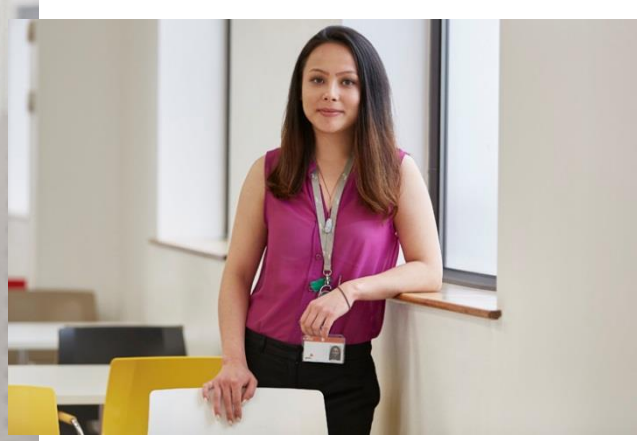
Being better informed

FS regulatory, accounting and audit bulletin



PwC FS Risk and Regulation Centre of Excellence

April 2017

In this month's edition:

- Conduct: FCA sets out plans for IPO rules reform
- Asset management: Examining the new advice definition
- Prudential: Basel revises the G-SIB assessment framework
- CMU: Taking stock in light of Brexit
- Insurance: IAIS calls for better corporate governance

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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."

Spring has sprung, and our legislators and regulators are as busy as ever. Brexit developments continued apace last month, with the UK Government triggering Article 50 and publishing a white paper setting out its approach to the Great Repeal Bill. The Bill will replicate EU law into UK law and represents an enormous challenge for UK financial services regulators. But the Government failed to make specific reference to financial services in the white paper, so we await further updates on how law will be repealed and replaced in financial services.

The EC also tackled some big topics last month, releasing consultations on the operation of the ESAs, improving consumer access to financial services, and FinTech. On the ESAs, the EC is seeking viewpoints on the organisations' governance structure, powers and funding. It asks whether the EBA and EIOPA should be merged into one entity to introduce a twin peaks supervisory structure, and whether ESMA's consumer protection powers should be strengthened. Firms should look out for further developments to ensure they are informed of any potential changes to supervision under the ESAs.

The EC's consultations on consumer access and FinTech are linked. It wants to improve consumer choice and border-free access to EU financial services, and argues that FinTech holds the key to this. The EC sets out an action plan for better consumer choice and access, which includes measures such as facilitating the cross-border use of digital identity checks, and introducing common creditworthiness assessment standards. The FinTech consultation gives the first major insight to the EC's approach to this subject, and suggests the EC will be highly supportive of innovation.

Also in the retail sector, the PRIIPs Level 2 standards entered their final stages last month, when the EC published a delegated regulation on the content and format of the PRIIPs KID. While this is subject to a review period by the Council, it's expected to be published in the Official Journal in its current form. The originally proposed PRIIPs RTS were voted down by the EP due to investor protection concerns in September 2016. The new standards address many of the EP's concerns, with the performance scenario criteria now taking account of stressed circumstances. But some of the long-standing criticisms of the Level 2 text remain, such as the concern that the methodology for transaction costs excessively captures market movements. Affected firms should carefully review the new standards and start acting on plans to introduce the KID.

In the UK, the FCA is consulting on new initial public offering rules. It aims to address concerns around conflicts of interest and the quality of market information resulting from the privileged role that 'connected research' plays in the public offering process. The FCA proposes that the issuer's prospectus must be published before any connected research. It also looks to address some of the conflicts of interest concerns by prohibiting analysts from being involved in any efforts by banks to win underwriting work.

The FCA's work on implementing MiFID II in the UK took another step forward this month. It published its first MiFID II policy statement and encourages firms to submit any necessary applications in good time ahead of the new regime going live in January 2018. It plans to issue a second policy statement in June this year.

The PPI misselling saga is finally drawing to a close. The FCA announced it will introduce a deadline of 29 August 2019 for making new PPI complaints. It also set out new rules and guidance on handling PPI complaints in light of the Plevin Supreme Court judgment, which the FCA says will create certainty and enable firms to take a fair and consistent approach to complaints. The Plevin decision means consumers may have new grounds to complain about PPI if the failure to disclose commission made the relationship unfair. The FCA will introduce a 50% commission 'tipping point' at which

firms should presume that the failure to disclose commission gave rise to an unfair relationship, and that profit share should be included in their calculation of commission.

In the prudential space, the BIS confirmed an ongoing delay in the finalisation of the reforms known as 'Basel IV'. Stefan Ingves, Chairman of the Basel Committee, explained that while progress towards completion continues, agreement between members is taking longer than expected. Ingves didn't disclose a timetable for finalising the reforms, so banks should look out for further updates.

The Basel Committee released a second consultation on step-in risk, as part of the G20's initiative to strengthen the oversight and regulation of the shadow banking system to mitigate systemic risks. Step-in risk is the risk that a bank might support unconsolidated entities, beyond any contractual obligation, to protect itself from any reputational damage arising from its connection to such entities. If not appropriately addressed, this could erode a bank's capital and liquidity position. The Basel Committee sets out a framework to help banks and supervisors evaluate, identify, measure and respond to step-in risk. It hopes to introduce the framework by 2019 at the latest.

In our first feature article this month we take an in-depth look at HMT's new definition of investment advice, and what this will mean for firms' business strategies and for consumer access to advice. Our second feature focuses on the CMU mid-term review, assessing what this work stream has achieved so far and how its future direction is likely to change, particularly in light of Brexit.

Looking ahead, in the coming weeks and months we expect to see ESMA's technical standards on the BMR and the FCA's 2017/18 business plan and mission. In the meantime, we hope you enjoy reading the latest updates.

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Contents

How to read this bulletin?

Review the Table of Contents the relevant Sector sections to identify the news of interest. We recommend you go directly to the topic/article of interest by clicking in the active links within the table of contents.

A new era for investment advice?

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HMT and FCA confirmed revisions to the definition of retail investment advice on 27 February 2017. The previous regulated activity of 'advising on investments' has been narrowed, now relating only to occasions when a firm provides a personal recommendation. The revised definition aligns to MiFID II and similarly takes effect in January 2018.

But the change is limited to firms regulated by the FCA. This nuance is important, as it allows the FCA to maintain some overarching influence and control over the firm, as a consequence of its underlying authorisation. An unregulated firm seeking the investment advice permission would still be subject to the wider 'advising on investments' definition, unless it holds multiple permissions.

So what will this change mean for firms? And to what extent will it solve the challenges facing the investment advice market?

A perfect storm

Firms - and consumer groups alike - have been concerned about access to advice for many years, even in advance of the RDR in 2012. HMT's 2016 FAMR identified barriers faced by firms in providing advice. The RDR improved the quality of advice, with additional qualifications, a ban on commission and altered independence definitions. But ironically it also pushed up the cost of providing such services. The combination of greater cost, with increased cost transparency (there's nothing like having to write a cheque to focus a consumer's mind) led to a reduction in the number of advisers, and thus in advice given.

These changes were set against an evolving public policy backdrop. The decline in defined benefit pension schemes - placing greater responsibility and investment risk on consumers - heightened consumers' need for advice. With individuals taking more personal responsibility due to the new pension freedoms, auto-enrolment and an aging population, the perfect storm of increased need and reduced availability risked real consumer detriment.

In FAMR, HMT challenged the industry to highlight limitations in regulation. Firms asked for clarity around the perimeter of 'advice', and campaigned for a narrower application of the definition of investment advice.

New entrants

While HMT's differentiated RAO makes sense - allowing firms regulated by the FCA to benefit from the narrow definition without giving newly-regulated firms too much regulatory freedom, there is a theoretical question about new entrants. Many firms hold multiple regulatory activity permissions, and therefore can use the narrower investment advice criteria. But a new innovative start up, with a targeted business model predicated on the narrow advice definition, could find itself caught in the catch-22 scenario of having to take unnecessary additional permissions to benefit from the reduced advice definition. While it might only need an advice permission in theory, in practice taking only one permission wouldn't provide access to the revised advice definition. In reality almost all firms are likely to need multiple permissions, but structurally this measure doesn't really sit comfortably with the regulator's approach to innovation.

Consumer protection

Of course, narrowing the scope of what constitutes regulated advice also impacts the scope and nature of consumer protection. A consumer purchasing a product through a process which today would qualify as an advised sale, but tomorrow would be non-advised, does potentially lose some protection afforded to them by an advised process.

Further, 'advice' triggers various RDR obligations, whereas non-advised sales can be made by unqualified staff, paid through commission, in vertically integrated models. Consumers face greater risk from an

increase in this kind of business, which may not sit well with the original aims of FAMR.

Industrial solutions

Firms still need to address some practical underlying issues, despite having secured the narrower definition of advice. Notably, through the creation of automated advice or 'formerly-advice' solutions, firms risk hardcoding repeat successes - or potentially failures. FOS assesses each case on its own merits, but where a firm has used the exact same industrial process to serve multiple clients, an underlying concern of widespread mis-selling may persist.

HMT's altered definition may also not be enough to address the advice gap. The FCA explicitly highlights the example of 'people like you buy this product' as a form of implicit personal recommendation. If this remains a personal recommendation, and thus advice, some of the more creative ways of getting a consumer over the line - that final nudge (or big shove) which is so often necessary, will remain advice. For those firms designing services and technology-based solutions this could still be a practical stumbling block.

Legacy and the future

FCA and HMT haven't fully explored the approach to legacy arrangements. If less 'advice' is going to be 'advice', someone who initially received 'advice' could now be receiving 'non-advice'. Consumers could be confused by this distinction and it could complicate the basis upon which firms serve them. It could also create excessive churn for consumers if they are moved into non-advised services.

What should firms do?

Putting these concerns aside, the new advice definition clearly presents an opportunity for firms. Firms designing robo-solutions have the opportunity to deliver certain services outside the scope of advice. These services would have different terms of product construction, remuneration and sales processes, which opens up new opportunities. Firms must take account of the definition change in their strategy, with many seeing this as a chance to serve wider, previously unprofitable markets, or to trial more innovative approaches. Although for the most advanced firms, elements of this change may feel a little dated.

Today, the FCA's agenda focuses on transparency, cost and value. This focus is evident through the enactment of PRIIPs and MiFID II, but also in its competition powers which drive proposals such as those of its asset management market study. Narrowing the definition of advice may result in more 'non-advice', but this won't necessarily be more transparent, better value or cheaper. This may be a solution to yesterday's problems, rather than today's issues.

We need a regime that encourages innovative and cost effective use of technology that productively works with consumer behavioural traits. For example, 'people like you buy this' - when evidenced through deep big-data analysis could be an extremely robust form of guidance. We need a bold solution: maybe one that isn't either advice or guidance, but a third way.

A new era for investment advice will be welcomed by some. A new era of investment non-advice, perhaps not. A new solution, which is neither advice nor guidance, would be truly exciting.

Taking stock of CMU in the midst of Brexit

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The EC's mid-term review of the CMU is an opportunity for firms to engage with this important initiative, particularly as EC is refocusing due to Brexit.

Implementing CMU has been challenging, in large part because of its complexity, scope and multiple policy goals. The EC's mid-term review consultation published on 20 January 2017 provides some welcome clarity around progress and how the CMU agenda has shifted in response to implementation challenges. But while the EC may have refocused and recalibrated its approach to Brexit, the potential disruption from Brexit to EU capital markets presents both challenges and opportunities for both CMU and wider Brexit negotiations that the EC hasn't yet tackled.

For UK firms, CMU presents an opportunity to highlight the interconnectedness of the UK and EU capital markets to both sides during Brexit negotiations. Similarly, firms should be engaging with their national competent authorities and the EU institutions to ensure that CMU work streams continue to provide market access by including robust equivalence and grandfathering provisions in regulatory initiatives under development.

At a high-level CMU seeks to achieve the following:

- financing for innovation, start-ups and non-listed companies
- making it easier for companies to enter and raise capital on public markets
- investing for long-term, infrastructure and sustainable investment
- fostering retail investment and innovation
- strengthening banking capacity to support the wider economy
- facilitating cross-border investment.

The mid-term review consultation shows that the vast majority of the CMU work streams remain unfinished, so firms can still engage in the wider debate and help shape regulatory proposals.

A mixed success so far

In certain areas, CMU has been surprisingly ambitious. The EU institutions have taken some steps to intervene in those areas which traditionally have been the province of domestic law but are interconnected with capital market formation. For example:

- a proposed corporate tax offset allowance for equity issuance, to counteract the 'debt-equity bias' (i.e. companies seeking debt finance rather than equity finance because of perceived tax benefits)
- proposed insolvency rules around preventative restructuring frameworks
- a consultation to assess a potential framework for EU personal pensions.

Despite these promising developments, inter-institutional inefficiencies have impeded progress in trilogue discussions and in many instances the EP and Council have become roadblocks. For example, the EC proposed a regulatory framework for 'high quality' securitisations alongside the release of the wider CMU action plan in Q3 2015. But the proposal has endured complex trilogue negotiations because the EP has fundamental objections to the underlying rationale of the regulation, specifically expanding the EU securitisation market. Similarly ambitious agenda items, such as reducing credit risk capital reductions for infrastructure exposure and reducing capital requirements for credit unions more broadly, also await approval by the EP and Council.

Pulling punches on regulatory **convergence...**

The EC conceived CMU on the premise that both a synergy and a dependency exist between the robustness of the regulatory structure supporting the capital markets and the strength of those markets. Certainly, the US capital markets presents a compelling example to support this

premise. Its capital markets grew when the US replaced individual, divergent state regulation with a framework of national laws and regulation that were consistently applied by federal regulators.

CMU is also based on the premise that a complex, institutionally-driven integration plan can achieve what market forces alone cannot. In many areas, the EC signalled that it would explore whether consistent EU rules should replace divergent member state rules, to create a common pan-EU framework similar to what the US achieved. But the EU has consistently pulled its punches in this area, choosing voluntary or private sector-solutions over regulation in areas such as private placements and covered bonds. These examples are areas where consistent rules would likely lead to increased cross-border activity and the emergence of EU-wide instruments, but the EC's hesitant approach arguably limits the CMU's potential.

That said, this theme has not been entirely forgotten as the EC has explored supervisory convergence.

...but open to supervisory convergence:

In a recent consultation, the EC explores the effectiveness of the ESAs and how strengthened EU supervision could improve capital markets. It proposes giving the ESAs more direct supervisory authority and reducing the role of national competent authorities in the ESAs' rule-making processes. Both these two headline recommendations fit nicely with the CMU's underlying premise that increased regulatory convergence can improve capital markets.

In addition to looking at how the ESAs could better use existing powers, the EC suggests giving the ESAs direct supervisory authority over additional market participants and activities. Currently, the ESAs have direct supervisory authority only over credit rating agencies and trade repositories.

