESMA takes into account the effect of behavioural finance on the assessment process, discusses the application of requirements to automated advice and considers the interaction with product governance requirements. ESMA welcomes comments before 13 October 2017, and expects to issue a final report in the first half of 2018.

ESMA outlines MiFIR transaction reporting instructions

ESMA published *Technical Reporting Instructions for MiFIR Transaction Reporting* on 17 July 2017. It describes elements of the transaction reporting interface to be built between competent authorities and submitting entities Member States. ESMA covers:

- processes for transaction data reporting
- technical formats for data submission
- data quality controls to be applied to each transaction report.

Handling of errors, cancellations, technical protocols and an overview of ISO 20022 messaging are also explored in detail by ESMA.

Pensions

DWP takes forward pension freedom tweaks

The Department for Work & Pensions (DWP) confirmed proposed changes to rules designed to protect consumers under the pension freedoms, in *Government response: Consultation on valuing pensions for the advice requirement and introducing new consumer protections* on 6 July 2017. The Government will require ceding pension schemes to send members with safeguarded flexible benefits a personalised risk warning before they proceed to transfer, convert or flexibly access their savings. It will also simplify the process for assessing the value of members' safeguarded benefits (members with over £30,000 in safeguarded benefits are required to take financial advice before accessing their savings flexibly).

In minor changes to the previous consultation, it separates the draft regulations into two statutory instruments. The draft regulations will be laid before Parliament, and subject to Parliamentary approval, come into effect on 6 April 2018. DWP recommends that schemes start taking the necessary actions to prepare for the requirements now.

ECB proposes pension fund reporting requirements

The ECB consulted on statistical requirements for pension funds on 26 July 2017. Through *Regulation of the ECB on statistical reporting requirements for pension funds*, the ECB hopes to increase transparency and data comparability in the sector, so that supervisors can better understand market risks.

The consultation closes on 29 September 2017.

Retail products

ESAs publish PRIIPs KID Q&As

The Joint Committee of the ESAs published *Questions and answers (Q&A) on the Packaged Retail and Insurance-based Investment Products (PRIIPs) KID* on 4 July 2017. It has collated this initial Q&A document to promote common supervisory approaches and practices in the implementation of the KID requirements for PRIIPs. It includes answers to questions linked with the presentation, content and review of the KID, as well as the methodologies underpinning the risk, reward and costs information. The ESAs plan to continue to answer further questions and publish them.

PRIIPs with environmental or social objectives

The ESAs published *Joint Technical Advice on the procedures used to establish whether a PRIIP targets specific environmental or social objectives* on 28 July 2017. The ESAs clarify the disclosure requirements for such vehicles under PRIIPs.

Firms will need to clearly specify that environmental and social objectives are being sought and the strategy to achieve them. The ESAs confirm how this information should be presented in the KID as well as how risks to those objectives and appropriateness for various types of investors should be discussed. The ESAs also lay out a governance and monitoring framework but explain this can be primarily met by adherence to existing rules under MiFID II and investment fund regulations.

Supervision

BoE refreshes financial stability strategy

The BoE published its *Annual Report and Accounts 1 March 2016 – 28 February 2017* on 6 July 2017. The BoE reports that it agreed its financial stability strategy in June

2017 following a triennial review. As well as setting out guiding principles for the strategy, the BoE structures the strategy around three broad elements:

- establishing a rigorous baseline of resilience to protect the UK real economy
- ensuring the level of resilience adapts to the possible shocks the system might face
- enabling the system to absorb shocks if they occur, so it can continue to support the economy.

The BoE also reports that the Prudential Regulation Committee (PRC) replaced the PRA Board on 1 March 2017 and the PRA is now within the single legal entity of the BoE. This puts the PRC on the same legal footing as the MPC and FPC and means the PRA's legal status as a subsidiary of the BoE has ended. The BoE says the changes maintain the PRA's operational independence, while promoting the sharing of knowledge, expertise and analysis throughout the BoE. The PRA's statutory objectives which underpin its forward-looking, judgement-based approach to supervision remain unchanged.

PRA outlines 2017/18 priorities

The PRA sets out its priorities in its 2017/18 business plan included in its *Annual Report and Accounts: 1 March 2016-1 March 2017* published on 6 July 2017. Brexit features heavily as the regulator prepares to implement the UK regulatory framework following the UK's departure from the EU. But it plans to ensure that Brexit does not crowd out other priorities. The PRA intends to progress a number of other initiatives including facilitating competition, building a framework to support operational resilience, implementing ring-fencing and refining its approach to insurance supervision.

The PRA plans to review the UK's regulatory regime to consider what amendments may be necessary to ensure it is fit for purpose post-Brexit. Despite Brexit, it expects to continue to be active and influential internationally. The PRA also aims to sharpen its focus on firms' operational resilience. It is concerned by the threat from cyber-attacks and other operational risks. The PRA signals that firms, particularly larger systemically significant firms, should prepare to have their operational resilience and ability to continue to provide critical economic functions stress tested in the coming months. In addition, the PRA plans, like a number of regulators globally, to assess the impact of FinTech on firms' business models.

It gives insurers, more specifically, much to consider. The PRA intends to continue embedding its judgement-based supervisory approach. But it indicates that adjustments to its approach to insurers may be forthcoming if 'appropriate and possible'. The PRA cites potential amendments to the risk margin in Solvency II (which would need to be delivered at the EU level), the matching adjustment and streamlining its approach to Solvency II authorisations. The PRA also plans to focus on the impact on insurers of 'lower for longer' interest rates as well as governance with the extension of the SM&CR to insurers now being finalised

PRA reports on competition

The PRA published its second *Annual Competition Report – 2017* on 6 July 2017 setting out progress in meeting its secondary statutory objective to facilitate effective competition. The PRA points to a number of measures including:

- amending the pillar 2A framework to allow more flexibility to reduce variable add-ons for firms using the standardised approach to credit risk
- facilitating IRB model applications from smaller firms
- easing access to the retail banking market through ongoing work on its New Bank Start-up Unit.

Looking forward, the PRA commits to undertaking a review of Solvency II requirements in areas where it has flexibility in implementation. It also intends to continue to embed considerations around competition into PRA policy and supervisory decision making. In addition, the PRA provides a summary of its competition-focused research activity. This includes using a newly-created database of historical regulatory returns data to examine competition in the deposit taking sector in the UK. The research shows competition was strong in the early 1990s and early 2000s but weakened noticeably in the period leading up to the financial crisis in 2007/08. Since then the picture is less clear with direct market interventions potentially distorting the landscape.

PRA identifies growing risks

Sam Woods, CEO of the PRA, gave a wide ranging speech *Looking both ways* charting the development of financial regulation in the UK and the current emerging supervisory risks the PRA has identified. Woods' speech, delivered on 10 July 2017, gives a historical overview of the development of supervision of banking, insurance and the building society sector in the UK.

As well as drawing on some lessons from history, the PRA is looking forward to emerging risks relating to the firms it supervises, he explains. Woods identifies a number of issues that may create risks to firms in the future. In particular the PRA is concerned about the challenges posed by Brexit, a recent increase in risk appetite in some firms and the potential for firms undertaking regulatory arbitrage in areas such as off-balance sheet leverage, funding structures and the treatment of liquid assets. Woods indicates that PRA supervisors will increasingly focus on these issues in future.

PRA finalises 2017/18 fees

The PRA confirmed *PS17/17: Regulated fees and levies: rates for 2017/18* on 6 July 2017. It updates supervisory statement *SS3/16 fees: PRA approach and application* and amends its rulebook via *PRA periodic fees (2017/18) and other fees instrument 2017.* Following CP4/17, the PRA confirms its Annual Funding Requirement (AFR) of £268.4m for 2017/18, an increase of £1.9m from the AFR it consulted on. The increase relates to revised pension costs that it signalled in its consultation but was unable to quantify at the time.

In addition to its ongoing regulatory activities costs, the AFR includes £5.4m of EU withdrawal costs and £14.7m of transition costs. The transition costs are the fifth and final year of the recovery of a proportion of the costs of establishing the PRA. The PRA also implements changes that further rebalance its funding approach so that a greater share of its funding comes from non-AFR sources. The objective of this is to ensure that PRA costs are borne by those firms which generate these costs. This includes the introduction of IFRS 9 implementation fees and changes to transaction fees and special project fees.

Transaction reporting

Clarifying internalised settlement reporting

ESMA published for consultation *Guidelines on Internalised Settlement Reporting under Article 9 CSDR* on 11 July 2017. Under CSDR, firms that settle securities transactions outside of securities settlement systems (known as settlement internalisers) are required to report quarterly to the relevant NCAs on the volume of transactions settled in that way. The guidelines are designed to improve the quality and consistency of firms' reporting, and the related exchange of information about that reporting amongst the NCAs and ESMA.

Through the guidelines, ESMA aims to clarify:

- which entity in the transaction chain is required to report
- the types of transactions and operations that have to be included
- the financial instruments for which reporting is required
- the format and data fields that must be reported.

ESMA also provides a list of excluded transactions, including: execution of corporate actions relating to stock, primary market operations (such as the process of initial creation of securities, and creation and redemption of fund units), securities financing transactions where no collateral is transferred, and transactions between two accounts for the same customer.

ESMA also establishes data reporting parameters. The consultation period closes on 14 September 2017. ESMA aims to finalise the guidelines in Q1 2018.

Improving position reporting

Seeking to better utilise transaction reporting data held by EU TRs, ESMA published a final *Draft technical standards on data to be made publicly available by TRs under Article 81 of EMIR* on 10 July 2017.

The draft RTS/ITS require that TRs provide the public with a more diverse range of position data, including by:

- contract type
- asset class
- venue of execution
- reporting status (dual vs single sided)
- cleared vs uncleared
- maturity
- intragroup.

ESMA plans to impose additional aggregation requirements for positions in commodity derivatives and on derivatives that reference indices. ESMA hopes the increased specificity and uniformity of position publications will make it easier for the public to monitor market risk and help regulators compare market data across TRs. For example, under existing aggregation procedures there is a problem with over-counting cleared transactions. Improved position data consistency is necessary not only to ensure accurate EMIR transaction reporting but because other regulations, such as MiFID II and BMR, will be utilising this information.

Wholesale markets

Evaluating the SSR

On 7 July 2017, ESMA *consulted* on views from market participants on three main areas in relation to the SSR. ESMA will use the information it receives to feed into its *technical advice requested by the EC* as part of the EC's *Call to Evidence on the EU regulatory framework for financial services* published on 23 November 2016.

In assessing whether the SSR has achieved its original objectives, ESMA will focus on:

- the scope and functioning of the market making exemption – in particular, the impact of the membership requirement on firms making markets in OTC-only instruments and the differences between the SSR definition of 'market-making activities' and the MiFID II definition of 'market maker'
- the procedure for imposing short term restrictions on short-selling – looking at whether it can be simplified and made more consistent across the EU
- whether the reporting and disclosure requirements for net short positions can be made less burdensome and costly for reporting entities.

The consultation closes on 4 September 2017.

Accounting

Accounting

FRC defers decision on updating FRS 102

The FRC published a feedback statement summarising respondents' comments to its consultation document on updating FRS 102 for changes in IFRS. In a *consultation document* issued in September 2016, the FRC asked for views on whether FRS 102 should be kept up to date with IFRS as IFRS changes, particularly in relation to major new standards that have been issued. It also provided an outline timetable for possible changes in relation to financial instruments, revenue and leases. Respondents' feedback showed support for a long term aim of broad consistency with IFRS, but questioned the proposed timetable and suggested more IFRS implementation experience is needed before an assessment of whether, and if so, how and when requirements based on these standards should be considered for incorporation into FRS 102 and FRS 103 for the implications of IFRS 17.

At present no target effective date for any changes to FRS 102 or FRS 103 arising from IFRS 9, IFRS 15, IFRS 16 and IFRS 17, has been set and any detailed proposals will be consulted on in due course.

FRC issues amendments to FRS 101

The FRC has issued *amendments to FRS 101*, 'Reduced disclosure framework' which provide certain disclosure exemptions in relation to IFRS 16 'Leases'. Paragraph 8 of FRS 101 notes that the exemptions are available from when the relevant standard is applied. Therefore there is no need to amend the effective date for these proposed amendments.

Our publications

Modification of financial liabilities

In July 2017 the IASB confirmed the accounting for modifications of financial liabilities. Namely, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

This is consistent with the tentative agenda decision of the IFRS Interpretations Committee (IC). But the IC decided not to finalise this, on the grounds that an agenda decision was not an appropriate mechanism to address the issue. The board decided instead to amend the basis for conclusions to IFRS 9 to highlight that the accounting under IFRS 9 is clear and that no changes to the standard are required.

See our *In brief: Modification of financial liabilities – IFRS 9 accounting change confirmed* for further details.

IFRS news

The *July 2017 edition of IFRS news* looks at:

- IFRIC 23 - Putting some certainty into uncertain tax positions
- Leases Lab - Changes in accounting for lessees are the only new requirements introduced by IFRS 16. Disclosure guidance remains the same
- Demystifying IFRS 9 for corporates - Factoring and business model.

Also this month

Basel Committee

- The Basel Committee, the Committee on Payments and Market Infrastructures, the FSB and IOSCO published an *analysis of interdependencies* between CCPs, major clearing members and financial service providers on 5 July 2017. The FSB says an assessment will be made by the end of 2018 of the value of regular data collection from CCPs to support authorities' understanding of CCP interdependencies.
- The Basel Committee, the Committee on Payments and Market Infrastructures, the FSB and IOSCO published a *report on the implementation of the joint CCP workplan* on 5 July 2017. The report states that implementation of the workplan is largely complete but further monitoring, analysis and implementation work will continue until the end of 2018.

BoE

- The BoE *summarised* on 10 July 2017 the latest proof of concepts it's completed through its FinTech Accelerator project, in which it works with FinTech firms to apply innovative technologies to its work.
- The BoE published *the FPC and the Bank's liquidity insurance operations* on 6 July 2017 setting out the framework for a two-way engagement between the FPC and the Bank's executive. This engagement is regarding the Sterling Monetary Framework, particularly the operations providing liquidity insurance support to the financial system.

EC

- The EC published a final *RTS* on 11 July 2017, regarding the proposed acquisition of a qualifying holding in an investment firm under both MiFID and MiFID II. It includes an exhaustive list of information a proposed acquirer must include with its notice to NCAs assessing the acquisition. On the same day, the EC published a draft *ITS* and *annexes* with standard forms, templates and procedures for NCAs consulting with one another upon notification of a

proposed acquisition of a qualifying holding in an investment firm.

- The EC published the *Council conclusions on Action plan to tackle nonperforming loans in Europe* and *Banking: Council sets out action plan for non-performing loans* on 10 July 2017. By resolving non-performing loans, the EC aims to reduce the financial fragmentation and facilitate capital flows within the single market.

ECON

ECON published a report on the *Implications of Brexit on EU Financial Services* on 7 July 2017.

ESMA

- ESMA published Level 3 *Q&A on BMR* on 5 July 2017, explaining which administrators have to be authorised or registered by 1 Jan 2018 or 1 Jan 2020. Administrators that started providing benchmarks between 30 Jun 2016 and 1 Jan 2018 should submit draft applications to the FCA for authorisation or registration by 1 Oct 2017 if they intend to issue new benchmarks after 1 Jan 2018.
- ESMA published Level 3 *Q&A on data reporting* on 7 July 2017, covering data fields, bond reference data, buyer and seller transaction reports and the record keeping requirement for actionable indications of interest.
- ESMA issued an *Opinion on ancillary activity – market size calculation* on 6 July 2017, providing guidance to NCAs determining market size for on- and off-venue transactions for commodity derivatives and emission allowances.
- ESMA published updated *Level 3 Q&As MiFID II and MiFIR commodity derivatives* on 7 July 2017, covering non-financial entities exempt from position limits, positions to be reported, aggregated positions, and non-EU rules on data protection and bank secrecy.
- ESMA published updated *Q&As on MiFID II/MiFIR market structure* on 7 July 2017, covering record keeping for high frequency trading firms, kill functionality, order-trade ratios, market making strategies, quote streaming and order execution for SIs, and access to CCPs and trading venues.
- ESMA published a report, *Review of Fair Value Measurement in the IFRS financial statements*, on 12 July 2017. The review is not specific to financial services, but 38% of the sample of 78 issuers are from the financial services sector.
- ESMA published updated *Questions and Answers on the Market Abuse Regulations (MAR)* on 6 July 2017. The update clarifies the difference between a person discharging managerial responsibilities (PDMR) for a closely associated person and a PDMR within an issuer.
- ESMA updated its *Q&As on MiFID II/MiFIR investor protection and intermediaries topics* on 10 July 2017, addressing best execution for securities financing transactions, and the scope of recording requirements for telephone conversations and electronic communications under MiFID II Art. 16(7).

FATF

The FATF *reported* to the G20 on 6 July 2017 on its work to tackle money laundering and terrorist financing and increase financial transparency.

FCA

- The FCA published final details of its 2017/18 fees, in *FCA regulated fees and levies 2017/18* on 3 July 2017. Its *fee calculator* is available for firms to calculate their individual fees based on the final rates. The FCA will invoice fee-payers from July 2017 onwards.
- The FCA published *draft BMR applications* for authorisation, registration, recognition and endorsement on 6 July 2017. The applications are included as live hyperlinks in the FCA's CP 17/17 issued on 3 July 2017. Comments on the draft applications were due by 6 August 2017 while comments on the overall consultation paper are due by 22 August 2017.
- The FCA published *Policy Statement PS17/16 Regulatory reporting: Retirement income data* on 21 July 2017 setting out final rules for providers of pensions, annuities and income drawdown to report retirement income data. The rules and guidance come into effect on 30 September 2018.
- The FCA *published applications for passporting under MiFID II* on 17 July 2017, including separate forms for services, branches, tied agents and MTF/OTF notifications. The gateway opens on 31 July 2017. Applications for cross-border services passports are due by 2 December 2017, and all others should be submitted as soon as possible.
- On 25 July 2017, the FCA issued a *reminder* to firms subject to MiFID II to submit their applications for authorisation and variations of permission as soon as possible. To be authorised by the time MiFID II goes live on 3 January 2018, firms should have submitted applications by 3 July 2017. The FCA indicates that it will take action against firms engaging in regulated activities without appropriate permissions.
- The FCA published its fourth *Anti-money laundering Annual Report 2016/17* on 5 July 2017 explaining how it supervised firms and helped them

comply with their obligations under the Money Laundering Regulations 2007.

FSB

- The FSB published its *framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms* along with a *technical appendix* and *frequently asked questions* on 3 July 2017. Through this framework, the FSB aims to assess whether the G20 financial regulatory reforms are achieving their intended outcomes and identify any material unintended consequences.
- The FSB summarised the progress made by the G20 in reforming the financial services regulation in its *report to G20 leaders on progress in financial regulatory reforms* on 3 July 2017. Along with this report, it also published the *FSB Chair's letter to G20 leaders – building a safer, simpler and fairer financial system* and *implementation and effects of the G20 financial regulatory reforms.*
- The FSB published its *sixth progress report* to the G20 on the implementation of resolution reforms on 6 July 2017. The report sets out priorities for 2017/18 including publishing two consultations by the end of 2017: one on the execution of bail-in and the other on a key attributes methodology for the insurance sector.

FOS

The FOS published its *Annual report and accounts for the year ended 31 March 2017* on 12 July 2017. It provides details on complaints received over the year, trends among the complaints it's currently seeing, and its commitments for 2017/18.

G20

- The G20 Green Finance Study Group proposed voluntary strategies to help countries promote green finance, in *G20 Green Finance Synthesis Report 2017* on 14 July 2017. It focuses on helping financial institutions assess environmental risks.
- The G20 published its *Hamburg annual progress report on G20 development commitments* on 8 July 2017. Alongside this, it also published *G20 Leaders' declaration shaping an interconnected world* and two annexes to the declaration – *G20 Hamburg action plan* and *Hamburg Update: Taking forward the G20 action Plan on the 2030 agenda for sustainable development.*

HMT

The *Criminal Finances Act 2017 (Commencement No. 1) Regulations 2017* published on 12 July 2017 by HMT confirms that provisions of the Criminal Finances Act making failure to prevent facilitation of tax evasion a corporate offence, take effect from 30 September 2017. Section 47 of the Act which requires the Chancellor to prepare guidance about preventing the facilitation of tax evasion offences took effect on 17 July 2017.

ISDA

ISDA published *ISDA 2017 OTC equity derivatives T+2 settlement cycle protocol* on 28 July 2017. ISDA provides a protocol to allow counterparties to amend master confirmation agreements (MCA) and MCA confirmations to reflect changes in settlement cycles in certain markets. It addresses a change from T+3 to T+2 settlement for securities traded on American, Canadian, Mexican and Peruvian exchanges.

IMCO

The EP's IMCO published a paper discussing the challenges Brexit will pose to the future of trade in services between the UK and EU, in *The Consequences of Brexit on Services and Establishment: Different Scenarios for Exit and Future Cooperation* on 5 July 2017.

Official Journal

Guidelines on the application of Regulation (EU) No 1286/2014 of the EP and of the Council on KIDs for packaged retail and insurance-based investment products appeared in the Official Journal on 7 July 2017.

UK Government

The Government published its *response to the consultation* on draft regulations which will impose restrictions on early exit charges for occupational pension schemes on 3 July 2017. It plans to lay the revised regulations before Parliament in due course, and for the regulations to come into force on 1 October 2017.

Banking and capital markets

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Regulation

Capital and liquidity

EC tackles non-performing loans

The EC consulted on the *Development of secondary markets for non-performing loans (NPLs) and distressed assets and protection of secured creditors from borrowers' default* on 10 July 2017. It intends to legislate to reduce or remove the barriers to the development of secondary markets for NPLs, and consults on cover transfers of loans, third party loan servicers as well as constraints more generally.

The EC also explores the concept of and seeks feedback on 'accelerated loan security' to strengthen the position of secured creditors in the event of a borrower's default. This new kind of loan security intends to provide EU banks with a swift, out-of-court procedure to acquire ownership of encumbered assets, enabling the recovery of loans through the sale proceeds of those assets. The consultation closes on 20 October 2017.

Banks show modest profitability improvement

The EBA published its quarterly *Risk Dashboard – data as of Q1 2017* on 4 July 2017. It summarises the main risks and vulnerabilities in the EU banking sector, based on a sample of 152 banks which cover more than 80% of the EU banking sector by assets.

In the first quarter of 2017, EU banks' CET1 ratio decreased slightly by 10 basis points (bps) to 14.1%, mainly driven by an increase in RWAs. The ratio of non-performing loans to total loans continued a slight downward trend, decreasing by 30bps to 4.8%. The EBA also notes that banks and market analysts expect increases in the quality and volumes of lending to SMEs. In addition banks' annualised return on equity (ROE) increased by 3.5% to 6.8% from a low point of 3.1% in Q2 2016. It also reports that around 80% of the banks and the market analysts 'agree' or 'somewhat agree' that overall profitability will improve. But ROE remains below the cost of equity.