Notably, the consultation paper looks at extending ESA oversight of pan-EU investment regimes, such as AIFMD, UCITS and ELTIFs. Such supervisory authority, coupled with relevant rule changes, would address concerns that divergences around marketing rules and local authorisation fees inhibit cross-border distribution and investment, preventing these funds from enjoying the economies of scale and broad geographic reach of their US counterparts. More broadly, this change would represent a critical shift in oversight as member states would be far more limited in their ability to use regulatory divergence as a means of attracting business. Further, the EC explores expanding its authority over financial market infrastructure by extending its oversight of CCPs.

While the EC appears hesitant to push for new pan-EU regulation, it does seem as though it is keen to build upon pan-EU regimes already in place and to strengthen convergence through enhanced oversight by the ESAs.

Beyond granting additional powers, the EC explores whether the ESAs' governance structures should be changed to reduce the role of the national competent authorities in the formation of technical rules and supervision. The EC proposes creating permanent executive boards that would be more likely to adopt a genuinely supranational approach and avoid excessive national interests.

A pivot to address apathy and disruption

The UK's decision to leave the EU and the consequent distraction it is posing for EU institutions has exacerbated the already uneven progress on CMU. The ESAs, national competent authorities and firms are still focused on a wide variety of upcoming implementation challenges (e.g. MiFID II) from the post-financial crisis regulatory agenda. That distraction has also hampered progress on CMU.

The EC published a communication in September 2016 reaffirming its commitment to the CMU, and to address the accumulated concerns of Brexit, an uneven roll out of CMU, and tension within the EU institutions. While fundamentally affirming the planned trajectory, the EC also signalled an important pivot with the intent to re-energise the CMU agenda. It is focussing explicitly on three new priority areas: sustainable finance, Fintech and supervisory convergence by the ESAs.

Brexit poses challenges for every aspect of CMU, especially the three new focus areas. But the CMU framework also provides a fairly comprehensive opportunity for the EU and the UK to maintain links post-Brexit, on market activities where the EU is most dependent on the UK's investors, infrastructure, intermediaries and the example it sets. Whether or not the EU will seize this opportunity remains to be seen.

Brexit

Because of the acknowledged fragility of the EU's capital markets, and its current reliance on London as a capital markets ecosystem, the EU needs to make a more comprehensive assessment of the challenges that Brexit poses for CMU than has been attempted so far. The EC has already referenced Brexit in various CMU communications to support the idea that CMU is needed now more than ever, as tighter integration amongst the remaining member states will be necessary. But CMU can also be a mechanism to advance market integration in the interests of both the UK and EU-27 despite Brexit - an opportunity that it isn't too late for the EU and the UK Government to seize.

The EU hasn't managed to finalise any of the major CMU initiatives other than some changes to the prospectus rules. Whether its further CMU initiatives take the form of concrete regulations or less immediately

applicable reports and horizon-scanning analysis, the EU has the opportunity to expand the potential for market access through equivalence. For example, UK venture capital funds benefitting from designation as 'EuVECAs' could still benefit European investors by continued access either through equivalence or grandfathering provisions. Likewise, preventing UK firms from using the passporting opportunities afforded by the Prospectus Regulation or benefitting from the STS securitisation designation, would further limit investment opportunities for EU investors.

CMU presents a unique opportunity because it is ambitious, unfinalised, and covers an area where both the UK and EU have acknowledged the need for increased integration. It probably won't be possible to actually embed equivalence provisions in regulations that have yet to be formally proposed or are in trilogue negotiations. The biggest opportunity is around shaping the debate in the various reports and working groups developed on further initiatives that the EC brings forward to advance the CMU agenda.

For example, the EC's efforts studying the impact of fragmented markets within Europe around crowd-funding and personal pensions both present opportunities to look at the impact of Brexit on both the UK and other EU capital markets. Likewise, they provide a potential vehicle for advocacy of a robust equivalence framework when the rule-making process begins.

CMU provides a chance to improve upon the EU's current approach of narrowly-tailored equivalence. In addition, capital markets considerations provide strong justification for a bespoke trade agreement on financial services that would efficiently preserve much of their current integration and scale.

As CMU's multi-pronged, multi-track nature demonstrates, capital markets are arguably harder to integrate than certain other types of retail and wholesale markets. Consequently, they are more likely to be negatively affected by the current framework of limited equivalence on a provision-by-provision basis within regulations. A bespoke trade agreement providing for market access on a comprehensive basis, justified by strong regulatory alignment, would be an arguably more effective way to ensure that any market split is not due to gaps in market access.

To underscore the potential for CMU to act as a bridge during Brexit, all of the recent CMU areas of focus play to UK strengths. The UK has proven to be a leader in sustainable finance, especially led by the BoE's review of the impact of climate-change risk on its statutory activities. Likewise, the FCA has been a world leader in regulatory support of FinTech through its innovation hub, regulatory sand box and tech sprints. Lastly, if political considerations can be overcome, the UK could possibly negotiate acceptance of joint UK/ESMA supervision of certain activities as a means to obtain market access post-Brexit, which could be especially valuable if ESMA's remit were to be expanded in the asset management space.

What should firms do?

The EC has initiated an impressive agenda on CMU but nearly all of it is yet to be finalised. Firms can respond to the wide range of consultations and regulatory proposals that are currently on the table or coming soon, and take up opportunities to engage with national competent authorities and the EU institutions on those initiatives still stuck in negotiations. More broadly, firms should try to take a step back from the deluge of near-term compliance and implementation challenges they are currently grappling with to consider CMU's continuing potential and whether they want to influence its direction.

Brexit may tempt UK firms to disengage, but they should be especially involved because the UK's financial sector and the EU capital markets would be dramatically strengthened if CMU could be used as a mechanism for continued access in both directions after Brexit. It is a potentially valuable bargaining chip that the UK Government should be mindful of as it enters into negotiations.

Cross sector announcements

In this section:

Regulation

Brexit

Pathway to the Great Repeal Bill

The Government published its *White Paper* on Legislating for the United Kingdom's withdrawal from the European Union on 30 March 2017 (the White Paper). The White Paper sets out the purpose and expected content of the upcoming Great Repeal Bill 2017 (GRB). The White Paper explains that the GRB will have three main functions. It will:

- repeal the European Communities Act 1972
- convert existing EU law into UK law, making changes for the laws to function but not major policy changes, and
- provide the Government with wide-ranging powers to amend EU-derived law using statutory instruments rather than primary legislation.

The legislative drafting process for the GRB will run in parallel with Article 50 negotiations. The intention is for most EU laws to be replicated, but the EU Charter of Fundamental Rights will not continue unless those rights are already part of UK law.

The Court of Justice of the EU (CJEU) will continue to have a role, as the UK will treat its decisions as precedents when interpreting EU-derived law.This will be the case until such CJEU decisions are overturned by the UK Supreme Court or UK legislation. After exit, the UK devolved governments are expected to get enhanced powers to legislate in areas previously covered by EU law.

The GRB will be introduced in the next Parliamentary session. This is expected to start on 17 May 2017.

Capital and liquidity

Enhancing encumbrance disclosure

The EBA published its final report *draft RTS on disclosure of encumbered and unencumbered assets under Article 443 of the CRR* on 3 March 2017. This Pillar 3 disclosure is an enhancement to *EBA guidelines on disclosure of encumbered and unencumbered assets* finalised in June 2014. In developing this RTS the EBA draws on its experience of collecting similar data under COREP as well as developments in financial reporting disclosure.

The quantitative disclosure takes the same form as in the guideline and includes the carrying amount and fair value of encumbered and unencumbered assets, the collateral received and associated liabilities. But the RTS requires greater granularity in

the breakdown of encumbered and unencumbered assets and off-balance sheet items by asset class. It also requires the breakdown of each asset class by high quality liquid assets too.

The EBA enhances qualitative disclosure providing more clarity on the information requirements concerning explanations of the level, nature and changes of encumbrance over the reporting period. This also extends to the degree of over-collateralisation and the structure of encumbrance within a group.

The asset quality disclosures don't apply to credit institutions with total assets of less than €30bn or encumbrance levels below 15% of total assets or to CRR investment firms. For the larger credit institutions affected, the EBA intends to allow an additional year after the RTS comes into force to make these asset quality disclosures. The EBA intends that this RTS replaces the guidelines when it comes into force. But it does not indicate a target implementation date.

Delaying finalisation of 'Basel IV'

The BIS issued a *press release* on 2 March 2017 revealing the ongoing delay to the finalisation of the reforms known as 'Basel IV'. Stefan Ingves, Chairman of the Basel Committee, explains that whilst progress towards completion continues, agreement is taking longer than originally expected. He says 'the differences, where they remain, have narrowed'.

Ingves acknowledges the importance of providing clarity and certainty to market participants but doesn't disclose a finalisation timetable. He notes that the Basel Committee members remain supportive of the key features of the reforms, including the leverage ratio framework, the risk weighted asset framework and the output floor.

Adjusting LGD for economic downturns

The EBA published the consultation paper *Draft RTS on the specification of the nature, severity and duration of an economic downturn in accordance with Articles 181(3)(a) and 182(4)(a) of CRR* on 1 March 2017. This is part of the EBA's broader work on the IRB approach to the calculation of credit risk capital requirements aimed at reducing the variability in the outcomes of internal models.

CRR requires applicable firms to use loss given default (LGD) and conversion factor estimates that are appropriate for an economic downturn if those estimates are more conservative than the long-run average. In this RTS, the EBA specifies the methodology for identifying these economic downturn conditions. This approach assumes that macroeconomic and credit factors drive downturn economic conditions and should be analysed at the level of model components.

The EBA recognises the significant implementation effort of this approach and outlines two simpler alternatives. These are the reference value approach and the supervisory add-on approach. The EBA considers the former the 'pragmatic alternative' to the model component approach but is open to industry feedback. It does admit it is also the approach likely to require the highest degree of supervisory and firm judgement.

The draft RTS does not cover the methods used by firms to reflect these downturn conditions in their estimates. To address this the EBA proposes separate amendments in this consultation to *draft EBA Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures* which itself is currently under consultation. The EBA proposes to implement this RTS by the end of 2020 at the latest. This reflects a wider phase-in approach to the implementation of all of the changes arising from its review of the IRB approach. The consultation closes on 29 May 2017.

Facilitating cooperation between NCAs

The *Regulation (EU) 2017/461 laying down ITS with regard to common procedures, forms and templates for the consultation process between competent authorities for proposed acquisitions of qualifying holdings in credit institutions as referred to in Article 24 of CRD IV* was published in the Official Journal on 17 March 2017.

It improves and streamlines information exchanges and ensures effective communication between NCAs. The EBA sets out requirements for the designation of contact points within NCAs and the process and timeline for submitting and responding to a consultation notice. The ITS is effective from 6 April 2017.

Client assets

Benefitting from dormant assets

The Commission on Dormant Assets proposed *Tackling dormant assets - recommendations to benefit investors and society* on 3 March 2017. A dormant account scheme already exists for certain banks and building society deposits and covers most of the retail banking market. The Commission examines the scope for broadening the range of assets that could be included in the scheme. These include insurance and pension policies, investment funds and securities.

The Commission estimates there is £1-2bn of additional funds available for the benefit of good causes from an expanded scheme. It concludes that:

- there are significant levels of dormant assets that financial services firms have not, or have been unable to reunite with customers
- the current dormant accounts scheme should be expanded to include new asset types

- participation in an expanded scheme should continue to be voluntary as this works well with the current scheme
- new legislation is needed to facilitate expansion of the scheme
- the current delivery mechanism needs modifying to deal with the new asset types.

The Commission makes over 50 recommendations to enhance the current scheme and to expand this to include a wider range of dormant assets. These include recommendations relating to firms' efforts to reunite customers with dormant assets. It describes its report as a 'starting point for an ambitious, long-term programme of work'. The Commission says a legislative framework is unlikely to be introduced before 2018, and it could take years after that before new dormant assets start to flow into an expanded scheme.

Client money

Streamlining client asset distributions

HMT made *The Investment Bank (Amendment of Definitions) and Special Administration (Amendment) Regulations 2017 - SI 2017/443* on 16 March 2017. It follows HMT's consultation *Reforms to the investment bank special administration regime (SAR)* published in March 2016 and the FCA's consultation *CASS 7A and the SAR review - CP17/1* published in January 2017. The regulations:

- facilitate the rapid transfer of client assets and relationships of an investment bank that is in a special administration
- expand the scope of the use of bar dates (the dates by which clients must submit claims) to include client money
- enable an administrator to assign costs arising from an investment bank's failure to comply with the CASS rules to the general estate rather than the client estate.

The regulations also amend the definition of investment bank for the purposes of the SAR to include managing an AIF or UCITS and acting as a trustee or depository of an AIF or UCITS. The regulations entered into force on 6 April 2017.

Competition

CMA hopes to speed up investigations

The CMA proposed changes to the way it carries out market investigations, in *Updated guidance on the CMA's approach to market investigations* on 6 March 2017. It hopes the changes will allow it to carry out market investigations more quickly. The CMA proposes:

- increasing interaction with stakeholders at an early stage in investigations, including holding formal hearings sooner
- assessing potential remedies to improve the market at an earlier stage
- reducing the number of formal publications and consultation stages, by removing the updated issues statement and combining the provisional findings and provisional remedies into a single report
- allowing market studies to carry out preparatory work when they are likely to lead to a full investigation
- allowing the CMA board the option to give an advisory steer on the scope of a market investigation.

Following the consultation, the CMA plans to update its market studies and investigations guidance to incorporate the changes. The consultation closes on 2 May 2017.

CMA reveals comparison tools study's focus

The CMA identified transparency and contractual arrangements as key areas of focus in its market study into digital comparison tools, in *Digital comparison tools market study: Update paper* on 28 March 2017. The CMA launched the market study in September 2016 and published the update to reveal its findings so far and invite comments from stakeholders.

The study looks at digital intermediaries that help consumers compare or switch, across a number of sectors, including credit cards, home insurance and energy. The CMA finds that digital comparison tools offer a number of benefits, but it identifies several concerns which it plans to focus on in the second phase of the study. These are:

- increasing transparency (e.g. in intermediaries' treatment of personal data)
- certain practices and contractual arrangements between comparison tools and suppliers that could limit healthy competition between comparison tools
- the way comparison tools are regulated
- the availability of information from suppliers.

The CMA has ruled out referring the market for a more in-depth investigation. But it could take a number of actions, including making recommendations to regulators or the Government, and taking action to improve the information available to consumers. The CMA is due to publish its final report by 28 September 2017, and invites comments on the update paper by 24 April 2017.

CMA confirms its priorities

The CMA published its *Annual Plan 2017/18* on 30 March 2017. It reflects the *feedback* on its consultation in December 2016 about its objectives and priorities for the coming year. The CMA reports that the feedback shows widespread support for its priorities and commitments. In particular, respondents welcomed the increased focus on swift and effective enforcement of competition and consumer law.