FSB provides internal TLAC guidance

The FSB published *Guiding Principles on the Internal TLAC of G-SIBs* on 6 July 2017. It supplements the FSB's *TLAC standard* which requires G-SIBs to commit a certain amount of loss-absorbing capacity to material subsidiaries or sub-groups in other jurisdictions, termed 'internal TLAC'.

The TLAC standard sets out the core elements of internal TLAC as regards amount, triggers and eligibility of instruments. But the latest guidance sets out guiding principles for a G-SIB's crisis management group to follow as they develop and implement an internal TLAC

strategy. The principles comprise five sections covering:

- the process for identifying material sub-groups and their composition, determining the distribution of internal TLAC and the approach to multi-jurisdictional material sub-groups and non-bank entities (both regulated and unregulated)
- the roles of home and host authorities in determining internal TLAC requirements and the availability of surplus TLAC at the G-SIB level to supplement internal TLAC
- the practical considerations affecting the issue and composition of internal TLAC including any legal, regulatory or operational obstacles
- the features of the trigger mechanisms for internal TLAC
- the process for home-host authorities' communication and cooperation in triggering the write-down and/or conversion into equity of internal TLAC.

The FSB plans to monitor and report on the implementation of both the TLAC standard and the internal TLAC guidance through its resolvability assessment process.

Clarifying MREL and buffers

The PRA published consultation paper *CP15/17: The minimum requirement for own funds and eligible liabilities (MREL) – buffers* on 27 July 2017. It proposes updating its supervisory statement *SS16/16* to clarify the relationship between MREL and capital buffer requirements under the two going-concern regimes, risk-weighted capital and leverage.

On publication of SS16/16 in November 2016, the PRA stated its expectation that firms should not count CET1 towards both MREL and the buffer requirements. But since then, firms have queried the scenario where MREL is calibrated on the basis of one regime (e.g. leverage where the leverage requirement is larger than the risk-weighted requirement) but the largest requirement for buffers is under the other regime (e.g. risk-weighted capital).

The PRA clarifies that the amount that does not count simultaneously towards both the buffer and MREL is the amount of CET1 that is usable when considering the requirements of the two-going concern regimes together – the useable buffer requirement. This is the amount a firm could lose before breaching either of the minimum going concern capital requirements. If a firm fails to maintain enough CET1 to meet the usable buffer requirement and MREL, the PRA intends that the consequences follow the going-concern regime where the firm's total amount of capital to meet both the minimum and buffer requirements is largest. The PRA indicates this situation applies to a 'very small number of firms'.

The PRA plans to publish the updated SS16/16 before the end of 2017. The consultation closes on 29 September 2017.

Updating use of unsolicited credit ratings

The EBA revised the *Decision of the EBA amending EBA Decision confirming that the unsolicited credit assessments of certain CRAs do not differ in quality from their solicited credit assessments (2016/C 266/05)* on 18 July 2017, published together with an accompanying *report*. Under CRR, firms may use unsolicited credit assessments of CRAs (credit ratings) for determining their credit risk capital requirements provided the EBA confirms that those unsolicited ratings do not differ in quality from the solicited (paid for) credit ratings of that same CRA. The EBA's revised decision updates the list of CRAs whose unsolicited credit ratings the EBA confirms are of equivalent quality. This is prompted mainly by changes in the list of CRAs ESMA recognises and is reflected in the *draft ITS* the ESAs published for consultation, also on 18 July 2017.

The decision comes into force 20 days after its appearance in the Official Journal. The EBA also published a *future work plan* under which it intends to strengthen its ongoing monitoring of the mapping of CRAs credit assessments and also of the CRA's unsolicited credit assessments covered by its decision.

Disclosing transitional IFRS 9 capital effects

The EBA published a consultation paper on draft *Guidelines on uniform disclosure under proposed Article 473a.8 of CRR as regards the transitional period for mitigating the impact of own funds of the introduction of IFRS 9* on 13 July 2017. It is relevant to firms within the scope of CRD IV which are applying IFRS 9 from 1 January 2018.

Transitional provisions that are currently going through the EU legislative process are set to allow firms to phase in over a five-year period the impact on regulatory capital of the implementation of IFRS 9. Alternatively firms may choose to recognise the effect in full on 'day one' or at a future date during the transition period. Where firms decide to phase-in the impact they must include in their Pillar 3 disclosures their capital and leverage ratios both with and without the application of the transitional arrangements.

To ensure firms' Pillar 3 disclosures relating to their capital and leverage ratios are consistent and comparable during the transition period, the EBA believes it's crucial that firms use a uniform format. These draft guidelines specify that format. The consultation closes on 13 September 2017.

Harmonising authorisation application information

The EBA published final *draft RTS and ITS on information requirements for the authorisation of credit institutions under Article 8 of CRD IV* on 14 July 2017. The EBA is harmonising the authorisation information requirements to ensure a level playing field. But the EBA provides flexibility to enable NCAs to require additional information where necessary.

Firms must provide proposed activities, financial information, initial capital, management body, shareholders and other key stakeholders. The ITS comprise templates and procedures for the provision of the required information. The EBA intends that the standards take effect six months after coming into force, acknowledging the time it may take applicants and NCAs to become familiar with the requirements.

Progressing Pillar 2 liquidity policy

The PRA consulted on *CP13/17 Pillar 2 liquidity* on 13 July 2017, building on *CP21/16* in which the PRA set out its overall objectives, scope and level of application of Pillar 2 liquidity. But it also outlined its approach to three specific Pillar 2 risks: intraday liquidity, debt buyback and non-margined derivatives as well as its expectations relating to the disclosure of Pillar 2. In this second consultation, the PRA proposes a new framework for cashflow mismatch risk (CFMR) together with its methodologies for assessing five other Pillar 2 liquidity risks. It also provides feedback on CP21/16 and seeks early views on the calibration of overall liquidity requirements on which the PRA intends to publish a third consultation.

The CFMR framework includes a granular LCR stress, and a benchmark retail and wholesale stress scenario. Additionally, the PRA proposes an enhanced retail and an enhanced wholesale stress, which it intends to act as sensitivity checks. Aligning with this framework there is a new liquidity reporting return, PRA110, which replaces existing FSA047 and FSA048 reports.

The five other liquidity risks comprise: prime brokerage and matched books, margined derivatives, securities financing margin, intragroup liquidity together with liquidity systems and controls. The PRA is taking a largely case-by-case approach. It intends to assess the firm's historical data and firm level information relating to various aspects of these risks to determine the required liquidity add-on or stress uplift.

The PRA plans to implement the new Pillar 2 methodologies and publish its third consultation in early 2018. It aims to start the CFMR related reporting from 1 January 2019. The consultation closes on 13 October 2017.

Compensation schemes

EBA discloses DGS pre-funding levels

The EBA published *DGSs data* on 11 July 2017, setting out all covered deposits held by EU DGSs and their available financial means (pre-funded resources) to meet potential claims as at 31 December 2016. To assist in explaining the data the EBA makes available a webpage setting out *additional information on the DGS data.*

The data provides a snapshot of how DGSs across the EU are building up pre-funded resources to cover their guarantees to depositors. The data also includes figures as at 31 December 2015 together with each DGS's current target level of available financial means. Member State DGSs are aiming to have available financial means of 0.8% of their covered deposits by 3 July 2024 but in exceptional circumstances the EC may permit a lower target (not less than 0.5%).

The EBA notes that comparing the data can throw up significant differences in targets and available financial means. But it warns that the data needs interpreting with care. Members States had different starting points when the new DGSD came into force and some DGSs have been affected by recent significant claims which may be leading to different target levels.

Reviewing risk-based DGS contributions

The EBA published a *Draft Report on the implementation of the EBA Guidelines for calculating contributions to DGSs* on 3 July 2017. The EBA issued guidelines in May 2015 giving a risk-based calculation method for DGS contributions by banks and setting an implementation date of 31 May 2016. Under the DGSD, the EBA must review the guidelines by 3 July 2017.

It assesses the guidelines as broadly meeting the objective of differentiating institutions based on their risk profiles. But it indicates that the methodology may need revisiting as it allows undue flexibility by national authorities to design risk-based systems that produce less differentiation than expected. This may require a shift in the balance between consistent application and scope to cater for national specificities. Based on responses to its survey, the EBA does not consider that it needs to make any changes to increase transparency further or to reduce reporting requirements.

The EBA views its findings as preliminary, acknowledging the short period between the implementation of the guidelines and its review. It recommends further analysis with a longer time series of better quality data before considering changes to the guidelines. The EBA suggests this may occur as part of the wider review of DGSD due in 2019. The consultation closes on 28 August 2017.

Competition

Sharing current account service metrics

The FCA may require firms to provide service information on current accounts, in *CP17/24: Information about current account services* published on 25 July 2017. The FCA wants to improve competition by making it easier for customers to access and assess information about providers' service, following the CMA's retail banking investigation.

Under the FCA's proposals, providers of personal and business current accounts would have to publish service information, and to share it with comparison services. Firms would publish the service metrics on a quarterly basis starting from the second quarter of 2018, with publication due within six weeks of the end of each quarter.

The FCA proposes requiring firms to provide information about:

- how long it takes to open an account
- how long it takes to replace a lost, stolen or stopped debit card
- how long it takes to give someone access to a personal current account under power of attorney
- how and when customers can carry out various transactions
- the number and type of major operational or security incidents.

The consultation closes on 25 September 2017. The FCA plans to issue a policy statement later this year, and to carry out a post-implementation review in 2019/20 to assess the impact of the changes.

Conduct

Addressing packaged account complaints

On 7 July 2017, the FCA reported on its *Review of firms' handling of complaints about packaged bank accounts*. The review was a follow up to an earlier 2016 thematic review considering the same issue. In its latest review, the FCA considered complaints received between March and May 2016. It found that some progress had been made in the handling of complaints, for example with how firms gather customer testimony. But the regulator considers that improvements to final response letters are required in the following areas:

- the layout of letters
- ensuring the letter is specific to the customer's complaint
- setting out clearly and accurately what the firm understands the customer's concerns to be
- accurately reflecting how the firm has investigated the complaint
- the investigation that was actually undertaken
- ensuring all points or key themes of the complaint are addressed.

The FCA has already provided feedback to firms that participated in the second review. Firms that did not take part will be invited to an industry-wide roundtable discussion of the findings.

Finance

Encouraging simple securitisations

The Basel Committee and IOSCO jointly consulted on *Criteria for identifying simple, transparent and comparable (STC) short-term securitisations* on 6 July 2017. The Basel Committee also consulted on the *Capital treatment for STC short-term securitisations* on the same day. These are relevant to investors in and sponsors of short-term securitisations, typically asset-backed commercial paper (ABCP) structures.

The criteria help parties to such transactions to evaluate the risks of a particular securitisation across similar products and to assist investors with their due diligence. The criteria reflect the characteristics of ABCP conduits such as their short maturity, the different forms of programme structures and the availability of multiple forms of liquidity and credit support facilities. The requirements include that:

- investors have key monthly information on the performance and characteristics of the ABCP structure
- the redemption risk of the underlying assets is addressed from the sponsor's perspective
- the transaction funded by the conduit has an enforceable legal structure and the relevant information is disclosed by the sponsor to investors.

The proposed treatment is consistent with the requirements for STC short-term securitisations set out in the Basel Committee's July 2016 *Revision to the securitisation framework.* Eligible STC short-term securitisations attract the same reduction in capital requirements as other STC short-term securitisations. The consultation closes on 5 October 2017.

Payments

New payment forms

The FCA published *CP17/22 Revised Payment Services Directive (PSD2) implementation: draft authorisation and reporting forms* on 13 July 2017. PSD2 imposes a re-authorisation and re-registration process on existing authorised and registered Payment Institutions (PIs) and Electronic Money Institutions (EMIs) to be completed by 13 July 2018. National regulators have discretion to prescribe the format of the re-authorisation and re-registration forms as well as the registration forms for prospective small PIs and small EMIs. In the consultation, the FCA provides drafts of each form with guidance notes.

The FCA also consults on new notification forms PSPs should use to notify local regulators of major operational or security incidents affecting their operations and to report on their capital requirements. Under new rules, PSPs are required to report on their capital requirements in line with CRR which requires businesses to hold more robust capital. The consultation closes on 18 August 2017.

EBA sets insurance standards for PSD2

The EBA published the *Final Report on Guidelines on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance (PII) or other comparable guarantee under Article 5(4) of PSD2* on 7 July 2017. Addressed to competent authorities, the EBA explains how they should calculate the minimum monetary amount (MMA) of PII or comparable guarantees that PSPs providing payment initiation services (PIS) or account information services (AIS) should hold. The PII or comparable guarantee is a requirement for authorisation or registration for these types of payment firms and is intended to cover any liabilities incurred by their activities.

Four criteria with specific indicators form the basis of the MMA calculation and are defined in the guidelines:

- the AIS or PIS's risk profile
- activities undertaken, including non-payment services
- size of activities
- characteristics of the comparable guarantee.

The EBA expects competent authorities to calculate the MMA using the percentage values attached to the criteria indicators. Minor changes made to the draft final guidelines resulted in the removal of the geographical location and number of contracts from the risk indicators. The PSP will be required to recalculate the PII or comparable guarantee MMA on an annual basis. PSD2 takes effect in the UK from 13 January 2018.

EBA applies authorisation guidelines

The EBA published its *Final Report on Guidelines on the information to be provided for the authorisation of payment institutions and e-money institutions and for the registration of account information service providers* on 11 July 2017. In line with PSD2, the guidelines set out the information that firms seeking authorisation to provide payment services under must provide to their local regulator. Separate sections in the guidelines list information requirements for firms seeking:

- authorisation as a payment institution, including as a payment initiation services provider
- authorisation as an electronic money institution provider and
- registration as an account information service provider.

Minor adjustments have been made to the draft guidelines in the interests of proportionality which means that the information submitted can be adjusted to take account of the nature and complexity of the operation. But the guidelines still call for a high level of detail which the EBA says is necessary in the interests of transparency and to aid the application process. The guidelines and PSD2 apply from 13 January 2018.

BoE opens systems to non-banks

Non-bank PSPs can hold BoE settlement accounts, the BoE *announced* on 19 July 2017, setting out the details and process to gain access in updated policy: *Bank of England Settlement Accounts.* PSPs previously needed to have arrangements with banks to access systems to make payments – for example via CHAPs, Faster Payments, Bacs and LINK – but can now have direct access to the BoE's Real-Time Gross Settlement System (RTGS).

Opening up access is expected to improve competition and innovation. Non-banks wanting to open a settlement account will need to comply with a risk management framework devised by the PSR. The framework is intended to maintain the integrity of the RTGS.

PSR reviews past year

In its *Annual Report and Accounts for 2016/17,* published on 5 July 2017, the PSR set out how it has delivered against its competition, innovation and consumer objectives during the past year. The PSR's efforts to drive competition have resulted in increased and cheaper access to payments systems and infrastructure, it says. Through its Payment Strategy Forum, plans for a new payment architecture with centralised governance, end-to-end interoperability and enhanced security will lower costs and drive innovation.

The PSR faced its first super-complaint about the lack of consumer protection against scam payments. This resulted in initiatives with Financial Fraud Action UK and an industry programme of work to fight payments fraud. The PSR also assumed responsibility for monitoring industry compliance with the Interchange Fee Regulation and PAD and confirmed that it will assume responsibility for the elements of PSD2 dealing with payment systems access from January 2018. For the year ahead, the PSR will focus on consumer protection, how payments data is used and how new business models are changing the competitive dynamics across the payments landscape. In 2016/17, the PSR operated with 60 permanent staff and costs of £11m.

The Payment Systems Regulator Panel which acts as a 'critical friend' for the PSR Board and Executive published its *Annual Report 2016-2017* on 5 July 2017. The PSR Panel outlined its role helping the PSR with key projects such as the PSR work programme and communications, the Which? super-complaint, the payment systems operator consolidation and

initiatives to improve access and governance.

EBA consults on EU-wide payments register

The EBA published *Draft RTS setting technical requirements on development, operation and maintenance of the electronic central register and on access to the information contained therein* for consultation on 24 July 2017, which fulfils its mandate imposed under Article 15(4) of PSD2 to develop, operate and maintain an electronic central register of PSPs throughout the EU. The draft RTS were accompanied by *Draft ITS on the details and structure of the information entered by competent authorities in their public registers and notified to the EBA under Article 15(5) of Directive (EU) 2015/2366 (PSD2)*, through which the EBA seeks views on the content to be included in the register.

The EBA outlines that the register will have dual manual and automated functionality. This will allow information to be transmitted electronically from NCAs' systems directly to the register, but also allow for information to be adjusted manually if required. The register will be accessible to the general public as well as the payments community. It will allow information to be searched on the basis of type, name, services, location, responsible competent authority of the PSP, and the host Member State if a passport is being used.

All authorised and registered PSPs, their agents and branches must be included in the register. This includes new PSPs providing payment initiation services. Account information service providers must also be registered as should any PSPs that operate under any exemption in PSD2, such as the limited network exemption. The provisions apply equally to electronic money institutions (EMI), and the register will contain the address of the PSP or EMI. But the EBA has concluded that disparity in information collection across Member States means that email addresses, contact numbers, dates of authorisation/registration, the addresses of branches and offices cannot be included.

The consultation period closes on 18 September 2017.

PSF consults on vision for payments

In *Blueprint for the Future of UK Payments: A consultation paper* published on 28 July 2017, the Payments Strategy Forum (PSF) consults on its vision for a payments system in the UK that will meet the demands of an increasingly complex industry, and promote competition and innovation. The PSF's vision centres on the development of a new payments architecture (NPA), the key features of which will create a system which is flexible, competitive, resilient and secure, give customers control over their payments and introduce wider interoperability. The NPA will operate under a single set of standards and rules with strong central governance provided by the proposed New Payment Systems Operator (NPSO), to be created following the planned consolidation of the Bacs, Cheque and Credit and Faster Payments schemes. The PSF expects the NPA to eventually replace the Bacs, Cheque and Credit and Faster Payments schemes.

In the consultation, the PSF sets out minimum rules and requirements for three solutions to user needs it identified in its strategy document *A Payments Strategy for the 21st Century: Putting the needs of users first*. The solutions aim to give customers greater control and transparency over their payments and data. A 'Request to Pay' mechanism will allow parties to a transaction to communicate about a payment. For example, an organisation may request a payment and the customer will be able to either accept or decline the request. If they accept they will have options as to how they pay. The Assurance Data solution will give the customer a suite of tools to track the life cycle of the payment, and with the Enhanced Data solution customers will be able to reconcile payment transactions in a standardised format.

The PSF has set a staged implementation period of five years for the NPA. The first phase will result in a 'push payment' capability which will allow customers to undertake faster payments by early 2021. It will be possible to make Bacs payments from late 2021 and cheque and credit payments from 2024. The PSF expects that the end user solutions will be delivered before 2021.

The consultation is open until 22 September 2017.

EC agrees PSD2 passporting arrangements

The EC issued *Commission Delegated Regulation (EU) supplementing Directive (EU) 2015/2366 with regard to RTS for the cooperation and exchange of information between competent authorities relating to the exercise of the right of establishment and the freedom to provide services of payment institutions* on 23 June 2017. It provides a framework for competent authorities to recognise PSPs intending to passport payment services under PSD2 in another Member State.

The EC sets out procedures for competent authorities and the information to be provided to the intended host Member State depending on whether it is branch, services or agent passport. The home CA is responsible for reviewing and submitting the application which should be made on the notification templates included in the *annex* to the delegated regulation. The RTS applies equally to applications by Electronic Money Institutions. PSD2 applies in the UK from 13 January 2018.

BoE widens supervision of payment systems

HMT published a *draft Order* and *Explanatory Memorandum* for the Banking Act 2009 (Service Providers to Payment

Systems) Order 2017 on 26 July 2017. Under the Order, the BoE will extend its supervision powers over operators of systemically important payment systems to HMT approved firms providing the systems' infrastructure.

The BoE's powers over systems service providers will mirror its powers over operators permitting the Bank to request information, issue directions or impose regulatory requirements as necessary. Extending the BoE's powers means that it has oversight of all aspects of payment systems where disruption could have serious consequences for the UK's economy or financial stability.

Implementing PSD2 in the UK

The *Payment Services Regulations 2017* (PSRs 2017), which implement PSD2 in the UK, were laid before Parliament on 19 July 2017. The PSRs 2017 update existing provisions aimed at creating an integrated and efficient EU payments market. They also introduce a regulatory regime for new types of payment services – account information service (AIS) and payment initiation service (PIS), known as third party providers (TPPs). Once PSD2 takes effect, TPPs will need to be authorised or registered by the FCA.

HMT adopted a copy out approach to implementing PSD2. It permitted derogations, including in relation to payment transaction information. *Responding* to the consultation on PSD2 implementation that it issued earlier in the year, HMT confirms that while PSPs must provide customers with information about their transactions, customers may choose the frequency with which they receive information and whether banks provide it automatically or on request.

HMT confirms that it will not proceed with proposals to extend consumer rights of termination to an overdrawn current account. It will maintain the thresholds that allow providers of low-value payment instruments to operate under a more proportionate administrative regime where payments are below an agreed value. The controversial mandatory decision by the EU to ban surcharging on certain retail payment instruments will not be extended to UK commercial payment instruments but will apply to all UK retail payment instruments.

Under PSD2, TPPs are to be granted access to customer payment accounts with explicit consent. HMT confirms that until new EBA rules apply, TPPs may access accounts via screen scraping subject to meeting security requirements. HMT also confirms that it will maintain its current broad interpretation of what constitutes a TPP. This means that service providers operating under a third party mandate could be required to be registered or authorised under the PSRs 2017.

The PSRs 2017 take effect in the UK from 13 January 2018.

Retail products

Customer understanding improves

The FCA published its follow-up thematic review assessing customers' understanding of banking products, in *TR17/1: Customer understanding – Retail banks and building societies* on 17 July 2017. It reviewed 18 retail banks and building societies to see whether customers understand the products they've bought, after publishing the findings of its first review on this issue in April 2016.

Firms have embedded, or are developing, systems and practices to assess customer understanding of particular products throughout their life-cycle. The most developed systems and practices for checking customer understanding are carried out post-sale, for example through customer contact exercises. The FCA notes that practices appear to be least developed in the area of online sales, but a number of firms are taking steps to further develop this. The FCA also observes that several firms continue to confuse customer understanding with customer satisfaction. It gives a number of examples of firms' practices in the report which it encourages banks and building societies to take note of.

The FCA indicates that it expects these findings to feed into its strategic review of retail banking business models. The FCA will consider if it needs to return to any specific issues in this area as part of that review.

Accounting

IFRS 9

PRA adapts regulatory reporting for IFRS 9

The PRA published *PS18/17 IFRS 9 – Changes to reporting requirements* on 6 July 2017. This extends the use of EBA financial reporting (FINREP) templates to credit quality data, replacing the FSA015 return for UK banks and building societies which apply IFRS. This follows the PRA's December 2016 consultation *CP46/16* and also *PS36/16* which introduced FINREP templates for the profit and loss and balance sheet primary statement data.