In line with its feedback, the CMA has not substantially changed its plan from the draft consulted on. But it now includes additional commitments to engage with the devolved UK administrations on the competition impact of their activities and to train public procurement professionals to detect cartels and bid-rigging.

In line with this focus on the public sector, the CMA notes that Brexit may have a significant bearing on its work. Its plan now includes a key commitment to support and challenge the Government on its implementation of economic strategies and its development of policies affecting markets following Brexit. In this respect it recognises that it may need to change its priorities, as set out in the plan, in response to the evolving Brexit environment.

Conduct

Revisiting best execution

The FCA expresses concern that investment managers are still failing to ensure best execution for their clients, in an *update* on 3 March 2017. Outlining findings from supervisory work, the regulator observes that firms have yet to take on board many of the findings from a 2014 thematic review. The FCA says many firms have failed to conduct an adequate gap analysis, and to appropriately monitor fixed income instruments. But it found firms demonstrated improvement on the equity side by decreasing trading costs through the use of low-cost trading venues such as broker-supplied algorithms, direct market access and the use of crossing networks for appropriate trades. Likewise, firms tended to have good management information for equity trading, although the way they used it was inconsistent.

The FCA observes that best execution will remain a regulatory focus through 2017 and that firms should be looking to improve their practices. It highlights that firms will need to improve current practices in relation to OTC trading to ensure they are ready to comply with MiFID II.

FCA to impose PPI complaint deadline

The FCA revised PPI complaints handling rules and guidance in light of the Plevin Supreme Court judgement in *PS17/3: PPI complaints – feedback on CP16/20 and final rules and guidance* on 2 March 2017. It also announced that it will introduce a deadline of 29 August 2019 for making new PPI complaints, and will run a two-year consumer campaign to raise awareness of this cut-off point (funded by a new fee on 18 firms). The rule to introduce the deadline will come into force on 29 August 2017.

The FCA proposals create a framework for dealing with complaints in light of Plevin, providing certainty and enabling firms to take a fair and consistent approach to complaints. The Plevin decision means consumers may have new grounds to complain about PPI if the failure to disclose commission made the relationship unfair. The FCA will introduce a 50% commission 'tipping point' at which firms should presume that the failure to disclose commission gave rise to an unfair relationship, and that profit share should be included in the commission calculation. Redress will be calculated as the excess commission over the 50% tipping point.

In light of consultation feedback, the FCA made some amendments to its proposals – for example, it will now require firms to write to all previously rejected PPI complainants who may be able to make a further complaint in light of the Plevin ruling. The rules surrounding Plevin will come into effect on 29 August 2017 – not three months before as previously planned. The FCA says this change will give it and firms more time to prepare.

The regulator says it will continue to monitor firms to ensure they deal fairly and promptly with PPI complaints and cooperate with the FOS, and will take action where necessary.

Introducing new debt management limitations

The FCA published a new webpage for consumer credit firms dealing with *Limitations on debt permissions* on 20 March 2017. It is relevant to full permission firms with authorisation to undertake debt adjusting and/or debt counselling that have a 'no debt management' limitation to those activities.

The FCA notes the definition of 'debt management' is broad. It covers activities carried on with a view to an individual entering into a particular debt solution. This is an arrangement, scheme or procedure (whether statutory or not) that aims to discharge or liquidate an individual's debts. The FCA believes that some firms with 'no debt management' limitations may, in fact, be carrying out debt management activities. For example, a firm provides a debt solution if it consolidates multiple existing loan repayments into one single repayment.

To resolve this the FCA is introducing new standard limitations that may be more appropriate for some firms than the 'no debt management' limitation. These are:

- 'limited to the sale of goods' for firms who only broker asset finance
- 'limited to the settlement of vehicle finance' for firms who only broker vehicle finance
- 'limited to no debt management plans' for firms who broker unsecured loans.

The FCA asks firms to check their permissions and apply to change their limitations where necessary. The FCA reminds firms who conclude they are 'debt management firms' that they need to meet additional requirements. These include the need for someone to fulfil the compliance oversight function (CF10) and the need to meet the minimum capital requirements in the FCA Consumer Credit Sourcebook, chapter 10.

Easing the IRB approach

The PRA published a consultation paper *IRB approach: clarifying PRA expectations – CP5/17* on 28 March 2017. Previously, the PRA reviewed its approach to IRB model applications from smaller firms as reported in its *Annual Competition Report 2016*. It now proposes changes to its supervisory statement *IRB approaches – 11/13* on:

- how firms can demonstrate they meet the CRR requirement of having 'prior experience' of using IRB approaches
- the use of external data to supplement internal data for estimating probability of default (PD) and loss given default (LGD) for residential mortgages.

Under the proposal, firms would not need to have a fully CRR compliant framework for an entire three year period. But they would need to show they have applied their IRB governance framework through at least one annual cycle since receiving their internal model approval. Firms also need to evidence at least three years of using, monitoring, validation and audit of their IRB framework, acknowledging their likely development and refinement during that period.

When using external data, the PRA expects firms to apply 'margins of conservatism' when estimating PD and LGD. It intends to review the application of the use of external data to exposure classes other than residential mortgages on a case-by-case basis. The PRA also intends to set probability of possession given default (PPGD) reference points of 100% and 70%. From those reference points, firms with limited possession data and the PRA can begin the assessment of an appropriate margin of conservatism in PPGD estimates.

The PRA aims to issue the updated supervisory statement in October 2017. The consultation closes on 28 June 2017

The FOS plans for the year ahead

FOS published its *Plans for the year ahead and consultation feedback* on 31 March 2017. Ahead of finalising its plan, FOS consulted on its proposed plans and budget, and stakeholders provided broad perspectives on anticipated challenges. Responding, FOS commented on its regular engagement with the FCA, firms, trade associations and consumer representatives.

Looking to the year ahead, FOS notes that the FCA published its rules and guidance for complaints affected by the Supreme Court's judgment in the case of Plevin v Paragon Personal Finance Limited (effective from August 2017) and announced a deadline of August 2019 for complaining about mis-sold PPI. FOS explains that it does not yet know what the impact of the new rules will be, but will work hard to engage with all stakeholders, including the FCA, to ensure outcomes are fair.

More broadly, FOS explains that it wants to focus on resolving complaints quickly, with a particular emphasis on technology and efficiency.

Improving consumer choice

The EC presented an action plan to improve consumer choice and access to EU financial services, in *Consumer Financial Services Action Plan: Better Products, More Choice* on 23 March 2017. The EC wants to build on existing work in this space, and argues that FinTech holds the key to truly opening up the single market to the benefit of consumers. The EC aims to increase consumer trust and empowerment, reduce legal and regulatory obstacles preventing firms from expanding abroad and support innovation.

Between Q4 2017 and the end of 2018, it plans to:

- review good and bad practices in dynamic currency conversion, and consider follow-up action to help consumers choose the best rate
- explore further steps to make it easier for consumers to switch products, building on the PAD
- improve the quality of comparison websites
- monitor implementation of a transparent pricing agreement with car rental firms and consider extending it
- examine national consumer protection and conduct rules to assess whether they create unjustified barriers to cross-border business
- introduce common creditworthiness assessment standards and principles for lending to consumers
- facilitate the cross-border use of digital identity checks.

Further details of the timetable for the action plan can be found in an accompanying *annex.*

Corporate governance

Reviewing the Corporate Governance Code

The FRC published its *Plan & Budget and Levies 2017/18* on 29 March 2017. Its priorities include comprehensively reviewing and updating the UK Corporate Governance Code and, together with other regulators, helping stakeholders seize the opportunities and address the challenges arising from Brexit.

The FRC also plans to use its role as UK Competent Authority for audit regulation to drive improvements in the quality of audit. The FRC intends to fund its work through a 2.5% increase in levies on the professional bodies and an overall 5% increase in the levies on preparers of accounts.

Data

ESMA clarifies consolidated tape approach

ESMA published its *Final Report on Draft RTS specifying the scope of the consolidated tape for non-equity financial instruments* on 31 March 2017. It outlines

feedback and revised regulatory technical standards following its October 2016 consultation. ESMA clarifies its approach toward coverage of instruments, volumes and new sources of data by non-equity consolidated tape providers (CTPs). It confirms:

- CTPs are allowed to specialise in individual assets rather than having to cover all non-equity instruments
- CTPs must cover 80% of volume and transactions reported to any APA or trading venue within the last six months
- a grace period of seven months is provided for incorporating transaction data from new APAs and trading venues.

The EC has three months to decide whether to endorse the draft regulatory technical standards.

Fees and levies

PRA consults on fees and levies

The PRA set out its proposed fees for the coming year, in *CP4/17 Regulated fees and levies: rates proposals 2017/18* on 24 March 2017.

The PRA proposes changing fee rules relating to ring-fencing implementation. It plans to update the rates it charges for Special Project Fees for restructuring so that hourly rates include the correct amount of overhead costs attributable to the project. The PRA suggests updating the supervisory guidance on regulatory transaction fees. For example, there are significant differences in the charging structure for firms that are subject to the CRR but are seeking permission to use the IRB, Internal Model Approach and Internal Model Method, when the PRA faces similar costs for assessing these models. The PRA intends to introduce a fee to cover the cost of IFRS 9 implementation. This fee would be payable by deposit-takers and firms acting as principle, that are expected to use IFRS 9 or FRS 101 in 2018. The PRA amends the definition of the general insurer and fee block concerning insurance special purpose vehicles. The CP also proposes the fee rates to meet the PRA 2017/18 Annual Funding Requirement (AFR).

The PRA expects to manage a shortfall from the 2016/17 AFR, and distribute both a surplus on the ring-fencing implementation fee, and the retained penalties for 2016/17. Firms are invited to respond to this consultation by 24 May 2017.

Limiting FSCS costs

The PRA published policy statement *FSCS – Management Expenses Levy Limit (MELL) 2017/18 - PS 6/17* on 31 March 2017. The MELL is the maximum amount which the FSCS may levy in a year without further consultation. It provides the FSCS with adequate resources to process compensation claims resulting from the failure of financial services firms. Levies for compensation payments are additional to this.

The PRA and the FCA, through its *Handbook Notice No 42*, has set a MELL of £74.5m for the year to 31 March 2018. This comprises budgeted FSCS management expenses of £69.2m and an unlevied contingency reserve of £5.3m. This allows the FSCS to levy additional funds at short notice in the event of a significant unexpected issue.

Financial crime and enforcement

EC consults on whistleblower protection

The EC is seeking to collect information and views on whistleblowing, in *Public consultation on whistleblower protection* published on 3 March 2017. The EC wants insights from a range of stakeholders including private companies, journalists and ombudsmen, with a view to strengthening whistleblower protection. The consultation covers:

- benefits and drawbacks of whistleblower protection and elements that are important for effective whistleblower protection
- problems at national and EU level from gaps in protection
- weaknesses of existing whistleblower protection
- differences in protection across the EU
- the need for minimum standards of protection.

The consultation closes on 29 May 2017.

EC fights against terrorist financing

The EC is reviewing the use of cash, with a consultation on 1 March 2017 on the need to apply a threshold to cash payments to combat terrorist financing. The consultation, *EU initiative on restrictions on payments in cash*, follows an *Action Plan* by the EC to step up the fight against the financing of terrorism (COM (2016) 50).

In the consultation, the EC seeks views on whether the proposed threshold should be set as low as €500 or greater than €9,500. It also asks if the measures could interfere with the proper functioning of the internal market. The EC asks respondents to comment on the effectiveness of current and proposed cash restrictions on terrorism such as the ECB's decision to stop issuing new €500 banknotes from 2018 onwards, and whether restrictions could affect the economy.

The consultation closes on 31 May 2017.

HMT consults on Money Laundering Regulations

HMT published updated *Money Laundering Regulations 2017* (MLR) in draft on 15 March 2017. It also issued *Money Laundering Regulations 2017: consultation*, setting out its response to an earlier consultation on transposing AMLD4 and the relevant parts of the Fund Transfer Regulation into national law.

Following the earlier consultation, HMT announces a number of decisions, including:

- HMRC will act as the registry authority for all trust and company service providers which are not registered by HMRC or the FCA
- the fit and proper test will be extended to agents of money service businesses
- pooled client accounts will not automatically be subject to simplified due diligence, and this will be applied on a risk-based approach instead.

HMT welcomes views on the document and the draft MLR 2017 by 12 April 2017. The Government's final policy decisions will be implemented through legislation that will come into force by 26 June 2017.

FCA issues AMLD4 guidance on PEPs

The FCA issued a guidance consultation on how firms treat politically exposed persons (PEPs) under AMLD4, on 16 March 2017. In *Guidance on the treatment of PEPs under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017*, the FCA explains that AMLD4 requires the UK to update its AML regime by 26 June 2017. This includes expanding the definition of a PEP (currently defined as people who hold high public office in a country other than the UK) to include those holding such a position in the UK.

In the guidance, the FCA sets out who should and should not be considered a PEP, as well as requirements on how firms can take a proportionate and risk-based approach to meeting their obligations under AMLD4. The consultation closes on 18 April 2017.

Govt launches AML watchdog

HMT announced plans to create a new watchdog that will tackle money laundering, in a *press release* on 15 March 2017.

HMT says the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) will improve supervisory standards and ensure supervisors and law enforcement work together more effectively. HMT states that there are 25 organisations supervising sectors at risk of money laundering and terrorist financing, 22 of which are accountancy and legal professional bodies. It says this means there are inconsistencies between standards that criminals will try to exploit. HMT argues that OPBAS will ensure there are consistent high standards. OPBAS will set out how professional AML bodies should fulfil their obligations under the updated Money Laundering Regulations, which were published in draft on 15 March 2017. OPBAS will monitor supervisors' compliance with the Money Laundering Regulations, and has the power to penalise any breaches.

OPBAS should be operational by the start of 2018 and will be housed in the FCA. The Government is seeking views on the mandate and powers for the new office, as well as how the supervisory regime might evolve over time, in *AML supervisory regime: response to the consultation and call for further information*. The consultation closes on 26 April 2017.

TPR proposes new professional trustee definition

TPR proposed changes to its definition of a professional trustee, and its monetary penalties policy, in *Draft monetary penalties policy and revised professional trustee description* on 23 March 2017. It also published a draft version of the new penalties policy, *Draft monetary penalties policy*, on the same day.

TPR is consulting on a revised definition of a professional trustee, which it uses across its activities, including when deciding to impose fines. Previously, it has considered trustees which charge for their services to be professional trustees, as well as those who hold themselves out to be an expert in trustee matters. But TPR says it recognises that remuneration alone is not necessarily indicative of whether someone is acting in the capacity of a professional trustee. So it proposes to define a professional trustee as any person, whether or not incorporated, who:

- acts as a trustee of the scheme in the course of the business of being a trustee
- is an expert, or holds themselves out as an expert, in trustee matters generally.