The consultation proposed this reporting applies at both an individual level and a consolidated level. In response to feedback, the PRA relaxes this to exempt individual level reporting for groups with one entity in the group that contributes more than 95% of the consolidated assets of the group. At its discretion, on a case-by case basis, the PRA extends this further to where a single entity contributes between 90% and 95% of the consolidated assets of the group.

This quarterly reporting commences on 1 January 2018. Firms with accounting periods ending on a date other than 31 December can apply to defer or bring forward the reporting by reference to their financial year end. A reduced set of FINREP templates applies to firms with total assets of less than £5bn. Firms not applying IFRS

either directly or through FRS 101 or 102 must submit the FINREP templates covering performing/non-performing exposures and forborne exposure in addition to continuing with FSA015 reporting. The PRA plans to issue a separate policy statement in Q3 2017 to address the reporting by ring-fenced banks on a sub-consolidated basis.

Analysing IFRS 9 stability implications

ESRB commented on the *Financial stability implications of IFRS 9* and released *Assessing the cyclical implications of IFRS 9 – a recursive model: occasional paper 12* on 17 July 2017. The ESRB considers that, if soundly implemented, IFRS 9 should contribute to financial stability by introducing greater levels of transparency and earlier recognition of credit losses. On the downside, it identifies that IFRS 9 impairment allowances are likely to react sooner and more strongly to changes in the economic cycle, leading to larger and more sudden reductions in capital resources when economies weaken. But it acknowledges that there are policy tools available to mitigate this risk, including properly calibrated capital buffers and stress testing.

In addition to procyclicality, the ESRB identifies other areas where IFRS 9 could impact financial stability and should be monitored post-implementation. These include modelling risk, lending behaviour, less sophisticated banks and fair value accounting. The expected credit loss (ECL) approach in IFRS 9 is complex, poses challenges relating to the lack of historical data and allows for significant management judgement. So it views the quality of implementation as important to financial stability.

ESRB recognises that IFRS 9 should lead to better pricing of credit risk. But it could also lead to undesirable changes in lending behaviour such as shifting credit risk to entities not subject to IFRS 9, including beyond the regulatory perimeter. It believes it may also lead to a reduction in the maturity of loans and a preference for sectors less sensitive to the business cycle. In addition, the ESRB considers that the cost of maintaining ECL models could risk the long-term viability of small institutions and may act as a barrier to entry to new ones.

EBA assesses IFRS 9 impact on capital

The EBA published its *Report on results from the second EBA impact assessment of IFRS 9* on 13 July 2017. It considers that these results are consistent with its initial observations on the preparation for implementation of IFRS 9 and its estimated impact on regulatory capital. The EBA indicates that the estimated impact on regulatory capital of IFRS 9 continues to be modest, reporting an average reduction in CET 1 capital of 45 basis points among its sample of 50 banks. This excludes the effect of any transitional provisions that are currently going through the EU legislative process.

The EBA's survey shows that smaller banks estimate a larger impact on regulatory capital than larger banks and this is mainly due to greater use of the standardised approach to credit risk. Smaller banks are also still lagging behind in their preparation compared with larger banks. The EBA indicates that data quality, availability of historic data and the assessment of 'significant increase in credit risk' required under IFRS 9 are the most significant challenges for banks and they expect to make simplifications to determine their expected credit losses (ECLs). The EBA emphasises that banks should apply a sound and consistent methodology and governance process to these approximations both on initial application of IFRS 9 and on an ongoing basis. It also expresses concern about reduced levels of parallel running between IFRS 9 and current IAS 39 systems.

More generally, the EBA observes that banks are using a range of data, processes and models to estimate their ECLs. It thinks this could affect comparability among banks, and stresses the importance of disclosures that provides sufficient information to understand and evaluate the impact of IFRS 9 and the methodologies applied. The EBA acknowledges that banks are likely to continue improving elements of their implementation after its initial application.

Also this month

Banking Standards Board

The Banking Standards Board consulted on *Certification Regime: Certification risks and issues* and *Supporting Guidance on establishing pass/fail criteria and evidencing the F&P assessment* on 13 July 2017. It seeks views on guidance on dealing with risks and issues that can arise when firms assess the fitness and propriety of staff. The consultation closes on 29 September 2017.

Basel Committee

The Basel Committee published the *implementation of Basel standards - a report to G20 leaders on implementation of the Basel III regulatory reforms* on 4 July 2017. It highlights the overall good progress made by banks in implementing the standards.

CMA

The CMA is satisfied that the anticipated merger of Bacs Payment Schemes, Faster Payments and the Cheque & Credit Clearing Company will not cause competition concerns. In its *decision* on 12 July 2017 the CMA confirms the merger will not be referred for further investigation.

EBA

- The EBA acknowledged the adoption by the EC of the *ITS amending FINREP supervisory reporting for IFRS 9* on 5

July 2017. This follows the EBA's publication of its *Final draft* version in November 2016. The EBA indicates it applies as of 1 March 2018 but its appearance in the Official Journal is still pending.

- The EBA published official EU language versions on 11 July 2017 of the three BRRD guidelines dealing with (1) *the rate of conversion of debt to equity in bail-in*, (2) *the treatment of shareholders in bail-in or the write-down and conversion of capital instruments*, and (3) *the interrelationship between the BRRD sequence of write-down and conversion and the CRR*. All three guidelines will apply from 11 January 2018.

EC

The EC consulted on 24 July 2017, in *Transparency and fees in cross-border transactions in the EU* on legislative proposals to address inequality between cross-border fees for transactions in euros and non-euro currencies. The consultation was accompanied by an *Inception Impact Assessment*. The consultation period closes on 30 October 2017.

European Banking Federation

The European Banking Federation, the European Savings and Retail Banking Group and the European Association of Co-operative Banks have *written* to the EC urging it to accept the EBA's approach to ban screen-scraping. The EBA's position is set out in its latest Opinion on the RTS on strong customer authentication and common and secure communication under PSD2 currently being considered by the EC.

SRB

The SRB's *2016 Annual Report* confirmed it's met its main objectives on 11 July 2017. New objectives for 2017 include developing MREL at material entity level, addressing internal MREL and conducting a benchmarking exercise on resolution plans to align the quality and depth of existing resolution plans.

Asset management

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Regulation

Brexit

Supervisory principles for Brexit

ESMA published *Opinions to support supervisory convergence in the area of investment firms* and *secondary markets* in the context of the UK withdrawing from the EU on 13 July 2017. ESMA's guidance for NCAs seeks to avoid regulatory arbitrage.

MiFID II and MiFIR govern both sector-specific opinions which establish common principles for authorisation, governance, outsourcing and effective supervision. ESMA wants NCAs to ensure that firms are in full compliance on day one with all requirements, based on a review of a new and complete application. It asks NCAs to impose strict requirements on outsourcing of 'critical and important' functions, and says that all outsourcing arrangements should be carefully monitored and subject to due diligence.

The key risk ESMA identifies in both opinions is the outsourcing of critical functions outside the EU27. ESMA also expresses concerns around a high concentration of firms with outsourcing arrangements located in a specific Member State.

Asset management after Brexit

In seeking to manage regulatory and supervisory risks that may emerge as the EU asset management market is disrupted by Brexit, ESMA published a *legal opinion* on 13 July 2017. The guidance to NCAs covers how to respond to such challenges in a way that ensures fidelity to the underlying EU legislation and that provides for a consistent supervisory approach.

ESMA makes clear that asset managers will have to start afresh if they want to relocate to an EU27 jurisdiction and that they will be unable to either rely on existing UK authorisations, or benefit from transition provisions unilaterally provided for by NCAs. ESMA will also expect NCAs to monitor conflicts of interest, the appropriateness of shareholders and the presence of adequate governance and controls.

Importantly, ESMA's opinion strengthens the requirements for compliant third country delegation. It aligns UCITS delegation requirements with the more explicit AIFMD rules and provides additional specificity and procedural steps.

For example, every delegation of functions must be preceded by a written due diligence report on the delegate and possible alternatives. Also, EU firms will be expected to maintain just as rigorous oversight of third country delegates as local offices. ESMA indicates that delegation shouldn't exceed 'by a substantial margin' the investment management functions performed internally.

ESMA also suggests that third country branches of EU authorised entities would be restricted in the amount of EU-specific advisory work they could perform (as opposed to local, third country work). This could impact the current practice of extensive delegated management into the UK from the EU post-Brexit.

Capital and liquidity

Addressing structural vulnerability in asset management

IOSCO consulted on *CIS liquidity risk management recommendations* and *Open-ended fund liquidity and risk management – good practices and issues for consideration* on 6 July 2017. It updates its *2013 report*, addressing structural vulnerabilities arising from asset management activities as identified by the FSB in its January 2017 *report.*

IOSCO addresses disclosure to investors, alignment of the asset portfolio with redemption terms, the availability and effectiveness of liquidity risk management tools and fund level stress testing. In addition, it proposes two new recommendations concerning contingency planning and seeks comments on whether ETFs should be treated differently from other CISs.

IOSCO outlines a number of good practice examples used by regulators and asset managers in various jurisdictions to manage liquidity risk under different scenarios. Both consultations close on 18 September 2017.

Progressing new investment firms prudential regime

The EBA presented the *State of play of the EBA advice on the design of a new prudential framework for MiFID investment firms* at a public hearing on 3 July 2017. It outlines its preliminary policy recommendations following its discussion paper on *designing a new prudential regime for investment firms* published on 4 November 2016.

But the EBA is also launching a supplementary data collection. Part of the proposed design is the calculation of capital requirements and thresholds for firm categorisation based on risk proxies, termed k-factors. These are grouped into three types of risk: risk-to-customers, risk-to-market and risk-to-firm. It's the calibration of these k-factors that the additional data collection is directed at. In particular, it focuses on trading on own account investment firms and the daily trading flow k-factor that is part of the risk-to-firm risk group.

The deadline for the data collection was 3 August 2017. The EBA aims to publish its final report and its response to the EC's call for advice in September 2017.

Shaping investment firms' prudential framework

The EBA published its *instructions for EBA supplementary data collection exercise on the revision of prudential framework for MiFID investment firms templates for MiFID investment firms* and *EBA data collection MiFID IFs – supplementary* on 6 July 2017. It applies to MiFID investment firms, including firms which are expected to fall under the scope of MiFID II, but does not apply to UCITS or AIFMD firms conducting MiFID activities.

Following its discussion paper on the new prudential framework published in November 2016, the EBA has made many changes to the initial proposal. The EBA explains that the aim of this data collection exercise is to support the final calibration and impact assessment of the new framework.

Firms must submit the data on a solo basis with reference dates 31 December 2015 and 31 December 2016 using the new templates. They can choose to submit the consolidated data. The EBA encourages firms that participated in the first data collection exercise to resubmit the data using the new templates.

The data collection exercise closed on 3 August 2017.

Client assets

Improving client money distribution in failure

The FCA published policy statement *PS17/18 CASS 7A & the Special Administration Regime (SAR) Review – feedback to CP17/2 and final rules* on 25 July 2017. This follows its consultation *CP17/2* in January 2017 and *The Investment Bank (Amendment of Definition) and Special Administration (Amendment) Regulations 2017 – SI 2017/443* which came into force on 6 April 2017.

The changes concern the client money distribution rules which, alongside the amended SAR, provide a mechanism for the return of client assets in the event of an investment firm failure. The FCA's aim is to speed up the distribution of those client assets, achieve a greater return to clients of their assets and reduce the market impact of

that failure. It's implementing the changes it consulted on, except for its annotated client statement proposals and subject to minor changes in response to feedback received. The changes include:

- allowing certain transfers of the client money pool (CMP) not permitted in the current rules
- permitting a cut-off date for claims but with an appropriate level of client protection prior to a final distribution of client assets
- applying hindsight to the valuation of cleared margin transactions for the purposes of determining client entitlements to the CMPs
- specifying which CASS requirements cease to apply or are modified following firm failures and other primary pooling events.

In CP17/2 the FCA also consulted on changes to CASS to address indirect clearing requirements in forthcoming EMIR and MiFIR RTS, currently still in draft form. It plans to respond to feedback and publish final rules at a later date, after the EC adopts the RTS.

The changes take effect from 26 July 2017 and apply to investment firms to which CASS applies from that date in the event of their failure or as a result of other types of pooling events.

Competition

Examining investment platforms

The FCA published the *Terms of Reference of its Investment Platforms Market Study* on 17 July 2017. The terms of reference appear wider than previously expected, potentially extending beyond platforms, and considering comparable services provided by wealth and asset managers and the distribution system more broadly.

The FCA will focus on whether platform charges are overly complex and whether platforms are providing value for money for investors as they offer their own investment solutions. The FCA will also look at the overall role played in the marketplace by such platforms, specifically whether they are adequately using market clout to negotiate lower costs from investment product providers on behalf of investors. Additionally, the FCA plans to look at the impact wider commercial relationships have on the quality of platform services, specifically whether vertical integration between platforms and asset managers results in privileging certain products and services that may not be in the best interests of customers.

The FCA signals it will look closely at the expansion of platform services into areas such as the offering of 'model portfolios' which identify a portfolio of assets and investment managers within the relevant asset classes according to the risk the consumer wishes to take. The FCA also plans to explore whether economies of scale prohibit the emergence of new competitors and whether the benefits of such economies of scale are passed on to customers.

The FCA plans to publish an interim report in the summer of 2018.

Investment funds

Answering investment fund questions

ESMA published *AIFMD and UCITS Q&As* on 11 July 2017.

It clarifies that index-tracking UCITS can invest more of their portfolio into fewer underlying investments than other types of UCITS. It also confirms that individuals who once served as employees for either a UCITS management company or a depositary will be unable to meet the board independence requirements for those circumstances when both entities are linked in a group structure without an adequate cooling-off period.

In addition, ESMA indicates that the net asset value of an AIF should be reported in the base currency of the fund.

Updating depositary delegation rules

ESMA published a *legal opinion* clarifying the asset segregation expectations for depositary delegation under AIFMD and UCITS on 20 July 2017.

ESMA finds that the delegate can use an omnibus account structure whereby the assets of the depositary's clients (i.e. multiple funds) can be housed in the same account, as long as such an account is segregated from the depositary's own assets and the assets of the delegate. But ESMA stipulates that the use of omnibus accounts by delegates will be subject to the following requirements:

- ensuring that assets are not available for distribution to creditors
- conducting reconciliation between depositary and delegate client books
- limitations on reuse of assets in delegate accounts.

When choosing a CSD as a delegate, ESMA outlines the circumstances where depositaries would need to follow AIFMD/UCITS delegation rules and when they are not necessary

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Regulation

Capital and liquidity

IAIS releases ICS Version 1.0

On 21 July 2017, the IAIS released its *Risk-based Global Insurance Capital Standard (ICS) Version 1.0 for Extended Field Testing* with its 2017 Quantitative Field Testing Package, *Updated ICS Goals Principles and Delivery Process* and *ICS Frequently Asked Questions*. The ICS is one component of the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs) that should be used by group-wide supervisors to assess the financial condition of an IAIG.

ICS Version 1.0 is based on two standard valuation approaches and a standard method for calculating the ICS capital requirement. Following this, the IAIS plans to consider other methods of calculation of the ICS capital requirement including the use of internal models (partial or full), external models and variations of the standard method. ICS Version 2.0 is due to be completed by the end of 2019 for adoption by the IAIS along with the remainder of the Common Framework.

Conduct

FCA proposes SM&CR approach for insurers

The FCA published *CP17-26 Individual Accountability: Extending the SMCR to insurers* on 26 July 2017. It's consulting on aligning the SIMR with proposals to extend the SM&CR to all FCA-regulated firms. In the consultation, the FCA sets out its proposed certification regime, fit and proper tests, conduct rules and Senior Managers Regime (SMR) for insurers. In particular it highlights that:

- all insurers will be subject to its certification regime, fit and proper tests, and conduct rules requirements
- the SMR will apply to all insurers, but some features will not apply to small NDFs and insurance special purpose vehicles (ISPVs)
- not all insurers will be subject to the same list of SMFs
- the list of Prescribed Responsibilities (PRs) that a firm must give to a Senior Manager will apply in full to Solvency II firms and large NDFs but there are

Implementation is scheduled to begin from 2020.

fewer for small NDFs, third country branches and ISPVs (PRs will not apply to EEA branches)

- some roles currently requiring approval under the Approved Persons Regime will no longer need FCA approval as they will be covered under the Certification Regime.

The FCA is planning a further consultation on SM&CR for Appointed Representatives of firms later this year. Meanwhile it reminds principal firms and their Senior Managers that they are responsible for ensuring that Appointed Representatives and networks comply with the FCA's rules.

The comment period ends on 3 November 2017. Final rules are expected to be published in 2018.

See our feature article on p. 3 for more details.

PRA consults on strengthening individual accountability

Alongside the FCA's proposals to extend the SM&CR to insurers, the PRA published *CP14/17 Strengtheni1ng individual accountability in insurance: extension of the SMCR to insurers* on 26 July 2017. As well as aligning more closely the SM&CR for banks and insurers, the PRA aims to strengthen its regulatory regime to ensure insurers have an effective governance system with a clear allocation of responsibilities and to ensure the individual accountability of senior managers and directors In addition, the regime is intended to facilitate the recommendations in the Fair and Effective Markets Review by contributing to the fair and effective operation of markets.

The PRA proposes to:

- require insurers to annually assess and certify the fitness and propriety of employees performing functions deemed capable of causing 'significant harm' to the firm or its customers
- apply its conduct rules to all key function holders and material risk takers at large insurers (those with annual gross premium income of more than £1bn in each of the previous three financial years, or assets related to regulatory activities greater than £10bn at the end of each of the last three financial years)
- require firms to notify it of internal disciplinary action against individuals within scope of the SM&CR due to breaches of the conduct rules
- give itself the ability to approve senior managers in insurance firms subject to conditions and time limits
- include a statutory duty of responsibility to hold senior managers accountable if a breach of a regulatory requirement takes place in their area of responsibility and the senior manager failed to take reasonable steps to prevent or stop the breach.

The PRA intends that its requirements reflect the important roles of underwriters and actuaries running insurers and are consistent with Solvency II governance requirements. It also proposes fewer requirements for small insurers not in scope of Solvency II and which have less than £25m of assets.

The comment period ends on 3 November 2017. The PRA expects to publish final rules in 2018.

Distribution

EC consults on IDD delegated regulation

On 20 July 2017, the EC published draft Delegated Regulations under the IDD on:

- *product oversight and governance requirements for insurance undertakings and insurance distributors*
- *information requirements and conduct of business rules applicable to the distribution of insurance-based investment products*.

It has based these on Technical Advice submitted to it by EIOPA in February 2017. The comment period ends on 17 August 2017.

FCA consults on IDD implementation

The UK Government intends to transpose and implement the IDD, as required, by 23 February 2018. The FCA published *CP17/23 IDD Implementation – Consultation Paper 2* on 24 July 2017. It puts forward further implementation proposals relating to:

- life insurance business, including information provision requirements, and additional requirements related to the distribution of insurance-based investment products (IBIPs)
- life and non-investment insurance business, including product oversight and governance, and professional and organisational requirements provisions
- non-investment insurance business, including product information.

In general, the FCA is proposing to apply the IDD minimum requirements, but to a wider range of firms than necessary to promote competition and consistency of regulatory standards. In some areas it also proposes standards above the IDD minimum requirements to maintain existing UK regulatory standards and align

standards with MiFID II. The comment period ends on 20 October 2017.

The FCA aims to publish a summary of responses to this consultation and a policy statement in December 2017. It also plans to consult on its remaining proposals for implementing the IDD over the next few months, including proposals to reflect the Level 2 delegated acts in the Handbook. In addition, the FCA intends to address any Handbook changes arising from the output from the HMT's February 2017 consultation on implementing the IDD, including any changes to the regulatory processes and the Perimeter Guidance Manual.

Financial stability

EIOPA reports relatively stable risk exposure

EIOPA published its *Risk Dashboard- First quarter 2017* on 31 July 2017. It shows EU insurance sector risk remained stable overall in the first quarter of 2017, with Solvency II ratios strong and stable for groups. But EIOPA notes a slight deterioration, particularly for solo non-life insurance undertakings.

EIOPA reports volatility has decreased and global inflation rates are fluctuating near the 2% medium-term inflation target. It also finds that the continuing low-yield environment and the observation that market fundamentals might not properly reflect the underlying credit risk are still important concerns for the EU insurance industry. But EIOPA notes that market perception is relatively stable, with some signs of improvement in CDS spreads.

Operational resilience

PRA finalises market-turning event policy

The PRA published *PS16/17 Dealing with a market-turning event (MTE) in the general insurance sector* on 5 July 2017. It provides feedback to its September 2016 consultation (CP32/16) and a final Supervisory Statement (*SS 5/17*). The PRA also includes responses to recommendations made in an industry *White Paper* published in January 2017 following an exercise simulating a $200bn catastrophic loss event that took place in November 2016.

The Supervisory Statement includes requirements for insurers to plan for and respond to a MTE causing significant general insurance loss. The PRA has made several changes to the drafts consulted upon. The changes include:

- further consideration of the characteristics of a MTE and its impact on firms' model change policies
- addressing concerns over the speed of a regulatory response following a MTE (including the PRA's interaction with Lloyd's and other regulators)
- amendments made to the example loss return template
- clarification of the application of proportionality and firms' use of existing documentation such as ORSAs
- amendments to more explicitly draw out the importance of liquidity management following a MTE.

The PRA has not made any changes to the draft Supervisory Statement regarding its requirements for firms that breach or may breach their SCR or MCR in the three months following the MTE.

Given the likelihood of greater regulatory scrutiny in this area, insurers need to ensure that they understand and meet the requirements of the Supervisory Statement. It is important that they assess how well prepared they are for a MTE, including the impact on their financial position, and identify issues requiring redress.

Lloyd's also published *MTE - Lloyd's Guiding Principles* on 19 July 2017. It specifies measures to enhance and speed up the process of approving syndicate business plans after a MTE.

PRA finalises cyber underwriting risk policy

The PRA published *PS15/17 Cyber insurance underwriting risk* on 5 July 2017. It provides feedback from the November 2016 consultation (CP39/16) and includes Supervisory Statement (*SS4/17*) setting out its expectations on the prudent management of cyber insurance underwriting risk. It expects firms to be able to identify, quantify and manage the risks emanating from cyber underwriting both in terms of affirmative and 'silent' cover.

The PRA defines cyber insurance underwriting risk as the set of prudential risks resulting from underwriting insurance contracts that are exposed to cyber-related losses resulting from malicious acts (e.g. cyber attack, infection of an IT system with malicious code) and non-malicious acts (e.g. loss of data, accidental acts or omissions) involving both tangible and intangible assets. The final policies are in line with the drafts consulted upon subject to a few clarifications.

We recently carried out a market survey in this area and the results indicated that a lot of work is still required by insurers to measure and mitigate cyber risk. See our *press release - Comments on PRA supervisory statement* for further details.

Recovery and resolution

EIOPA calls for recovery and resolution framework

EIOPA published its *Opinion to institutions of the EU on the harmonisation of recovery and resolution frameworks for (re)insurers across the Member States* on 5 July 2017. It calls for a minimum harmonised and comprehensive recovery and resolution framework for insurers aligned with the Solvency II framework to deliver increased policyholder protection and financial stability in the EU.