The policy will apply to any adviser, employer, manager or any other person who is in breach of the pension legislation, including those involved in public service pension schemes.

In terms of its monetary penalties policy, the TPR is seeking views on its approach to calculating fines. TPR proposes using three penalty bands, with the nature and impact of a breach determining which band it falls into. It also proposes to take into account a number of factors, such as a person's engagement and cooperation, when calculating the amount of the penalty. In addition, the TPR seeks feedback on its proposed approach to penalties imposed on different types of trustees, and those acting in a professional capacity in relation to a pension scheme.

The consultation closes on 9 May 2017.

Financial stability

EC considers macro-prudential risks

The EC published a report to the EP and the Council *Market developments potentially requiring the use of Article 459 CRR* on 8 March 2017. The EC has the power to impose, for a period of a year, stricter requirements concerning the level of banks' own funds, large exposures or public disclosure, under specific conditions. But it must report annually on market developments that could potentially require such action. This provision allows only for tightening measures and the EC may apply

it only where the relevant developments affect all Member States.

In its assessment, the EC considers a range of systemic of risks such as the health of the EU economy, leverage, contagion from shadow banking and other financial stability risks. The EC concludes there are no circumstances that warrant the use of article 459 but it intends to continue monitoring market developments.

Identifying O-SIIs in the EU

The EBA updated its *O-SII webpage* on 15 March 2017 to include the 2016 list of O-SIIs in the EU notified to it by NCAs. The EBA provides this list annually. Under CRD IV, NCAs may require O-SIIs to maintain an O-SII buffer of up to 2% and these buffers are disclosed in the list. In the UK there are 16 O-SIIs on the list with no changes compared with 2015. UK O-SIIs are not required to maintain O-SII buffers.

NCAs identify these institutions through the application of *EBA Guidelines* using criteria which define the size, importance, complexity and the interconnected nature of these institutions. The guidelines also allow for supervisory judgement so that NCAs can add further institutions and the EBA identifies these in its list. The PRA published its *UK 2016 O-SII list* in November 2016.

ESMA highlights financial risks

ESMA outlined its Q4 2016 risk assessment and 2017 risk drivers in *ESMA report on Trends, Risks and Vulnerabilities* on 20 March 2017. Its overall risk assessment for Q4 2016 remains unchanged from the previous quarter: it judges market and credit risks to be 'very high', and liquidity and contagion risk to be 'high'.

Financial markets remained relatively calm in the last quarter of 2016, although very reactive to political events such as the US election. The second half of 2016 saw a decrease in equity market volatility and a recovery in banking shares, over concerns about the health of EU banks. Fund categories recovered within investment funds while investment liquidity remained a concern. Bond funds also faced losses due to the unexpected outcome of the US election, but the high volatility of transaction flows did not deter the securities market infrastructure from operating smoothly.

ESMA identifies political uncertainty as the key risk driver for 2017. ESMA warns that this could trigger abrupt fluctuations in financial asset prices in the coming months, as we approach national elections in some EU Member States.

High credit and market risks continue

ESMA announced that it continued to see very high credit and market risks during Q4 2016 in its report *ESMA Risk Dashboard No 1 2017*, published on 20 March 2017. But its overall assessment remains unchanged from the previous quarter. ESMA also indicates high risk for liquidity and contagion risks and elevated for operational risk. The risk outlook is stable across all risk categories. It comments that the low yield environment and sustained concerns about excessive risk-taking continued.

ESMA identifies the key risk drivers for 2017 to be uncertainties about the growth outlook for the EU and the global economy, the environment of high valuation risks, political events such as Brexit negotiations and elections in other EU Member States.

FinTech

FCA agrees FinTech link with Japan

The FCA and the Financial Services Agency of Japan (JFSA) agreed to collaborate to support FinTech companies from each other's countries in a *press release* on 9 March 2017. The regulators will provide a regulatory referral system, to support FinTech companies from Japan and the UK seeking to enter the other's market. The FCA and JFSA also plan to share information about innovation to encourage competition and reduce barriers to entry for firms entering a new jurisdiction. The FCA has previously set up similar agreements with authorities in other countries, including Australia and South Korea.

EC seeks FinTech views

The EC published *Consultation document: FinTech a more competitive and innovative European financial sector* on 23 March 2017. The EC's current policy approach to FinTech will be underpinned by three principles:

- technological neutrality - ensuring similar services are subject to equivalent regulatory standards irrespective of how they are delivered
- proportionality - policy response must consider size, complexity and systemic importance of FinTech firms
- enhancing integrity - policy should promote greater market transparency and benefit consumers.

The EC wants a regulatory environment which enables FinTech to develop solutions, warning that any framework must support financial stability and integrity. To achieve this, the EC outlines four key objectives for its FinTech policy: fostering access to financial services for consumers and businesses; reducing operational costs for the financial services industry; lowering barriers to entry in financial services; and creating a balance between data sharing and transparency and data security and protection.

The consultation closes on 15 June 2017.

Market infrastructure

Reforming EURIBOR

EMMI published a *Position Paper Setting out the Legal Grounds for the Proposed Reforms to EURIBOR®* on 8 March 2017. It sets out the basis for reforming the benchmark and selects its preferred transition path to implementation.

To date, EURIBOR is the only benchmark to be designated as critical under BMR. As such, it's subject to the most stringent standards for governance and input data under the new regulation. EMMI sets out the five reforms as follows:

- transition to a fully transaction-based methodology in compliance with BMR
- revised definition of EURIBOR to clarify the distinction between the concept of underlying interest which EURIBOR represents and the methodology used to measure it
- reiteration that EURIBOR reflects a borrowing rate
- expansion of eligible types of transactions and counterparties that determine the rate
- reformulation of the concept of 'prime bank'.

EMMI selected the seamless transition path; this entails changes to the methodology while maintaining a similar definition, value and volatility post-implementation. The new methodology is set to launch in the second half of 2017.

EC formalises temporary clearing obligation relief

The EC published *Commission Delegated Regulation amending Delegated Regulations (EU) 2015/2205, (EU) 2016/592 and (EU) 2016/1178 as regards the deadline for compliance with clearing obligations for certain counterparties dealing with OTC derivatives* on 22 March 2017. The EC sets a delayed application date of 21 June 2019 for mandatory clearing of:

- OTC interest rate derivatives denominated in euros, pounds or yen (moved from a compliance date of 21 June 2017)
- OTC index credit default swaps denominated in Norwegian krone, Swedish krona or Polish zloty (moved from 9 February 2018)
- OTC interest rate derivatives denominated in Norwegian krone, Swedish krona or Polish zloty (moved from 9 February 2018).

It provides this relief to counterparties classified as category three firms under EMIR. The EC's definition of a category three firm is a financial counterparty which is part of a group whose aggregate positions in OTC derivatives are below €8bn.

Clarifying CSD supervision

Commission Delegated Regulation (EU) 2017/392 supplementing Regulation (EU) No 909/2014 of the EP and the Council with regard to RTS on authorisation, supervisory and operational requirements for CSDs was published in the Official Journal on 10 March 2017.

The EC breaks down the supervisory requirements applicable to CSDs and emphasises the importance of the accuracy of technical language when addressing CSD regulation. It provides 96 articles on the definitions of the terminology used.

FSB's unique transaction identifier guidance

The FSB issued *Proposed governance arrangements for the unique transaction identifier (UTI)* on 13 March 2017, including a proposal for a global UTI.

The FSB sets out important criteria for the UTI governance arrangements and identifies the basis for a number of those criteria. Part of the criteria the FSB proposes is to maximise benefits and minimise costs related to the UTI and to help ensure the efficiency and transparency of the governance arrangements. The FSB also says the governance arrangements shouldn't be unnecessarily complicated, and should take into account existing resources and arrangements where needed.

The main purpose of the UTI is to identify financial transactions in the TRs, thus helping to ensure constant aggregation. Technical guidance for this can be found in the *Harmonisation of the UTI* issued by the Committee on Payments and Market Infrastructures and the IOSCO on 28 February 2017.

Implementing prudential requirements for CSDs

Regulation (EU) 2017/390 supplementing CSDR with regard to RTS on certain prudential requirements for CSDs and designated credit institutions offering banking-type ancillary services appeared in the Official Journal on 10 March 2017. It is one of six regulations that implement specific provisions of CSDR. This regulation sets out prudential requirements in relation to:

- operational, legal and custody risks
- investment risks – credit and counterparty risk
- liquidity risk
- business risks
- winding down or restructuring activities.

Where credit institutions or CSDs provide banking-type ancillary services there are further requirements concerning holding collateral, its nature and quality. This regulation comes into force on 30 March 2017.

ESMA publishes final BMR technical standards

ESMA submitted its *final draft* of the BMR regulatory and implementing technical standards (RTS/ITS) to the EC on 30 March 2017. ESMA provides detailed requirements for benchmarks administrators and contributors, including:

- oversight function and governance frameworks
- methodology and input data
- conflicts management
- benchmarks and compliance statements.

While ESMA provides draft technical standards for authorisation and registration, it does not resolve confusion around the transitional period. Instead, it calls on the EC to clarify which benchmarks can be used until 2020 without authorisation or registration.

The EC now has 3 months to adopt the technical standards, after which time the EP and Council will have 3 months to object. BMR applies from 1 January 2018.

MiFID II

FCA continues MiFID II implementation work

The FCA published *Policy Statement PS17/5 Markets in Financial Instruments Directive II Implementation- Policy Statement I* on 31 March 2017. The FCA sets out MiFID II handbook changes covering markets issues, systems and control changes and commodities position limits requirements. It notes proposed handbook amendments are largely unchanged from its earlier implementation consultations. The FCA draws attention to areas it received a lot of feedback on and confirms:

- it will allow trading venues to use maximum amount of post-trade deferrals permitted by national competent authorities
- collective portfolio managers and pension funds will not need to transaction report under its proposed handbook changes
- it plans on softening taping requirements for MiFID article 3 firms in light of feedback that earlier proposals were too stringent.

Departing from previous plans, the FCA also released *Consultation Paper CP17/8 Markets in Financial Instruments Directive II Implementation – Consultation Paper V (including changes to conduct rules for Occupational Pension Scheme firms)* on 31 March 2017. The FCA covers changes to its enforcement guide, decision procedure and penalties manual and conduct rules for occupational pension schemes. The FCA requests responses to its consultation paper by 12 May 2017 for chapters 3 and 4 and 23 June 2017 for chapter 2.

Firms should note the FCA will finalise its MiFID II transposition work with a second policy statement in June 2017. Firms should also be mindful of delivering authorisation and variation of permission requests as soon as possible. The FCA warns firms of the need for early submission.

RAO paves way for MiFID II

The UK is getting ready for MiFID II by incorporating changes into its regulatory framework. The *FSMA (Regulated Activities) (Amendment) Order 2017 was made on 28 March 2017* and brings in a new regulated activity and new investment types to conform with the directive.

The order adds the new regulated activity of operating an OTF to the RAO. It also brings two new investment types into the scope of regulation - certain types of emission allowances and structured deposits. It also updates the definitions of options, futures and contracts for differences in the RAO to align them with the relevant provisions of MiFID II, MiFIR and AIFMD.

Also, it extends the scope of the RAO by adding structured deposits in respect of the regulated activities of 'dealing in investments as agent', 'arranging deals in investments', 'managing investments' and 'advising on investments'. The scope of 'dealing as principal' is also changing, due to the narrowing and deletion of some of some currently available exemptions. The order brings the definition of 'investment advice' into line with MiFID II. And it provides some much needed clarity on the characteristics of unregulated spot contacts and how they are distinct from regulated investments.

The changes come into force from 3 January 2018. But transitional provisions allow firms to make notifications to the FCA for structured deposits and applications for authorisation for permissions relating to the updated RAO regulated activities and investment types now, to prepare for MiFID II.

Operational resilience

Assessing the latest cyber risks

The National Crime Agency and National Cyber Security Centre (NCSC) set out the current level and nature of cyber threats to UK business, in *The cyber threat to UK business – 2016/17 Report* on 14 March 2017. The organisations state that the cyber threat to UK business is significant and growing. They say the level of technical skill required to commit a cyber attack is falling, and criminal groups are increasingly imitating states to attack financial institutions. They add that the most commonly exploited vulnerabilities in 2016 were well known, and could have been patched.

The National Crime Agency and NCSC also discuss the biggest cyber threats to business for 2017. They predict that attackers will target the 'building blocks' of the internet, rather than innovative technology. This means that rather than attacking a single website, cyber criminals could target an upstream provider critical to the functioning of an organisation. They urge firms to focus on technology, people and processes in building their cyber defences.

ESMA signs CCP MoUs

ESMA is to co-operate with non-EU regulators on CCPs through five MoUs it published on 20 March 2017. It outlines new MoUs with: Brazil, Japan, India, Dubai and the United Arab Emirates. ESMA has agreed to exchange information with regulators in those countries about authorised CCPs as part of its supervisory framework under EMIR.

Pensions

Redressing DP pension transfers

The FCA proposed changes to the way firms calculate redress for consumers given unsuitable advice to transfer out of a defined benefit (DB) pension, in *GC17/1 – Changes to the way firms calculate redress for unsuitable DB pension transfers* on 10 March 2017. It says the revisions reflect market changes, and mean redress is more likely to put consumers back in the position they would have been had they not been given unsuitable advice.

The FCA's proposed changes include:

- updating the inflation rates used in the methodology
- updating the pre and post-retirement discount rates
- making allowance for gender-neutral annuity rates and enhanced transfer values.

It also suggests the assumptions used in the methodology should be updated regularly to reflect the fact that markets are often volatile.

The FCA proposes that the revised methodology should apply only to complaints received by firms on or after 3 August 2016, or to complaints received but not settled on a full and final basis by that date. It says firms should not settle current complaints on a full and final basis until the outcome of the consultation is known.

The consultation closes on 10 June 2017, and the FCA plans to reach its conclusions by autumn 2017.

Primary markets

FCA's Primary Markets update

The FCA published *edition No 17* of its Primary Market Bulletin on 30 March 2017. The bulletin includes feedback on the FCA's Call for Views on Sponsor Conflicts. Following a review of stakeholder views, the FCA is consulting on Technical Note (TN) 701.3 which will replace existing guidance on sponsor conflicts (TN 701.2). The proposed new guidance will cover:

- operation of the perception test
- factors that a sponsor should consider when it is assessing whether a conflict exists
- 'materiality' in the context of the provision of proposed loans
- the circumstances in which sponsors should seek additional guidance from the FCA about conflicts
- FCA expectations around communications between employees providing sponsor services and
- sponsor information requirements.

In other updates, the FCA reports that ESMA published a new TR-1 form for notification of major holdings and has also published its response to feedback on the RTS to its new electronic reporting format.

The FCA also notes that the EP has agreed the proposal for new regulation on prospectuses to replace the current Prospectus Directive (2003/71/EC). It highlights that the revised Shareholder Rights Directive is expected to be published in the Official Journal in Spring 2017, with full implementation by 2019.

Improving IPO research

The FCA proposed new initial public offering (IPO) rules, in *Reforming the availability of information in the UK equity IPO process* on 1 March 2017. The regulator aims to address concerns around conflicts of interest and the quality of market information resulting from the privileged role that 'connected research' plays in the public offering process. The FCA fears that underwriters are often chosen by issuers on the basis that they will provide favourable research in support of the offering. Its proposals build on an earlier discussion paper, *DP16/3: Availability of information in the UK Equity IPO process*.

In addition to conflict of interest concerns, 'connected research' can compromise the overall quality of market information. This is because it's currently the sole basis by which initial price discovery and preliminary institutional investor outreach occurs. A full prospectus is often published as late as a month after the publication of 'connected research'. This limits the opportunities for independent researchers to contribute to market awareness, as unaffiliated analysts are currently reliant on the prospectus.

In response, the FCA proposes that the issuer's prospectus must be published before any connected research. If unaffiliated researchers enjoy equal access to the issuer prior to the publication of the prospectus, then issuers will be allowed to put out connected research shortly after the prospectus (i.e. a day later) on the basis that independent research will also be made available to the market. The regulator also looks to address some of the conflicts of interest concerns by prohibiting the involvement of analysts in any efforts by banks to win underwriting work. The FCA proposes that affiliated analysts can only become involved when the firm has won an underwriting mandate and its position in the syndicate has been determined.

The consultation period closes on 1 June 2017.

Recovery and resolution

ESMA supports recovery and resolution proposals

ESMA published a *Statement on Recovery and Resolution of CCPs* on 22 March 2017. ESMA Chair Steven Maijoor outlines his views on proposed rules on CCP recovery and resolution to the EP. He sets out three areas for the EP to give greater consideration to in its CCP recovery and resolution proposals:

- providing greater detail on how to facilitate supervisory convergence of CCPs within the EU
- appropriateness of prescribed resolution tools and better recognition of differences between CCP and banking resolution
- processes for referring issues to ESMA for mediation (revising majority levels downwards).

Overall, ESMA supports the EP's proposals but Maijoor advises further consideration of the areas above.

Retail products

Finalising the PRIIPs KID

The PRIIPs Level 2 standards entered the home stretch when the EC published a *delegated regulation* on the content and format of the PRIIPs KID on 8 March 2017. While the delegated regulation is still subject to an expedited review period by the Council, it will almost certainly be published in the Official Journal in its current form. Firms will need to comply with PRIIPs starting 1 January 2018.

In September 2016, the EP voted down the PRIIPs RTS as originally proposed due to investor protection concerns. The revised version addresses one of the biggest issues raised by the EP, that the performance scenario criteria failed to account for stressed circumstances. The finalised version will also please the insurance and asset management industries because it allows PRIIPs products with an underlying UCITS to rely on the same transitional disclosure relief as UCITS funds themselves. Insurers lobbied hard for the cost and risk disclosure to account for the specific benefits of premiums and existing regulatory protections.

Unfortunately, some of the long-standing criticisms of the Level 2 text remain. Many commentators argue that the methodology for transaction costs excessively captures market movements. Asset managers also contend that performance scenarios, no matter how devised, are not as accurate as disclosure of past performance itself.

Enhancing protection for lifetime ISAs

The FCA published *Handbook changes to reflect the introduction of the lifetime ISA (LISA): Feedback on CP16/32 and final rules (PS17/4)* on 7 March 2017. The LISA helps individuals between 18 and 40 save or invest flexibly for a deposit on a first home or a pension.

In *CP16/32* the FCA outlined the risks to retail clients of the LISA's combination of short-to-medium term deposit-based savings and long-term retail investments with a 25% early withdrawal charge. It proposed addressing these risks through an 'enhanced ISA' approach with changes to FCA rules concerning communications, information disclosures, cancellation rights and client assets. The FCA confirms it will go ahead with this approach, with the inclusion of two additional risk warnings. The new rules take effect from 6 April 2017.

SFTR

ESMA finalises SFTR work

ESMA published its *Final Report on Technical standards under SFTR and certain amendments to EMIR* on 31 March 2017. ESMA covers core requirements for enhancing transparency around securities financing transactions (SFTs). To achieve this, it provides detailed expectations on:

- reporting of securities financing transactions: covers ISO 20022 methodology, validation and data access
- use of LEIs, UTIs and ISIN to improve data quality in TRs
- data access for public authorities
- registration of TRs
- exchange of data on sanctions between authorities.

In its report, ESMA also maps out small changes to EMIR. It proposes revising data access requirements to incorporate public authorities not covered in original EMIR work. Beyond this, ESMA suggests rebuilding TR registration requirements to reflect changing market conditions.

The EC has three months to review and accept or reject ESMA's proposed technical standards.

Supervision

EC reviews how ESAs operate

The EC consulted on changes to how the ESAs (the EBA, EIOPA and ESMA) operate, in *Public consultation on the operations of the ESAs* on 21 March 2017. The EC wants to identify where the ESAs' effectiveness and efficiency can be improved.

It suggests there's a need for: improvements to the ESAs' governance structure, giving the bodies additional powers in certain areas, changes to the funding system and more clarity on the boundaries of certain tasks and powers. The EC also focuses on supervisory architecture, asking for views on whether the EBA and EIOPA should be merged into one entity, and whether ESMA's consumer protection powers should be strengthened. The consultation closes on 16 May 2017.

Wholesale markets

Final Global FX Code of Conduct approaches

Guy Debelle, Deputy Governor of the Reserve Bank of Australia delivered a *speech* on 28 March 2017, outlining the goals and status of the Foreign Exchange (FX) Global Code of Conduct (the Code).

The Code establishes a common set of global principles for good practice, aimed at restoring public confidence in the FX industry. Work on the Code started in 2015 with contributions from both sell-side and buy-side firms, FX electronic

communications networks and non-bank participants. The principles-based, voluntary Code covers the FX activities of all market participants including central banks and will replace existing national codes.

Phase 1 of the Code, published last year, covered ethics, information sharing, execution, confirmation and settlement. Phase 2 will cover e-trading, platforms, prime brokerage, governance, risk management and compliance. Drafters continue to grapple with controversial issues such as 'last look' which may require further discussion even after publication of the final version. Industry has raised questions on Phase 1 standards regarding information sharing and order handling.

Drafters are currently considering how to ensure adherence to the Code. The BIS central banks have committed to following the Code. One central bank announced that it will only transact in the FX market with firms committed to complying with the Code. According to Debelle, the FCA is even considering possibly incorporating the Code into the Senior Managers Regime.

The final FX Global Code of Conduct, including standards from Phases 1 and 2, will be released on 25 May 2017. Market participants will have 6-12 months to implement the Code.

Accounting

Accounting and financial reporting

FRC proposes FRS102 simplifications

The FRC published *FRED 67 Draft amendments to FRS 102* on 23 March 2017. It proposes simplifications to FRS 102 following its triennial review and implementation feedback from stakeholders. The principal amendments proposed include:

- Simplifying the accounting for directors' loans by small entities by no longer requiring a market rate of interest to be estimated
- Requiring fewer intangible assets to be separated from goodwill in a business combination
- Permitting investment property rented to another group entity to be measured based on cost (rather than fair value).

The comment period ends on 30 June 2017. The FRC aims to finalise the amendments in December 2017, with an effective date of accounting periods beginning on or after 1 January 2019. Early application will be permitted.

IASB proposes IFRS 8 (Operating segments) improvements

The IASB published *ED/2017/2 Improvements to IFRS 8 Operating Segments Proposed amendments to IFRS 8 and IAS 34* on 29 March 2017. It proposes the following improvements to IFRS 8:

- to clarify and emphasise the criteria that must be met before two operating segments may be aggregated
- to require companies to disclose the title and role of the person or group that performs the function of the chief operating decision maker
- to require companies to provide information in the notes to the financial statements if segments in the financial statements differ from segments reported elsewhere in the annual report and in accompanying materials.

It also proposes to amend IAS 34, 'Interim financial reporting', to require companies that change their segments to provide restated segment information for prior interim periods earlier than they currently do. The comment period ends on 31 July 2017.

IASB proposes disclosure improvements

The IASB published *DP/2017/1 Disclosure Initiative—Principles of Disclosure* on 30 March 2017. It suggests principles to make disclosures in financial statements more effective. Some specific suggestions in the discussion paper include:

- seven principles of effective communication, which could be included in a general disclosure standard or described in non-mandatory guidance
- possible approaches to improve disclosure objectives and requirements in IFRS Standards
- principles of fair presentation and disclosure of performance measures and non-IFRS information in financial statements, to ensure that such information is not misleading.

The comment period ends on 2 October 2017.

Our publications

IFRS News

Our *IFRS News for March 2017* includes the following articles:

- Cracking the cryptocurrency code
- IC rejection: IAS 29
- The Twilight Zone: Definition of a business
- Navigating the maze of IFRS 15 transition
- Demystifying IFRS 9: ECL models
- IFRS 15 Mole: Bundled sales
- Cannon Street press:
  - IFRS 9 modification
  - Insurance
  - FICE
- Leases Lab: Transition.

New IFRSs for 2017

Our *In depth - New IFRSs for 2017* summarises the amendments to IFRS and IFRIC the IASB has issued since March 2016, plus those standards and amendments issued previously that are effective from 1 January 2017, alongside an overview of their impact.

Modification of financial liabilities under IFRS 9

The IASB discussed the accounting for modifications of financial liabilities under IFRS 9 'Financial instruments' in February 2017. It confirmed the tentative view of the Interpretations Committee that 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. See our *In brief - Modification of financial liabilities – IFRS 9 changes accounting* for more details.

De-mystifying IFRS 9 Impairment video

In this short video *De-mystifying IFRS 9 Impairment 10. Credit-impaired financial assets* our IFRS 9 banking specialists, Mark Randall and Chris Wood explain the differences between IFRS 9's expected credit losses on credit-impaired financial assets and IAS 39's incurred loss provisions.

Brexit implications on financial reporting

The Government has commenced negotiating the UK's departure from the EU following the triggering of Article 50. Our *In brief - Impact of triggering Article 50 on Financial reports* considers the impact of the ensuing uncertainty and potential accounting and reporting issues for both IFRS and UK GAAP reporters.

Brexit implications for income tax

There are various tax reliefs and exemptions that apply to transactions between UK entities and entities in other EU member states under existing tax laws, which might cease to apply when Brexit finally occurs. The tax legislation, if any, which will replace those reliefs and exemptions is unknown at this stage. Our *In brief - Brexit and implications for income tax* considers the potential implications of Brexit for income tax accounting.

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Regulation

Bank Prudential

Revising the G-SIB assessment framework

The Basel Committee published consultative document *G-SIBs – revised assessment framework* on 30 March 2017, reflecting its commitment to review the framework every three years. Its last review was published in July 2013.

The methodology is indicator-based and comprises five categories. Proposed revisions include the removal of the cap on the substitutability category, amendments to the definition of the cross-jurisdictional indicators for that category and expanding the scope of consolidation to include insurance subsidiaries. The Basel Committee also seeks feedback on the introduction of a new indicator – short-term wholesale funding – a proposed fourth indicator in the interconnectedness category.

The Basel Committee intends to conduct a comprehensive quantitative impact assessment to analyse the impact of the proposed changes. The consultation closes on 30 June 2017.

Bank structures

Publicising Ring-fencing

HMT published a new policy paper webpage *Ring-fencing information* on 24 March 2017. It provides short FAQs setting out the legislative background to ring-fencing, its benefits for the UK economy and the impact on bank customers. HMT notes that ring-fencing applies from 1 January 2019. It intends that ring-fencing will make it easier to resolve banking groups without UK taxpayers being on the hook for bank failures. The UK economy should benefit as a result.

As banks separate their businesses to keep core retail banking inside the ring-fence and riskier investment banking outside, some customers will receive new sort codes and account numbers. HMT warns customers to be alert to scams about any changes to their account details. In a concerted effort to inform the public on *ring-fencing*, HMT provides links to the FCA webpage Ring-fencing for consumer information and to the PRA webpage on *Structural reform* for technical information.

Capital and liquidity

Analysing credit risk model variability

The EBA published its report *Results from the 2016 high default portfolios (HDP)* exercise on 3 March 2017, its aim being to assess the level of variability in risk weights

generated by credit risk internal models. The HDP include residential mortgages, SME retail, SME corporate and other corporate portfolios. The EBA uses 31 December 2015 data covering 114 institutions across 17 EU countries, a significant increase compared to previous reports.

The EBA uses the average risk weight and average global charge (incorporating expected and unexpected losses) as the indicators for variability in this benchmarking exercise. It also uses a number of approaches in analysing the data. A key finding from the top-down approach is that more than 80% of the variability in global charge levels are explainable by a small number of factors. These include the proportion of defaulted exposures, the country of the counterparty and portfolio mix. The backtesting approach shows that in general, the estimated default and loss rates are higher than observed rates. But the EBA notes that some banks systematically show observed values higher than estimates and suggests this needs further analysis.

The EBA highlights areas that NCAs should consider investigating further. These include the practices around defaulted exposures, the use of global models and their interaction with country specific factors together with unjustified differences between regulatory approaches.

Highlighting market risk model variability

The EBA published its report *Results from the 2016 market risk benchmarking exercise* on 3 March 2017, its aim being to assess the level of variability in risk weights generated by market risk internal models. The exercise covered a sample of 50 banks across the EU from 12 jurisdictions and all trading book asset classes.

Overall, the EBA found the interest rate asset class shows a lower level of variability than other asset classes. In line with the previous exercise, it observes significant dispersion for all the risk measures that banks provide. As expected by the EBA, the value-at-risk measure shows lower variability than the stressed value-at-risk measure and other more sophisticated measures. It notes that modelling choices play an important role in explaining this variability, especially for the most complex risk measures.

The EBA highlights areas that NCAs should consider investigating further. These includes pricing variability of equity derivatives, commodities trades and credit spread products. It also suggests assessing the materiality of risks not captured by models and where appropriate, challenging banks to improve their model coverage.

Reducing the impact of IFRS 9

The EBA published its *Opinion on transitional arrangements and credit risk adjustments due to the introduction of IFRS 9* on 6 March 2017 to contribute to the ongoing discussion on this issue. This follows the draft amendments that the EC includes in its *CRD V/CRR II proposals* to reduce the impact of IFRS 9 expected credit loss provisions on capital ratios.