The creation of a recovery and resolution framework for insurers has been a long-standing desire of EIOPA and once again it sets out its case for building such a framework in this Opinion. But there is a lack of political agreement across the EU to back such a framework and so there is no timetable to turn the framework into a reality in the foreseeable future.

Retail products

EC reviews Motor Insurance Directive

The EC published a consultation document *REFIT Review of Directive 2009/103/EC on motor insurance* and *impact assessment* on 28 July 2017. It considers the operation of the Motor Insurance Directive, including its scope, the portability of claims history statements and the role and functioning of motor guarantee funds, and possible options for amendments and their impacts. The comment period ends on 20 October 2017.

Solvency II

EIOPA progresses Solvency II review

EIOPA published *CP-17-004 on EIOPA's first set of advice to the EC on specific items in the Solvency II Delegated Regulation* on 4 July 2017. It follows on from EIOPA's *December 2016 discussion paper* and sets out its draft advice to the EC regarding possible refinements to the standard formula SCR in the areas of: simplified calculations; reduction in reliance on external credit ratings; treatment of guarantees; exposure guaranteed by a third party and exposures to regional governments and local authorities; risk-mitigation techniques; undertaking specific parameters; and the look-through approach on investment-related vehicles. The consultation period ends on 31 August 2017.

EIOPA intends to submit its first set of advice to the EC in October 2017 and then consult on its *Second set of advice on the Solvency II Review* by the end of the year for submission to the EC by February 2018. The second set of advice considers the risk margin, own funds, policy options on loss-absorbing capacity of deferred taxes, catastrophe risks, premium and reserve risks, mortality and longevity risks, counterparty default risk, currency risk at group level, interest rate risk, simplifying look-through, unrated debt, unlisted equity and strategic participations.

The EC plans to finalise the first phase of the review by December 2018 while the Solvency II framework will be reviewed by 2021.

PRA publishes final matching adjustment policy

The PRA published *PS14/17 Solvency II: matching adjustment - illiquid unrated assets and equity release mortgages* on 5 July 2017. It provides feedback from the PRA's December 2016 consultation (*CP48/16*) and includes the final Supervisory Statement (*SS3/17*) setting out requirements for firms wishing to include illiquid, unrated assets (including restructured equity release mortgages) within their Solvency II matching adjustment portfolios. The final policies are in line with the drafts consulted upon subject to a few minor amendments and clarifications.

EIOPA calls for comments on explanatory notes

EIOPA published a *call for comments on the explanatory notes of the Variation Analysis Templates* (S.29.01 to S.29.04) on 29 June 2017. It requires comments on the *Explanatory notes on reporting templates Variation Analysis templates* and *Examples of reporting* developed in response to non-life insurers' frequently asked questions. EIOPA also includes potential improvements of the instructions on reporting items defined in the reporting ITS. The comment period ends on 25 August 2017.

EIOPA publishes latest XBRL taxonomy

EIOPA published its final Data Point Model and Taxonomy version 2.2.0 and release notes on 17 July 2017. This version is for use from the 31 December 2017 reference date. At the same time EIOPA submitted draft amendments to the ITS on reporting and the ITS on disclosure to the EC.

EIOPA also updated the *list of validations* and the *list of known issues* for the 2.1.0 version of Solvency II XBRL Taxonomy.

EIOPA updates Q&As

In July 2017, EIOPA updated its *questions and answers* on:

- *Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC*
- *(EU) No 2015-2450 with regard to the templates for the submission of information to the supervisory authorities*

- *(EU) No 2015-2452 with regard to the procedures, formats and templates of the solvency and financial condition report*
- *Risk-free interest rate – Matching adjustment*
- *Volatility adjustment*.

Supervision

EIOPA's view on relocations from UK

EIOPA published its *Opinion* on supervisory convergence in light of the UK withdrawing from the EU on 11 July 2017. It sets out principles to foster supervisory convergence and ensure consistency in the authorisation process related to the relocation of insurers from the UK.

It includes principles for granting authorisation and approvals, governance and risk management, the outsourcing of critical and important activities and the ongoing supervision as well as monitoring by EIOPA. It indicates that any new EU insurers should have substance (no empty shells) and supervisors may require risk retention of at least 10%. It's important to remember that this is an Opinion and has no legal force, so it remains to be seen how EU regulators will act in response to EIOPA's suggestions.

HMT publishes final ILS regulations

HMT published *Regulations implementing a new regulatory and tax framework for ILS* on 20 June 2017. It sets out feedback to its *November 2016 consultation* and final Risk Transformation Regulations for insurance special purpose vehicles (ISPVs) which are due to come into force on 31 October 2017. HMT includes additional information on:

- the corporate structure for multi-arrangement ILS vehicles to be used in the UK
- the tax treatment for ILS vehicles and their investors
- the approach to authorisation and supervision of ILS vehicles by the PRA and FCA.

The PRA also published an *Update on ISPVs, following HMT's release of its updated Risk Transformation Regulations* on 20 July 2017. It highlights a change to the proposed UK regulatory regime for multi-arrangement ISPVs. Under the new approach, the PRA will authorise the scope of activities of a multi-arrangement ISPV intended to create additional cells, including the parameters within which future cells may be established, and the scope of the firm's permission will be limited on this basis. Then, when a new proposed cell is in line with those agreed activities, the multi-arrangement ISPV is required to notify the PRA within five working days of assuming the new risk.

Later this year, the PRA and FCA intend to publish their final approach to the authorisation and supervision of ISPVs, which will also include details of the feedback received in response to CP42/16.

BoE considers Solvency II impact

The BoE published a *Speech on Changing risks and the search for yield on Solvency II capital* by David Rule, its Executive Director of Insurance Supervision, on 6 July 2017. Rule considered the impact of implementing Solvency II in the UK, as well as risks facing insurers and the supervisor's response. He reported good progress on work with the ABI to identify practical improvements to the UK's implementation of Solvency II, especially the processes around model changes, the matching adjustment and regulatory reporting. Rule also noted that he plans to hold roundtables with insurers, investors and analysts to discuss Solvency and Financial Condition Reports (SFCRs) and review the annual SFCR audit requirement for the smallest insurers.

For life insurers the BoE has concerns regarding investment concentration risk, particularly in respect of illiquid direct investments including property. Rule said the BoE plans to issue a supervisory statement later in the year covering how the prudent person principle should be applied in the UK. He also noted that the rate of improvement in life expectancy of older people appears to have slowed. The PRA plans to make some changes to its quantitative indicators as a result (whilst warning annuity writers to be cautious in changing their longevity assumptions).

For general insurers the BoE is concerned about 'too much' reserve releases, underestimating risks on new business, loosening terms and conditions and expansion into unfamiliar areas. It plans to: review underwriting and exposure management at large London Market insurers, conduct a thematic review of smaller Lloyd's managing agents, assess how distribution channels are changing, and review underwriting and risks around pricing at a number of motor insurers.

On SFCRs, Rule noted there are some areas (e.g. change in SCR coverage) where users would benefit from more detail. He added that the BoE is reviewing whether an ongoing requirement for audit of every year's SFCR is proportionate for the smallest insurers.

Accounting

Our publications

In-depth guide to IFRS 17 Insurance contracts

Our publication *IFRS 17 marks a new epoch for insurance contract accounting* is a detailed guide to all aspects of IFRS 17 - Insurance contracts (IFRS 17). The IASB issued IFRS 17 on 18 May 2017. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and key performance indicators.

Also this month

FCA

The FCA published an *information request to with-profits firms* on 30 June 2017. It requests information to help identify areas of focus for a review of the fair treatment of with-profits customers scheduled to start in Q4 2017 or Q1 2018.

EIOPA

EIOPA published *CP-17-005 CP on EIOPA's regular information requests towards NCAs regarding provision of occupational pensions information* on 26 July 2017. It proposes a single framework for the regular reporting of occupational pensions information and a package of reporting templates to streamline all quantitative reporting requirements on occupational pensions. The comment period ends on 27 October 2017.

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
12/08/17	*CP17/15: Powers in relation to LIBOR contributions*	*FCA*
12/08/17 (chapter 4 only)	*CP17/14: Quarterly Consultation Paper No. 17*	*FCA*
17/08/17	*Anti-money laundering supervisory review*	*HMT*
18/08/17	*Draft recommendations on outsourcing to cloud service providers under Article 16 of Regulation (EU) No 1093/2010*	*EBA*
21/08/17	*CP10/17: Compliance with the EBA's Guidelines on disclosure: composition of collateral for exposures to counterparty credit risk*	*PRA*
21/08/17	*REFIT review of the Motor Insurance Directive*	*EC*
22/08/17	*CP17/17: Handbook changes to reflect the application of the EU Benchmarks Regulation*	*FCA*
22/08/17	*Interpretative communication on intra-EU investments*	*EC*
22/08/17	*Prevention and amicable resolution of investment disputes within the single market*	*EC*
24/08/17	*Guidelines on CCP conflicts of interest management*	*ESMA*
25/08/17	*Proposal for a Regulation of the EP and of the Council on a pan-European Personal Pension Product*	*EC*
28/08/17	*Draft EBA Report on the implementation of the EBA Guidelines on methods for calculating contributions to deposit guarantee schemes*	*EBA*
30/08/17	*Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices*	*FSB*

Closing date for responses	Paper	Institution
04/09/17	*Consultation on the evaluation of certain elements of the Short Selling Regulation*	*ESMA*
07/09/17	*CP17/19: Markets in Financial Instruments Directive II Implementation – Consultation Paper VI*	*FCA*
12/09/17	*CP11/17: Changes to the UK leverage ratio framework relating to the treatment of claims on central banks*	*PRA*
14/09/17	*Guidelines on Internalised Settlement Reporting under Article 9 of CSDR*	*ESMA*
15/09/17	*Draft RTS and ITS on the EBA register under PSD2*	*EBA*
18/09/17	*CR05/2017 Open-ended Fund Liquidity and Risk Management – Good Practices and Issues for Consideration*	*IOSCO*
18/09/17	*CR04/2017 Consultation on CIS Liquidity Risk Management Recommendations*	*IOSCO*
21/09/17	*CP17/16: Advising on Pension Transfers*	*FCA*
21/09/17	*CP9/17: Recovery planning*	*PRA*
21/09/17	*GFXC request for feedback on last look practices in the Foreign Exchange market*	*Global Foreign Exchange Committee*
22/09/17	*Framework for supervisory stress testing of CCPs*	*IOSCO*
22/09/17 (for chapters 2 and 3; 14/08/17 for chapter 4)	*CP8/17: Strengthening accountability in banking and insurance: optimisations to the SIMR and changes to SMR forms*	*PRA*
22/09/17	*Blueprint for the Future of UK Payments*	*Payments Strategy Forum*
25/09/17	*CP17/24: Information about current account services*	*FCA*

Closing date for responses	Paper	Institution
27/09/17	*Simplified alternative to the standardised approach to market risk capital requirements*	*Basel Committee*
28/09/17	*CP17/18: Consultation on implementing asset management market study remedies and changes to Handbook*	*FCA*
28/09/17	*Draft technical advice on content and format of the EU growth prospectus*	*ESMA*
29/09/17	*CP15/17: The minimum requirement for own funds and eligible liabilities (MREL) – buffers*	*PRA*
29/09/17	*Consultation on the draft ECB regulation on statistical reporting requirements for pension funds*	*ECB*
04/10/17	*CP17/20: Staff incentives, remuneration and performance management in consumer credit*	*FCA*
05/10/17	*Capital treatment for simple, transparent and comparable short-term securitisations*	*Basel Committee*
08/10/17	*Consultation on the targeted revision of EU consumer law directives*	*EC*
20/10/17	*Consultation on the development of secondary markets for non-performing loans and distressed assets and protection of secured creditors from borrowers' default*	*EC*
20/10/17	*CP17/23: Insurance Distribution Directive implementation – Consultation Paper II*	*FCA*
23/10/17	*GC17/7: Proposed guidance on a sourcebook for professional body supervisors on anti-money laundering supervision*	*FCA*
30/10/17	*Consultation on transparency and fees in cross-border transactions in the EU*	*EC*
31/10/17	*CP17/27: Assessing creditworthiness in consumer credit*	*FCA*
03/11/17	*CP17/25: Individual accountability - extending the SM&CR to all FCA firms*	*FCA*
03/11/17	*CP17/26: Individual accountability - extending the SM&CR to insurers*	*FCA*
03/11/17	*CP14/17: Strengthening individual accountability in insurance: extension of the SM&CR to insurers*	*PRA*