The EBA supports a 'static approach' for amortising over four years the day one, one-off impact of IFRS 9. Firms have the option to recognise the full day-one effect if they prefer. This contrasts with the alternative 'dynamic approach' involving adjusting for changes in provisioning levels at each assessment date that the EC proposes. It believes this achieves a better balance between addressing the rationale of the transitional arrangements and at the same time being a prudent and simple approach for implementation by firms and understood by stakeholders.

The EBA considers the amortisation period should start from 1 January 2018, rather than from 1 January 2019 and full relief in 2018 that the EC proposes. It also believes that all IFRS 9 provisions should be considered as specific credit risk adjustments in the context of the *current RTS* addressing this issue as they do not qualify as a general provisions.

Following publication of its first *IFRS 9 impact assessment* in November 2016, the EBA aims to publish the results of its second IFRS 9 impact assessment in Q2 2017. It expects this to feed into shaping its final views on these transitional arrangements.

EC extends CCP transitional period again

The EC issued a draft *Commission Implementing Regulation on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in CRR and EMIR* on 31 March 2017. If adopted, this draft regulation would extend the transitional period for a further six months until 15 December 2017.

CRR provides for transitional arrangements during the authorisation and recognition process for CCPs to become qualifying CCPs. This extension aims at avoiding disruption to international financial markets and to prevent penalising institutions with higher regulatory capital requirements. Under these arrangements all CCPs are treated as qualifying CCPs. Exposures to qualifying CCPs attract lower credit risk capital requirements compared with other CCPs.

The transition period associated with these arrangements also applies to EMIR transitional provisions requiring CCPs to report the total amount of initial margin they receive from their clearing members.

The EC has extended the transition period on six previous occasions. ESMA currently recognises 22 third-country CCPs but there are others still awaiting recognition.

Consolidating pillar 3 disclosures

The Basel Committee issued its *Pillar 3 disclosure requirements – consolidated and*

enhanced framework on 29 March 2017. It builds on the *revised Pillar 3 disclosure requirements* standard published in January 2015 and follows the *consultation document* on the enhanced framework published in March 2016.

The standard has three elements. Firstly, it consolidates all other existing disclosure including the composition of capital, the leverage ratio, the LCR, the NSFR, indicators for G-SIBs, the countercyclical buffer, interest rate risk in the banking book and remuneration. Secondly, it introduces a 'dashboard' of key prudential metrics and new disclosure for banks which record prudent valuation adjustments. Thirdly, the Committee includes updates arising from ongoing regulatory reform and include TLAC disclosure for G-SIBs and disclosures relating to the revised market risk framework.

The Committee has started the third phase of its review which includes developing disclosure requirements relating to the standardised approach RWA comparison with internally modelled capital requirements, asset encumbrance and operational risk. The implementation date of the disclosure requirements range from end of 2017 to end of 2019 depending on the particular policy framework the disclosure relates to.

Finance

Tackling non-performing loans

The ECB issued *Guidance to banks on non-performing loans* (NPLs) and associated *FAQs* outlining measures, processes and best practice for Eurozone banks when tackling NPLs on 20 March 2017. It follows the ECB's consultation issued in September 2016 and reflects concerns that high levels of NPLs restrict banks' capacity to lend to the economy.

The guidance applies immediately to all significant institutions under SSM, including their international subsidiaries. But, having regard to proportionality principles, the ECB acknowledges that it is more relevant to banks with high levels of NPLs.

Although the guidance is non-binding, the ECB intends it to form part of the ongoing supervisory dialogue with banks. The ECB indicates that it expects banks to able to explain and substantiate any deviations from the guidance. The ECB says it is already engaging with banks with elevated NPLs and that they can now expect to receive letters from their supervisors focusing on managing and addressing NPLs in line with supervisory expectations.

The ECB is also increasing supervisory reporting requirements for banks with high levels of NPLs and expects banks to disclose more information related to NPLs commencing in 2018.

Financial stability

Finalising LCR disclosure guidelines

The EBA published its final *Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 CRR* on 8 March 2017. These guidelines apply to credit institutions identified as G-SIIs, O-SIIs, and others at the discretion of their NCAs or on a voluntary basis. They complement and are consistent with the *EBA pillar 3 guidelines* published in December 2016 in terms of scope and date of application.

The guidelines include a table for the disclosure of risk management objectives and policies for liquidity risk. They also include qualitative and quantitative templates and associated explanatory notes for LCR composition and levels. The quantitative data is based on monthly averages drawn from *COREP LCR reporting*. The guidelines apply from 31 December 2017.

Payments

PSR pursues open door policy

The PSR published its second annual report on access and governance of payment systems on 9 March 2017: *Access and governance report on payments systems: update on progress and areas for ongoing focus.*

The report details progress against the PSR's open access programme which pursues objectives set out in PSR rules and its indirect access market review final report (July 2016). The PSR aims to create a more competitive payments market, ensuring that PSPs have fair access to interbank payment systems to transfer funds.

The regulator reports that ten PSPs in 2017 (against four in 2016) will gain direct access to the BACS, CHAPS, Faster Payments and the Cheque and Credit payment systems. While the PSR acknowledges that much has been *achieved* in the past year by operators of payment systems, more remains to be done:

- the PSR has instructed operators to continue to develop models and solutions permitting access to their systems
- indirect access providers (IAPs) (PSPs with direct access providing access to third party PSPs) are required to raise awareness of the IAP Code of Conduct developed to help PSPs obtain indirect access
- the PSR will renew its rules later in 2017 to reflect the changes expected by implementation of PSD2 in relation to settlement rules and the planned consolidation of BACS, Faster Payments and the Cheque and Credit payment schemes.

The PSR will continue to monitor progress against its objective to improve competition in payments.

PSR sets out plans

The PSR published its *Annual Plan and Budget for 2017/18* on 29 March 2017 outlining its work programme for the year ahead.

During the next year, the PSR will undertake further work on existing projects: the Payments Strategy Forum, market reviews on infrastructure and indirect access, and the Which? super-complaint on payment scams. The PSR will also implement and monitor compliance with the EU Interchange Fee Regulation, PSD2 and the Payment Accounts Regulations. It plans to develop its role as an enforcement regulator and competition authority.

Alongside its wider work programme, the PSR highlights three areas on which it will focus:

- the increasing use of payments data
- consumer protection and education
- changing competitive dynamics.

The PSR will consider the issues associated with the increased use of customer data and the implications for customer protection. It will also explore the implications on competition of the evolution of payments technology and changing consumer preferences and needs.

The PSR estimates that its operating costs for 2017/18 will be around £12 million.

Cheque payments get 21st century upgrade

The Cheque & Credit Clearing Company (C&CCC) *consulted* on its plans to introduce the Image Clearing System (ICS) on 22 March 2017 along with the expected implementation *timetable*.

The purpose of the ICS is to digitise cheques and other eligible paper (bankers' drafts, postal orders, government payable orders, warrants, travellers' cheques and bank giro credits) through the implementation of an image-based clearing system in the UK. The C&CCC states that the changes will allow a customer paying in a cheque on a weekday to withdraw the funds before midnight on the next weekday at the latest.

The ICS is expected to go live with certain UK banks and building societies from 30 October 2017. The system will apply to all UK banks and building societies from the second half of 2018.

As part of its work on introducing the ICS, the C&CCC is consulting with interested parties on several documents ahead of the launch of the ICS later this year. The documents, set out in *The ICS Participant Contractual Framework Technical Guide*, are participant agreements and the ICS Manual which form the contractual basis on which participants use the ICS.

Comments on the consultation process and the documents are invited by 28 April 2017.

PSR fires penalty shot

The PSR published details of its *Financial Penalty Scheme* on 24 March 2017 with its *Decision on the Final Penalty Scheme for the use of the retained amount from PSR regulatory penalty receipts.*

The PSR is empowered under FSBRA to impose penalties for compliance failures by regulated firms. Fees collected for non-compliance are to be paid to HMT minus an amount which may be retained by the PSR to cover enforcement costs. The FSBRA requires the retained amount to be used in a way that benefits participants in regulated payment systems, with the exception of the firms against which the penalty was imposed. Following consultation, the PSR confirms that it will use the retained amount to reduce regulatory fees for participants in FSBRA-regulated payment systems and regulated persons under the Interchange Fee Regulations. Monies will be returned to the industry in the financial year after the PSR receives the penalty payment.

Recovery and resolution

Changing the insolvency creditor hierarchy

The ECB issued a legal opinion requested by both the Council and the EP *on a proposal for a directive amending BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy (CON/2017/6*) on 8 March 2017. In general, the ECB welcomes the proposed directive and supports its urgent adoption. But it considers that further changes would help to harmonise the creditor hierarchy. In particular, it recommends a general depositor preference rule. Currently the BRRD gives priority for deposits up to €100,000 (or equivalent) followed by priority for deposits belonging to individuals and SMEs in excess of that sum. The ECB proposes adding a third tier giving priority to all other depositors.

On the directive's proposal for a new class of non-preferred senior debt instruments, the ECB suggests removing the requirement for an initial maturity of one year to add flexibility. It also clarifies that, where Member States have already brought in statutory subordination for senior unsecured debt instruments, the new non-preferred instruments should rank pari passu with statutorily subordinated debt.

Picking up on concerns expressed by some Member States about an early cut-off date for the application of national law, the ECB recommends that existing national insolvency law should apply until the day before implementation of this amending directive. The EC aims to fast-track this directive for implementation by July 2017. But the ECB's legal opinion may influence whether or not Member States support such rapid implementation.

EBA compares bank recovery options

The EBA completed its fourth thematic analysis on recovery planning with the publication of its *Comparative report on recovery options* on 1 March 2017, which it

views as important for assessing firms' capacity to regain viability following a period of severe financial distress. The EBA compares recovery options included in recovery plans submitted by 23 cross-border banking groups in the second half of 2016. In general, the EBA sees an improvement, with firms providing a good range of recovery options. Bit it notes that some challenges remain.

In their descriptions of recovery options, firms must link them to specific governance procedures and the detailed steps to be taken to implement each option. Also, they should undertake a detailed feasibility assessment of the recovery options to be adopted in different scenarios. For many firms, the EBA views their analyses as too high-level. In the same vein, the EBA finds that firms do not give enough detail to support the credibility and feasibility of their recovery options as regards:

- financial and operational impact assessments
- the ability to leverage on past experience in recovery measures
- estimates of timelines for executing recovery options.

The EBA also notes the need for firms to improve the coverage of material subsidiaries in group plans. In many cases, parent companies do not identify a proper set of recovery options at subsidiary level. They merely suggest providing parental support in the form of capital or liquidity and often identify difficulties in applying these courses of action.

The EBA believes this benchmarking exercise will support supervisors in future assessments of group recovery plans. But more immediately, the EBA is using it to inform its *consultation* on recommendations on the coverage of entities in group recovery plans launched on 2 March 2017.

Improving group recovery plans

The EBA issued a consultation paper *Recommendations on the coverage of entities in a group recovery plan* on 2 March 2017. It has concerns that firms present group recovery plans from the parent companies' perspectives and lack information on other group entities. The EBA considers this shortcoming impacts the credibility and effectiveness of group recovery plans. It also highlights this in its recent *comparative report on recovery options*.

Through these recommendations, the EBA aims to avoid a fragmented approach to obtaining information on groups, by setting out a common framework for achieving the needs of all group entities in the group recovery plan. The EBA suggests that a parent undertaking classifies all relevant group entities (including material branches) into one of three categories:

- material for the group
- material for the economy or financial system of a Member State
- not material for either of the above.

A parent undertaking should cover group-relevant entities extensively in all sections of the group recovery plan. But, for locally-relevant entities, it should focus on how their critical functions can be preserved in a period of distress. For non-material entities, the parent should just give a brief description of their position in the group's overall strategy.

The EBA also tackles the issue of individual recovery plans for group entities. It recommends that shortfalls in the coverage of group plans should not continue to be addressed by requesting submission of individual plans as this causes difficulties in reaching joint decisions on group recovery plans. But the EBA recognises that a transitional period of two years is necessary to enable the efficient migration of information from individual plans into group plans. The consultation closes on 2 June 2017. If adopted, the EBA's recommendations will apply from 1 July 2017.

Revising the SRR code

HMT issued a revised *Banking Act 2009: special resolution regime (SRR) code of practice* on 27 March 2017. The Code supports the legal framework of the SRR and provides guidance as to how and in what circumstances the authorities intend to use the special resolution tools. The revised version reflects the publication of the Bank Recovery and Resolution Order 2016.

In the main change, HMT has added a new section dealing with the independent resolution of UK branches of third country firms. The Code explains how the BoE would use its 'back-stop' powers to resolve the UK branch of a third country firm independently if co-operation between resolution authorities does not work. Its actions might include bailing in liabilities and transferring the business of the branch to a bridge bank to ensure the continuity of UK critical functions.

HMT also made changes dealing with resolution financing arrangements, contributions by FSCS to SRR costs and the role of FSCS in the insolvency of banks and building societies. It updates the Code on a periodic basis and it consults the BoE, PRA, FCA and FSCS on proposed changes. The last revision was in March 2015.

Reporting

Angling for control over supervisory reporting

The EBA issued its *Opinion on improving the decision-making framework for supervisory reporting requirements under CRR* on 7 March 2017. It recommends that the EBA is granted the power to implement supervisory reporting requirements directly, replacing the current ITS legislative process. The EBA suggests this extends to disclosure requirements too.

The EBA explains that the particular technical nature of supervisory reporting results in the need for regular updates, corrections and clarifications. It considers the current process is slow, lacks a predictable schedule and causes unnecessary delays and costs, leading to poorer data quality.

The EBA also suggests measures to strengthen its accountability, in anticipation of this additional power. These include the EC retaining a modified right of scrutiny and objection and the EBA periodically reporting to the EC, the Council and the EP on the compliance burden of reporting requirements.

Clarifying credit union reporting

The PRA published *Credit union reporting – clarifications* on 10 March 2017. This is in response to informal feedback from credit unions and trade bodies together with PRA questionnaire submissions. It follows the launch of a new electronic data submission portal on 3 January 2017.

The clarifications cover validation and plausibility, completing the returns' 'frequently asked questions' and PRA contacts for any queries. The PRA also publishes updated reporting templates, which include several technical improvements. The PRA confirms that these clarifications do not represent changes in policy. But it does intend to add material to existing return completion guidance notes in due course.

G-SIBs making slow progress

The Basel Committee published its fourth report on *Progress in adopting the Principles for effective risk data aggregation and risk reporting* on 28 March 2017. The report is based on a self-assessment survey on 30 G-SIBs which the responsible supervisory authorities. The Principles took effect from January 2016.

It observes that while the banks have made some progress most have not fully implemented the Principles, and their level of compliance with the Principles is 'unsatisfactory'. Although many banks expect to achieve full compliance within two to three years, the execution risk of not achieving it remains a concern. So the Basel Committee -makes additional recommendations:

- banks should develop 'clear roadmaps' to achieve full compliance and to comply on an on-going basis
- supervisory authorities should communicate their assessment results to their banks and provide the necessary incentives to achieve full compliance.

The Basel Committee also encourages supervisory authorities to continue to refine their techniques for assessing compliance. Finally, it 'strongly suggests' that supervisory authorities apply the Principles to banks identified as D-SIBs three years after their designation. It encourages an early start to implementation as it notes that G-SIBs are in general, taking five to six years to achieve compliance.

Retail products

FCA outlines consumer credit workplan

In a *speech* delivered at the Credit Summit on 30 March 2017, Jonathan Davidson, Director of Supervision – retail and authorisations, FCA reflected on the FCA's three years as regulator of the consumer credit sector and outlined where the regulator is focusing its attention. Davidson highlighted four areas of focus:

- the review of the CCA retained provisions
- affordability guidance and approach to vulnerable customers
- HCSTC cap review and
- the extension of accountability regime.

The FCA is tasked by HMT with reviewing by 1 April 2019 the remaining provisions of the CCA which were not repealed or replaced by FCA rules. A feedback statement from the FCA following its February 2016 call for input on the retained provisions will provide an outline of its approach to the review.

The regulator expects to publish its affordability guidance in the coming months. Its mission document, due to be published in April 2017, will also consider the issue of consumer vulnerability. The FCA's findings on the review of the payday loan price cap are expected to be published in summer 2017, together with details of the next stage in its review of high-cost credit products more broadly.

The FCA also plans to consult on its proposals for the extension of the senior managers and certification regime (SM&CR) to include consumer credit firms in summer 2017. The FCA intends that the extended regime will start from 2018.

Shadow banking

Coping with step-in risk

The Basel Committee released a second consultative document on step-in risk, *Guidelines - Identification and management of step-in risk*, on 15 March 2017. This is part of the G20's initiative to strengthen the oversight and regulation of the shadow banking system to mitigate systemic risks. Step-in risk is the risk that a bank might support unconsolidated entities, beyond any contractual obligation, to protect itself from any reputational damage arising from its connection to such entities. If not appropriately addressed, crystallisation of this risk could erode a bank's capital and liquidity position.

The Basel Committee sets out a framework that involves banks evaluating, identifying, measuring and responding to step-in risk - a self-assessment, together with reporting to supervisory authorities and supervisory review. It provides banks and supervisors with a method for identifying step-in risk and with a list of possible responses that

leverage existing prudential tools by informing them or supplementing them. This framework entails no automatic pillar 1 capital or liquidity charge additional to existing Basel standards.

This consultation builds on an earlier *December 2015 step-in risk consultation* which focused on identification and measurement. But the Basel Committee issues this 60-day consultation 'with a view to focusing on the supervisory reporting templates and any potential issues requiring clarification'. It notes that it 'does not envisage making significant changes to the revised framework which it views as near-final'. The Basel Committee indicates that this framework should 'enter into force as soon as possible and no later than 2019'. The consultation closes on 15 May 2017.

Stress testing

Stress testing 2017

The BoE published *Stress testing the UK banking system: key elements of the 2017 stress test* on 27 March 2017. Alongside the annual cyclical scenario stress test, the BoE is running an additional biennial scenario stress test for the first time.

The annual cyclical scenario stress test incorporates a severe and synchronised UK and global macroeconomic and financial market stress, and an independent stress of misconduct costs. Developments in the 2017 test include a worse stressed outcome for the global economy than that used 2016, largely reflecting the continued rapid growth of credit in China. It also incorporates a rise in interest rates, whereas in the 2016 test stress test rates were cut to zero. The BoE uses the results of this test to ensure that the banking system as a whole, and individual banks within it, have sufficient capital to absorb losses and maintain lending to the real economy, even in a severe stress.

The aim of the additional biennial stress test is to consider how the UK banking system might evolve if recent headwinds to bank profitability persist or intensify. It incorporates weak global growth, persistently low interest rates, stagnant world trade and cross-border banking activity, increased competitive pressures on large banks from small banks and non-banks together with continued misconduct costs. It does not focus on bank capital adequacy. Instead, it examines how banks would meet regulatory requirements and build sustainable business models in such an environment.

Seven UK banks and building societies are participating in these stress tests, the same ones as in 2016. Together they represent around 80% of aggregate bank lending to the UK real economy. The BoE intends to publish the results in Q4 2017.

Supervision

EBA reviews supervisory colleges

In the *EBA report on the functioning of supervisory colleges in 2016,* published on 22 March 2017, the EBA reviews the performance of supervisory colleges in 2016 compared to 2015, and sets out an action plan for 2017.

The EBA notes an improvement in the overall level and quality of engagements in supervisory colleges last year compared to 2015. It found that group risk assessment reports provided a good overview of risk profiles in 2016, but believes business model analysis could be improved. The EBA adds that liquidity joint decisions were of a lower quality than capital joint decisions, mainly due to their less granular reasoning, particularly for subsidiaries.

For 2017, the EBA says competent authorities supervising cross-border banking groups under the colleges framework should focus on: non-performing loans and balance sheet cleaning, business model sustainability, conduct risk and IT risk.

To carry out the review, the EBA identified 76 active supervisory colleges. Of these, it monitored 20 closely, and interacted with the remainder only on specific topics.

Reporting on euro area supervisory activities

The ECB published its *Annual Report on supervisory activities 2016* on 24 March 2017. The ECB considers that European banks are becoming more resilient in terms of capital, leverage, funding and risk-taking. But notes that challenges remain, including their limited capacity to fully support the euro area's recovery due to low profitability. It attributes this to overcapacities, inefficiencies and legacy assets.

The ECB highlights its key achievements in 2016 as issuing of draft guidelines on dealing with non-performing loans (NPLs), improving the solvency of the euro area banking sector and more harmonised banking supervision.

Its 2017 priorities include further analysis of banks' business models - exploring their profitability drivers, risk management - focussing on culture, governance and data, together with credit risk - mainly concerning NPLs.

PSR sets out funding plans

In *CP17/9 PSR regulatory fees 2017/18*, the PSR sets out its policy decisions on the allocation, calculation and collection of PSR fees for 2017/18 and consults on the fee rates to be paid by relevant market participants for the coming year.

The PSR's annual funding requirement (AFR) for 2017/18 is confirmed as £12 million. This comprises £11.4 million for functions it performs regulating payment systems under FSMA and £600,000 for functions performed as regulator of the Interchange Fee Regulation ((EU) 2015/751) (IFR).

The PSR is consulting on the fee allocations in relation to regulated payment systems and IFR card payment systems. The methodologies set out in the consultation allow individual direct PSP members to

assess their liability for membership of the schemes. Comments are invited on the fee amount payable rather than the calculation method.

The consultation closes on 12 May 2017. The PSR expects to publish its final policy statement by the end of July 2017.

Accounting

Capital and liquidity

Preparing for expected credit loss provisioning

The Basel Committee issued its standard on Regulatory treatment of accounting provisions – interim approach and transitional arrangements on 29 March 2017. This standard concerns the impact on the regulatory capital framework of the introduction of accounting standards that replace the current incurred loss provisioning models with an expected credit loss (ECL) provisioning model. The Committee previously published a *consultation document* and *discussion paper* on this issue in October 2016. The discussion paper contained policy options for the long-term regulatory treatment of provisions under the ECL model.

The Committee is retaining the current treatment of accounting provisions under both the standardised and IRB credit risk frameworks for an interim period. Its chosen approach reflects the diversity of accounting and supervisory policies relating to provisioning and regulatory capital across jurisdictions and uncertainty about the effects on regulatory capital of the change to an ECL model. It recommends that supervisory authorities provide guidance on how they intend to allocate ECL provisions as general or specific provisions in their jurisdiction to ensure consistency.

The Committee is also allowing supervisory authorities to adopt transitional arrangements even though it has not concluded on the long-term regulatory impact treatment of ECL provisions, and it recognises that the impact could be significantly more material than currently expected and result in an unexpected decline in capital ratios.

It also sets out principles that apply to supervisory authorities who adopt transitional arrangements. The Committee stresses that these arrangements apply only to 'new' provisions that arise from moving to ECL accounting. The principles include a choice between

- a 'static' approach in which the transitional adjustment is calculated once, at the point of transition
- a 'dynamic' approach which takes into account the evolution of 'new' ECL provisions arising during the transition period.

The Basel Committee believes the transition period should be no longer than five years. These transitional arrangements are a more pressing issue for banks applying IFRS rather than US GAAP, because IFRS 9 applies from 1 January 2018, whereas banks using US GAAP have to two further years before they have to apply the equivalent US standard.

Asset management

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Regulation

Advice

Aligning investment advice in the RAO

The *FSMA (Regulated Activities) (Amendment) (No. 2) Order 2017* was laid before Parliament together with an *Explanatory Memorandum* on 30 March 2017. It implements *HMT's recommendation* that the RAO definition of 'investment advice' for regulated firms should be aligned with the MiFID II definition. It comes into force on 3 January 2018 in line with the commencement of MiFID II.

The Order amends Article 53 RAO that makes advising on investments a regulated activity. The amendment changes the definition of financial advice for regulated firms holding permissions other than advising on investments or agreeing to advise on investments. The change to Article 53 RAO now means that the majority of firms give investment advice only if they provide a personal recommendation. Regulated firms have the reassurance that the RAO aligns fully with MiFID II as the definition of 'personal recommendation' in the new Article 53(1C) follows directly the wording from MiFID II. Article 54 now also reflects that the exclusion for advice given in newspapers etc. does not apply to any personal recommendations.

Unregulated firms are still be subject to the wider definition of investment advice in Article 53(1), preserving the existing limits on activities that unregulated firms can undertake without being FCA regulated.

The FCA has a *webpage* setting out what the changes to Article 53 RAO mean for different types of firm. Later in 2017 it intends to issue a consultation on changes to its Handbook and guidance dealing with regulated advice and personal recommendations. It aims to finalise these changes so that they come into effect at the same time as the change to Article 53 RAO comes into force.

Capital and liquidity

Reviewing the investment firm prudential regime

The EC issued an inception impact assessment concerning the *Review of the appropriate prudential treatment for investment firms* on 22 March 2017. The EC's aim is to inform stakeholders of its intentions and invite feedback. This follows the closure of comment period in February

2017 of the *EBA's discussion paper* that outlines what a potential new prudential regime for investment firms could look like.

Given the public consultation and data collection that the EBA has already undertaken the EC does not intend to run its own general public consultation. But it does aim to engage in targeted consultations with industry stakeholders on the calibration and impact of any regime change as well as on issues not covered by the EBA.

The EBA is due to submit its report to the EC in June 2017 outlining its advice on a new prudential treatment for investment firms, informed by responses to their discussion paper and other data-gathering. The EC signals that it currently plans to publish a legislative proposal in Q4 2017. The EC is open to feedback on this assessment until 19 April 2017.

Conduct

FCA flags dealing commission concerns

The FCA says investment managers are still falling short of its expectations on dealing commission expenditure, as it revealed the *findings of a review* on 3 March 2017. The regulator looked at 31 asset managers, wealth managers and host-authorised corporate director providers between 2012 and 2015. It assessed firms' dealing commission arrangements, including how they had responded to the examples of good and poor practice from a 2014 *discussion paper* on the topic.

The FCA identified poor practices at the majority of firms it visited, and found some businesses could not demonstrate meaningful improvements in how they spend customers' money through their dealing commission arrangements. At the extreme end, the FCA found some firms continued to use dealing commission to purchase non-permissible items, such as corporate access, contrary to its rules. It also found issues with how firms:

- assess whether research is substantive
- attribute a price or cost to substantive research if they receive it in return for dealing commission
- record their assessments to demonstrate they're meeting COBS 11.6.3R and are not spending more of their customers' money than necessary.

But the FCA did note some improvements in firms' practices with respect to paying for research (e.g. by adopting processes that demonstrate careful control around how they spend dealing commission) and research budgets.

The regulator concludes that investment managers need to do more work to ensure they spend their customers' money with due care and attention. It says that firms which have paid closer scrutiny to this area have generally seen a reduction in the dealing commission they spend on research, which feeds directly into better investment performance for customers. The FCA adds that given the review's findings and the implementation of MiFID II, it will continue to focus on the use of dealing commission.

Disclosure and distribution

Simplifying asset managers' reporting

Looking to alleviate asset managers' complex regulatory requirements, the IA published a proposed code entitled Enhanced disclosure of charges and transaction costs for consultation on 27 March 2017. The code establishes a framework whereby PRIIPs, MiFID II and UK pension disclosure can be rationalised, focusing on the following areas:

- product/service charges, based on management costs and costs of other providers
- explicit transaction costs, covering brokerage fees and transaction taxes, and
- portfolio turnover.

While the IA's approach fills in certain areas which have been left unclear by the regulators, such as the FCA's lack of clarity on what pension trustees and governance committees should report for portfolio turnover, it also acknowledges some of the code's limitations. For example, the code calls for reporting on a broad asset class basis even though there are certain instances where derivatives costs can vary significantly within the asset class. Likewise, the code currently doesn't include composite portfolio turnover rate for fund-of-fund structures on the basis that this measure would be too difficult to meaningfully interpret. But the IA is seeking stakeholder feedback on all choices and approaches. More broadly, the IA acknowledges that the code may have to be reviewed once the FCA completes its asset management market study.

The IA also wades into the regulatory debate around implicit transaction costs. Noting remaining regulatory uncertainty in this area, the IA recommends that firms report implicit transaction costs as the difference between the actual transaction price and the mid-market value of the asset. But this approach is likely to be out of step with the finalised PRIIPs standards.

Due the distinct complexities of reporting on investment funds and segregated mandates, the IA proposes two separate templates for these activities.

The consultation period closes on 19 May 2017.

Insurance

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Regulation

Corporate governance

IAIS encourages good group corporate governance

The IAIS published an *Application Paper on Group Corporate Governance* on 7 March 2017. It gives details of good supervisory practices drawing on conclusions from its *Issues Paper on Group Corporate Governance; Impact on Control Functions* published in October 2014. It also gives supervisory responses and best supervisory practices for the five main areas where insurance groups face challenges identified in the issues paper:

- setting objectives and strategies
- allocation of oversight and management responsibilities
- policies and processes
- risk management and compliance
- control functions.

The comment period ends on 1 May 2017.

Retail products

MoJ reviews approach to Ogden rate

The cut in the Ogden discount rate from 2.5% to -0.75% came into effect on 20 March 2017. As part of the Lord Chancellor's plans to review the framework under which the rate is set, the MoJ published a consultation *'The Personal Injury Discount Rate - How it should be set in future'* on 30 March 2017. It aims to improve the framework and make it fairer, seeking feedback from stakeholders on how the rate should be set, how frequently it should be reviewed and by whom it should be set.