Forthcoming publications in 2017

Date	Topic	Type	Institution
Accounting			
TBD 2017	RTS on consolidation methods	Technical standards	EBA
TBD 2017	Developments in the market with regard to providing statutory audit services to public interest entities	Advice	EBA
TBD 2017	Accounting for expected credit losses	Guidelines	EBA
TBD 2017	Policy statement to CP46/16 – IFRS 9: changes to reporting requirements	Policy statement	PRA
Asset management			
TBD 2017	UCITS V Level 2 Regulation, SFTR and consequential changes to the Handbook – PS to CP16/14	Policy statement	FCA
Authorisations			
TBD 2017	ITS and RTS on authorisation of credit institutions under CRD IV	Technical standards	EBA
CASS			
TBD 2017	Asset segregation under AIFMD	Guidelines	ESMA
Conduct			
Summer 2017	Mortgage market study interim report	Report	FCA
September 2017	FAMR implementation part 1	Finalised guidance	FCA
November 2017	FCA response to MiFID II implementation consultation VI	Policy statement	FCA

Date	Topic	Type	Institution
December 2017	FAMR implementation part 2 – PS to CP17/28	Policy statement	FCA
TBD 2017	Consultation on new rules for firms running crowdfunding platforms	Consultation	FCA
TBD 2017	Remuneration benchmarking and high earners data under Articles 75(1) and (3) CRD IV	Report	EBA
TBD 2017	The collection exercise of approved higher maximum ratios for variable remuneration under Article 94(1)(g)(ii) CRD IV	Guidelines	EBA
TBD 2017	Suitability of members of the management body and key function holders under Article 91(12) CRD IV	Guidelines	EBA
TBD 2018	Mortgage market study final report	Report	FCA
Financial crime, security and market abuse			
TBD 2017	Enhanced due diligence under AMLD4	Guidelines	EBA
TBD 2017	Simplified due diligence under AMLD4	Guidelines	EBA
TBD 2017	RTS on central contract points under AMLD4	Technical standards	EBA
TBD 2017	MAR	Technical standards	ESMA
Insurance			
Summer 2017	Policy statement to CP38/16 Solvency II: group supervision	Policy statement	PRA
September 2017	IDD implementation – CP3	Consultation	FCA
September 2017	IDD implementation – PS to CP1	Policy statement	FCA
September 2017	FCA regulated fees and levies: insurers' tariff data for 2018/19	Consultation	FCA

Date	Topic	Type	Institution
Q4 2017	Proposed Handbook changes to reflect the new regulatory framework for insurance-linked securities – PS to CP17/3	Policy statement	FCA
TBD 2017	Policy statement to CP47/16: Maintenance of the 'transitional measure on technical provisions' under Solvency II	Policy statement	PRA
January 2018	IDD implementation – PS to CP3	Policy statement	FCA
Market infrastructure			
August 2017	FCA proposed 2017/18 fee rates for market infrastructure providers	Consultation	FCA
TBD 2017	The supervision of delegated credit institutions and central securities depositories authorised to provide banking type of ancillary services	Guidelines	EBA
Payments			
TBD 2017	RTS on central contact points under PSD2	Technical standards	EBA
TBD 2017	RTS on standardised terminology for payment services linked to a payment account under PAD	Technical standards	EBA
TBD 2017	ITS on the standardised format of documents and symbols (including consumer testing) under PAD	Technical standards	EBA
Pensions			
TBD 2017	Secondary annuity market – PS to CP16/13	Policy statement	FCA
Prudential			
TBD 2017	Disclosure of LCR	Guidelines	EBA
TBD 2017	Incremental default and migration risk	Guidelines	EBA
TBD 2017	Stress in correlation trading portfolios	Guidelines	EBA

Date	Topic	Type	Institution
TBD 2017	Integrity of the modelling process	Guidelines	EBA
TBD 2017	Incremental default and migration risk	Guidelines	EBA
TBD 2017	ITS amending the Commission Implementing Regulation with regard to the LCR	Technical standards	EBA
TBD 2017	Stressed VaR	Guidelines	EBA
TBD 2017	Netting	Guidelines	EBA
TBD 2017	The Supervisory Formula Method on securitisation under Article 262(3) of CRR	Guidelines	EBA
TBD 2017	Intraday liquidity risk	Guidelines	EBA
Securities and markets			
TBD 2017	SFTR RTS and ITS	Technical standards	ESMA
Supervision, governance and reporting			
Quarterly	Risk dashboard	Report	ESMA
October 2017	FCA regulatory fees and levies: policy proposals for 2018/19	Consultation	FCA
Q4 2017	Reviewing the funding of the FSCS – PS to CP16/42 and further consultation	Policy statement	FCA
H2 2017	Supervision of significant branches	Final guidelines	EBA
TBD 2017	ITS and RTS on the authorisation of credit institutions	Technical standards	EBA
TBD 2017	Credit Rating Agencies Regulation	Technical standards	ESMA

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

Glossary

ABC	Anti-Bribery and Corruption
ABI	Association of British Insurers
ABS	Asset Backed Security
ACER	Agency for the Cooperation of Energy Regulators
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU
AIMA	Alternative Investment Management Association
AML	Anti-Money Laundering
AMLD3	3rd Money Laundering Directive 2005/60/EC
AMLD4	4th Money Laundering Directive 2015/849/EU
AMLD5	5th Money Laundering Directive
AQR	Asset Quality Review
ASB	UK Accounting Standards Board
Banking Reform Act (2013)	Financial Services (Banking Reform) Act 2013
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework
Basel III	Basel III: International Regulatory Framework for Banks
Basel Committee	Basel Committee of Banking Supervision (of the BIS)
BBA	British Bankers' Association
BCR	Basic capital requirement (for insurers)
BIBA	British Insurance Brokers Association
BIS	Bank for International Settlements
BoE	Bank of England
BMR	EU Benchmarks Regulation
BRRD	Bank Recovery and Resolution Directive 2014/59/EU
CASS	Client Assets sourcebook
CCA	Consumer Credit Act 1974 (as amended)
CCB	Countercyclical capital buffer
CCD	Consumer Credit Directive 2008/48/EC
CCPs	Central Counterparties
CDS	Credit Default Swaps
CEBS	Committee of European Banking Supervisors (predecessor of EBA)
CESR	Committee of European Securities Regulators (predecessor of ESMA)
CET1	Common Equity Tier 1
CFTC	Commodities Futures Trading Commission (US)
CGFS	Committee on the Global Financial System (of the BIS)

CIS	Collective Investment Schemes
CMA	Competition and Markets Authority
CMU	Capital markets union
COBS	FCA conduct of business sourcebook
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
DEPP	The FCA's Decision Procedure and Penalties Manual
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)
DPM	Data point model
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
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
FCA	Financial Conduct Authority
FDIC	Federal Deposit Insurance Corporation (US)
FiCOD	Financial Conglomerates Directive 2002/87/EC
FiCOD1	Amending Directive 2011/89/EU of 16 November 2011
FMI	Financial Market Infrastructure
FMLC	Financial Markets Law Committee
FOS	Financial Ombudsman Service
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FSA	Financial Services Authority
FSB	Financial Stability Board
FSBRA	Financial Services (Banking Reform) Act 2013
FS Act 2012	Financial Services Act 2012
FSCP	Financial Services Consumer Panel

FSCS	Financial Services Compensation Scheme
FSI	Financial Stability Institute (of the BIS)
FSMA	Financial Services and Markets Act 2000
FSOC	Financial Stability Oversight Council
FTT	Financial Transaction Tax
G30	Group of 30
GAAP	Generally Accepted Accounting Principles
G-SIBs	Global Systemically Important Banks
G-SIFIs	Global Systemically Important Financial Institutions
G-SIIs	Global Systemically Important Institutions
HCSTC	High Cost Short Term Credit
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
IA	Investment Association
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICAAP	Internal Capital Adequacy Assessment Process
ICAS	Individual Capital Adequacy Standards
ICOBS	Insurance: Conduct of Business Sourcebook
IDD	The Insurance Distribution Directive (EU) 2016/97 – also known as IMD2
IFRS	International Financial Reporting Standards
ILAA	Internal Liquidity Adequacy Assessment
ILAAP	Internal Liquidity Adequacy Assessment Process
ILS	Insurance-Linked Securities
IMAP	Internal Model Approval Process
IMCO	The European Parliament's Committee on Internal Market and Consumer Protection
IMD	Insurance Mediation Directive 2002/92/EC
IMF	International Monetary Fund
IORP	Institutions for Occupational Retirement Provision Directive 2003/43/EC
IOSCO	International Organisations of Securities Commissions
IRB	Internal Ratings Based
ISDA	International Swaps and Derivatives Association
ITS	Implementing Technical Standards
JCESA	Joint Committee of the European Supervisory Authorities
JMLSG	Joint Money Laundering Steering Committee
JURI	Legal Affairs Committee of the European Parliament
KID	Key Information Document
KYC	Know your client
LCR	Liquidity coverage ratio

LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
MA	Matching Adjustment
MAD	Market Abuse Directive 2003/6/EC
MAR	Market Abuse Regulation (EU) 596/2014
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
MCD	Mortgage Credit Directive 2014/17/EU
MCOB	Mortgages and Home Finance: Conduct of Business sourcebook
MCR	Minimum Capital Requirement
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
MoJ	Ministry of Justice
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MREL	Minimum requirements for own funds and eligible liabilities
MTF	Multilateral Trading Facility
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
NST	National specific template
NURS	Non-UCITS Retail Scheme
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
PRIIPs Regulation	Regulation on key information documents for investment and insurance-based products (Regulation 1286/2014)
PSD2	The revised Payment Services Directive (EU) 2015/2366
PSP	Payment service provider
PSR	Payment Systems Regulator
QIS	Quantitative Impact Study
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)
RDR	Retail Distribution Review
REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011
RFB	Ring-fenced bank
RONIA	Repurchase Overnight Index Average
RRPs	Recovery and Resolution Plans
RTS	Regulatory Technical Standards
RWA	Risk-weighted assets
SCR	Solvency Capital Requirement (under Solvency II)
SCV	Single customer view
SEC	Securities and Exchange Commission (US)
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)
SEPA	Single Euro Payments Area
SFT	Securities financing transaction
SFTR	Securities Financing Transactions Regulation (EU) 2015/2365
SFO	Serious Fraud Office
SIMF	Senior Insurer Manager Function
SIMR	Senior Insurer Managers Regime
SM&CR	Senior Managers and Certification Regime
SME	Small and Medium sized Enterprises
SMF	Senior Manager Function

SOCA	Serious Organised Crime Agency
Solvency II	Directive 2009/138/EC
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SREP	Supervisory Review and Evaluation Process
SRB	Single Resolution Board
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
TC	Treasury Committee
TLAC	Total Loss Absorbing Capacity
TR	Trade Repository
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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170718-160726-TN-OS