Amongst various reforms, the MoJ considers whether more frequent reviews would improve predictability and certainty for all parties and if the rate should be set by an independent body of experts. It also requests opinions on whether periodical payment orders might be a better way to compensate for future financial loss in more cases than at present. The consultation closes on 11 May 2017

Solvency II

TC inquiry into Solvency II

The TC's *EU Insurance Regulation inquiry* is exploring the impacts of Solvency II and

the UK's options following the vote to leave the EU. The TC published *written evidence submitted by the PRA (SOL0051)* from Sam Woods, Deputy Governor and CEO, PRA on 15 March 2017. It sets out his views on 23 areas of concern identified by the ABI. He highlights the areas:

- where he is open to reform and plans to explore options with the ABI, subject to consideration by the PRC
- where he shares some concerns but does not necessarily agree with the ABI's prescription
- with which he disagrees.

Woods also intends to review the PRA's implementation of the Solvency II reporting requirements, as a priority, to identify ways to reduce reporting burdens where possible.

EIOPA publishes LTG information request

EIOPA published an *Information Request* regarding the Long-Term Guarantees (LTG) Measures and Measures on Equity Risk review on 3 March 2017. It requests that Solvency II insurers from the EEA submit the following information to their supervisors by 15 June 2017:

- Impact of the symmetric adjustment mechanism to the equity risk charge on the financial position of undertakings
- Impact of the extrapolation of risk-free interest rates on the financial position of undertakings
- Losses due to bond defaults and downgrades of bonds in matching adjustment portfolios.

Information should be provided at the level of each individual insurer (as opposed to at the level of the group). EIOPA expects supervisors to report this information to it by 16 July 2017 for use in its second LTG Report due in 2017.

EIOPA investigates ECON's UFR methodology concerns

In November 2016, ECON *wrote* to EIOPA about its concerns regarding EIOPA's proposed *methodology to derive the Ultimate Forward Rate (UFR) and its implementation. In its response*, published on 14 March 2017, EIOPA gives the results of an additional impact assessment completed at ECON's request. This assessment covers all insurance products and investigates the impact on the SCR of 336 insurers. It finds that changing the UFR by 20 basis points (the proposed maximum annual change) and 50 basis points (the difference between the present rate and the rate calculated applying the proposed methodology) mainly affects long-term life insurance liabilities, but the impact is very small and manageable.

To address ECON's stability concerns, EIOPA is considering the size of the annual limit of the UFR changes and measures to reduce the frequency of UFR changes. It is also considering delaying the first application of the new methodology from the end of June 2017 to the end of 2017 or beginning of 2018, but no later. EIOPA's Board of Supervisors planned to decide on the UFR methodology and its first application by the end of March 2017.

EIOPA updates Q&As

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

- Commission Implementing Regulations laying down ITS *(EU) No 2015-2450 with regard to the templates for the submission of information to the supervisory authorities*
- Commission Implementing Regulations laying down ITS *(EU) No 2015-2452 with regard* to the procedures, formats and templates of the solvency and financial condition report
- *Risk-Free Interest Rate - Financial market data*
- *Answers to questions on Guidelines on classification of own funds*
- *Answers to questions on Guidelines on reporting and public disclosure*.

Supervision

IEO seeks improvements to insurance objective

The BoE published its *Evaluation of the PRA's approach to its Insurance Objective* on 20 March 2017. It sets out the findings and recommendations of the Independent Evaluation Office's (IEO's) review of the PRA's approach to its policyholder protection objective (the insurance objective).

The IEO concludes that the PRA still has more to do to fulfill its policyholder protection responsibilities. But it also notes that it did not find any evidence either of PRA supervisors falling short of their policyholder protection duties, or of formal overreach (i.e. exercising powers without legal basis). The report includes recommendations to help the PRA to articulate its policyholder protection objective, clearly communicate its responsibilities and effectively implement them. It also includes recommendations on how the PRA can develop an appropriate framework for co-ordination with the FCA.

PRA plans review of insurance objective

The PRA published its *response to the Independent Evaluation Office's (IEO) evaluation of the PRA's approach to its insurance objective* on 20 March 2017. It

welcomes the IEO's recommendations and plans to use them to develop its interpretation of the insurance objective.

The PRA intends to consider the determination of an 'appropriate' degree of protection and the relationship between policyholder protection delivered by the PRA and that provided by the FSCS. By September 2017, the PRA plans to take a paper to the Prudential Regulation Committee (PRC) of the BoE on the legal interpretation of its objective, the interaction of the insurance objective with the general objective and the definition of regulatory failure. Following discussions with the PRC, the PRA expects to update its approach document, 'The PRA's Approach to insurance supervision', and provide the relevant training to its staff.

The PRA also plans to present a paper to the PRC by December 2018 on the appropriate levels of protection between different types of policyholders, the extent to which supervision should take the compensation scheme into account, the approach to firm categorisation and co-ordination arrangements with the FCA. It is not expecting to make significant changes to how it categorises firms as the IEO agreed this was an effective risk-based way of delivering policyholder protection. But having reviewed its relationship with the FCA, it may revise its memorandums of understanding with the FCA to reflect emerging good practice and experience.

PRA considers policyholder protection priorities

The PRA published a *speech on 'Insurance supervision at the PRA'* given by Sam Woods, Deputy Governor, Prudential Regulation and CEO, PRA, at the London Business School on 20 March 2017. In his speech, Woods considered the PRA's approach to insurance supervision in the light of feedback submitted to the TC inquiry into Solvency II (the *EU Insurance Regulation inquiry*) and the IEO's assessment of the PRA's approach to its policyholder protection duties (the insurance objective).

EIOPA publishes expectations for Colleges

EIOPA published its *2016 Year-end report on Functioning of Colleges of Supervisors and priorities for 2017* on 1 March 2017. In its annual review of the functioning of Colleges of Supervisors (Colleges) 2016, the first year of Solvency II, EIOPA reports more effective meetings and improvements to information exchange. But it also believes the consistency and quality of ORSA reports and internal models, the practices for enhanced risk assessment, sub-group supervision and the use of EIOPA's Central Repository require closer attention.

In 2017, EIOPA expects Colleges to continue to develop the effectiveness and efficiency of cross-border group supervision, especially with regards to the exchange of information and the assessment of joint risks. Colleges are expected to ensure the robustness and reliability of the Solvency II balance sheet and consider the differences in the application of valuation principles, the use of options and their impact on the group's and major solo undertakings' financial and solvency position.

IAIS launches major consultation package

The IAIS published a *Consultation: Revised Insurance Core Principles (ICPs)* and ComFrame material integrated with ICPs on 7 March 2017. It proposes revisions to the ICPs and ComFrame-related material following feedback from insurance supervisors and stakeholders across the world. The IAIS sees this as a 'major milestone in finalising the qualitative components of ComFrame in line with its scheduled delivery in late 2019, and in upgrading the ICPs.'

The consultation covers the following:

- Introduction to ICPs and ComFrame and Assessment Methodology
- Governance - ComFrame-specific material integrated with ICP 5 (Suitability of Persons), ICP 7 (Corporate Governance) and ICP 8 (Risk Management and Internal Controls)
- Supervisor and Supervisory Measures - revised ICP 9 (Supervisory Review and Reporting) and revised ICP 10 (Preventive Measures, Corrective Measures and Sanctions) as well as ComFrame-specific material integrated with ICP 9 and ICP 10 (with ICPs 10 and 11 (Enforcement) combined into one ICP, i.e. ICP 10)
- Supervisory Cooperation and Coordination - revised ICP 3 (Information Sharing and Confidentiality Requirements) as well as revised ICP 25 (Supervisory Cooperation and Coordination) and ComFrame-specific material integrated with ICP 25
- Resolution - revised ICP 12 (Exit from the Market and Resolution) and ComFrame material integrated with ICP 12.

The comment period ends on 1 June 2017.

Accounting

Accounting and financial reporting

IASB plans IFRS 17 implementation

At its *March meeting with the Accounting Standards Advisory Forum* the IASB explained its implementation proposals for IFRS 17 'Insurance Contracts'. The IASB plans to issue IFRS 17 in May 2017 with an effective date of 1 January 2021. To support the implementation process it is planning:

- educational and explanatory material published together with the new Standard (Basis for Conclusions, Illustrative Examples, Effects Analysis, Project Summary and Feedback Statement)
- webcasts introducing the new Standard and focusing on specific areas
- educational material for investors, including meetings and articles
- educational support for regulators and national standard-setters
- conferences focused on the implementation of IFRS 17
- a transition resource group

The IASB also gave an overview of IFRS 17 and its potential implications in an education session at its *March meeting with the Capital Markets Advisory Committee* meeting.

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
12/04/17	*Evaluation and review of the EU Agency for Network and Information Security*	*EC*
18/04/17	*Money Laundering Regulations 2017: consultation*	HMT
19/04/17	*Review of the appropriate prudential treatment for investment firms*	EC
24/04/17	*Digital comparison tools market study: Update paper*	CMA
26/04/17	*AML supervisory regime: response to the consultation and call for further information*.	HMT
26/04/17	*Consultation on building the European data economy*	*EC*
28/04/17	*The ICS Wider Consultation*	Cheque & Credit Clearing Company
28/04/17	*Proposal for Guidelines under the IDD on insurance based investment products that incorporate a structure which makes it difficult for the customer to understand the risks involved*	*EIOPA*
01/05/17	*Application Paper on Group Corporate Governance*	IAIS
02/05/17 (chapters 3&4) 23/06/17 (chapter 2)	Consultation Paper CP17/8 Markets in Financial Instruments Directive II Implementation – Consultation Paper V (including changes to conduct rules for Occupational Pension Scheme firms)	FCA

Closing date for responses	Paper	Institution
02/05/17	*Updated guidance on the CMA's approach to market investigations*	CMA
05/05/17	*Consultation Paper on RTS on CCP to strengthen fight against financial crimes*	*EBA*
06/05/17	*Public consultation on the operations of the ESAs*	EC
09/05/17	*Draft monetary penalties policy and revised professional trustee description* o	TPR
11/05/17	'*The Personal Injury Discount Rate - How it should be set in future'*	MoJ
12/05/17	*CP17/9 PSR regulatory fees 2017/18*	PSR
14/05/17	*Defined benefit pension schemes: security and sustainability*	*DWP*
14/05/17	*CP17/4: Review of the Effectiveness of Primary Markets - Enhancements to the Listing Regime*	*FCA*
15/05/17	*Guidelines - Identification and management of step-in risk,*	Basel Committee
16/05/17	*Draft guidelines on procedures for complaints of alleged infringements of the PSD2*	*EBA*
16/05/17	*CP2/17: Occasional Consultation Paper*	*PRA*
19/05/17	*Enhanced disclosure of charges and transaction costs*	IA
22/05/17	*Transposition of the IDD*	*HMT*
24/05/17	*Consultation on combatting fraud and counterfeiting on non-cash means of payment*	*EC*
24/05/17	*CP4/17 Regulated fees and levies: rates proposals 2017/18*	PRA
29/05/17	*Public consultation on whistleblower protection*	EC

Closing date for responses	Paper	Institution
29/05/17	*Draft RTS on the specification of the nature, severity and duration of an economic downturn in accordance with Articles 181(3)(a) and 182(4)(a) of CRR*	EBA
31/05/17	*EU initiative on restrictions on payments in cash,*	EC
31/05/17	*Multi-year plan on SSM Guides on ICAAP and ILAAP*	*ECB*
01/06/17	*DP16/3: Availability of information in the UK Equity IPO process.*	FCA
02/06/17	*Recommendations on the coverage of entities in a group recovery plan*	EBA
10/06/17	*GC17/1 – Changes to the way firms calculate redress for unsuitable DB pension transfers*	FCA
15/06/17	*Consultation document: FinTech a more competitive and innovative European financial sector*	EC
28/06/17	*IRB approach: clarifying PRA expectations – CP5/17*	PRA
30/06/17	*G-SIBs – revised assessment framework*	Basel Committee

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			
Q1 2017	Creditworthiness and affordability in consumer credit	Consultation	FCA
Q1 2017	Consultation on new rules for firms running crowdfunding platforms	Consultation	FCA
April 2017	Benchmarks Regulation	Technical standards	ESMA

Date	Topic	Type	Institution
Summer 2017	Mortgage market study interim report	Report	FCA
TBD 2017	Implementation of the Benchmarks Regulation	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			
March 2017	MAR 1 changes: inside information relating to commodity derivatives	Consultation	FCA
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			
H1 2017	Policy statement to CP38/16 Solvency II: group supervision	Policy statement	PRA
H1 2017	Policy statement to CP39/16: Cyber insurance underwriting risk	Policy statement	PRA
Q2/Q3 2017	IDD implementation – CP2	Consultation	FCA

Date	Topic	Type	Institution
Q3 2017	IDD implementation – policy statement	Policy statement	FCA
TBD 2017	Policy statement to CP48/16 Solvency II: Matching adjustment – illiquid unrated assets and equity release mortgages	Policy statement	PRA
TBD 2017	Policy statement to CP47/16: Maintenance of the 'transitional measure on technical provisions' under Solvency II	Policy statement	PRA
Market infrastructure			
TBD 2017	FCA regulated fees and levies: insurers tariff data for 2017/18	Policy statement	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			
Q1 2017	Pension Wise standards: changes required for secondary annuity market guidance – PS to CP16/22	Policy statement	FCA
Q1 2017	Redress methodology for pension transfers	Consultation	FCA
TBD 2017	Secondary annuity market – PS to CP16/13	Policy statement	FCA

Date	Topic	Type	Institution
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
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	ITS on MREL reporting templates	Technical standards	EBA
TBD 2017	Intraday liquidity risk	Guidelines	EBA
Securities and markets			
H1 2017	MiFID II implementation – policy statement to CP16/19	Policy statement	FCA
H1 2017	MiFID II implementation – policy statement to CP15/43	Policy statement	FCA
H1 2017	MiFID II implementation – policy statement to CP16/29	Policy statement	FCA
H1 2017	MiFID II implementation – policy statement to CP43/16	Policy statement	PRA

Date	Topic	Type	Institution
TBD 2017	SFTR RTS and ITS	Technical standards	ESMA
Supervision, governance and reporting			
Quarterly	Risk dashboard	Report	ESMA
April 2017	FCA regulatory fees and levies: policy proposals for 2017/18 – second PS to CP16/33	Policy statement	FCA
April 2017	FCA regulated fees and levies: rates proposals 2017/18	Consultation	FCA
TBD 2017	ITS and RTS on the authorisation of credit institutions	Technical standards	EBA
TBD 2017	Credit Rating Agencies Regulation	Technical standards	ESMA
Wholesale markets			
H1 2017	EMIR	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
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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