Being better informed

FS regulatory, accounting and audit bulletin

PwC FS Risk and Regulation Centre of Excellence

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In this month's edition:

- Conduct: FCA reveals asset management market study final report
- Prudential: PRA finalises changes to IRB model
- Cyber security: In-depth analysis of the regulatory framework
- Conduct: What the FX Global Code of Conduct means for firms

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Executive summary

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

June was a busy month for regulators and supervisors, as they rushed to meet commitments to publish documents in the first half of the year.

Of particular significance for asset managers, the FCA published its long-awaited asset management market study final report. While the findings of weak price competition are broadly consistent with its interim report, the FCA has made some of the remedies less onerous for firms, most notably on fee disclosure. Nonetheless, the FCA sets out a significant package of remedies. Measures include a proposal to strengthen the duty on asset managers to act in investors' best interests through its extension of the Senior Managers Regime, a requirement for firms to make an annual assessment of the value for money their products and services provide to investors, and a ban on retaining risk-free box profits. The FCA issued a consultation on some of the proposed measures, and plans to consult on other changes at a later stage. So the final report is just the start of the implementation journey for firms, and they should engage with the consultations while planning how to tackle the definitive changes announced by the FCA.

Also in the retail sector, the FCA consulted on proposals to ensure that advice on pension transfers with safeguarded benefits (particularly from defined benefit schemes) is suitable. The FCA proposes that all advice on such transfers include a personal recommendation. It also wants to replace the current transfer value analysis with a more personalised comparison. The FCA plans to publish final rules in a policy statement by early 2018, so affected firms should look out for this. The FCA's also been looking at providers' pension investment strategies. It published the findings of its review into life insurers' approaches to personal pension lifestyle investment strategies, which revealed concerns over the timeliness of insurers' reviews.

Market infrastructure providers will welcome two key documents from the FCA and the EC which help to complete the puzzle of BMR implementation. The FCA published a consultation on changes to its Handbook to reflect the application of BMR, and to explain how and when firms should apply for authorisation and registration. Meanwhile the EC published four draft delegated acts which by and large incorporate ESMA's technical advice from November 2016.

In the insurance sector, EIOPA published a supervisory assessment summarising national supervisors' initial feedback on the application of the ORSA regulation. In general, EIOPA finds firms have made good progress in implementing the ORSA process. But it lists a number of areas for improvement which businesses should note. Insurers and reinsurers should also be aware that the PRA is consulting on requiring certain firms to submit a new template twice a year detailing sensitivities of solvency positions to key market risks.

For banks, last month brought important developments on capital requirements and stress testing. The EBA published its draft methodology for planned stress tests in 2018. It aims to test EU banks' ability to meet relevant capital ratios during an adverse economic shock, tweaking its approach for the implementation of IFRS 9 and lessons learnt from the 2016 exercise. The EBA intends that the results of the stress test inform NCAs' 2018 SREPs, which will determine banks' appropriate levels of capital resources. It plans to publish the final methodology at the beginning of 2018 when it launches the exercise, and issue the results in mid-2018.

The PRA issued a policy statement on residential mortgage risk weights, which finalises changes to its IRB model for the calculation of credit risk capital requirements. The changes were prompted by the finding that the risk weights for residential mortgage portfolios vary widely among firms using the IRB approach. The PRA originally intended that firms meet its revised requirements by the end of March

2019, but it has now extended this until the end of 2020.

In our first feature this month, we take a close look at the Foreign Exchange (FX) market. The newly-established Global FX Committee published a global FX Code of Conduct at the end of May 2017, which establishes principles for good practice and aims to restore public confidence in the market. We analyse what the Code will mean for the industry, and the steps firms need to take to comply.

Our second feature looks at the evolving regulatory framework for cyber security. Cyber resilience is becoming increasingly important to both businesses and supervisors. And as technological developments continue, the challenge of mitigating cyber risks becomes ever greater. We look at the approach regulators are taking to cyber security regulation, and the strategies firms should consider to protect their business against cyber threats without disrupting innovation and growth.

Next month we'll be looking in more detail at the FCA's final policy statement on MiFID II which was released in the first week of July. And in the coming weeks and months, we also expect to see the FCA's consultation paper on extending the SM&CR to all firms, the Basel Committee's revised G-SIB framework and EIOPA's final guidelines on Article 30(7) of the IDD.
For now, we hope you enjoy reading the latest updates.

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Getting to grips with cyber security regulation

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Data-driven technologies are central to our day-to-day transactions – the cloud, social media, mobile banking, big data and the internet of things are just some examples. But these technological enhancements bring with them a rapidly evolving cyber threat environment. The cyber crime global economy is currently estimated at $445bn a year, according to the World Economic Forum. Cyber crime is on the rise, with the frequency, sophistication and severity of attacks increasingly significantly.

The consequences of cyber attacks for financial services firms are grave. Organisations need to consider not only the risk of heavy fines for mishandling data or security breaches, but also risks to reputation, business operations and compensation. So how is the cyber security regulatory framework evolving, and what can organisations do to manage and mitigate threats?

A patchwork cyber security framework

Changes in the regulatory space are inevitable as regulators work to keep pace with the evolution of technology and the complexity of threats. But despite increased regulatory activity, the financial services industry still doesn't have a distinct regulatory framework for cyber security. Relevant firms must comply with the Senior Management Arrangements, Systems and Controls part of the FCA's Handbook, although this does not specifically reference cyber security. In addition to general regulatory rules about maintaining robust systems and controls, supervisors require firms to comply with guidelines on cyber security, which can be challenging to interpret. This approach can also make it difficult for firms to demonstrate compliance with all their legal and regulatory obligations.

The BoE has highlighted that cyber security risks pose a genuine threat to systemically important financial institutions within the critical national infrastructure. It plans to subject the cyber security controls for tier one financial institutions to regular checks. On the conduct side, the FCA highlighted technological change and resilience as one of its six cross-sector priorities in its 2017/18 business plan, published in April 2017. FCA Chairman John Griffith-Jones further identified cyber resilience as the most important increasing risk for firms this year. The FCA has provided firms with guidance on improving cyber resilience, suggesting they focus on four key areas: getting the basics right, having a measurable security culture, sharing information, and building capabilities to reduce the cyber skills shortage.

Firms operating in multiple countries also have to grapple with inconsistencies in the different regulatory requirements and supervisory approaches adopted by the countries where they do business. In the UK and the EU, regulators are focused on robust risk frameworks and effective cyber resilience of critical infrastructures, as well as systems and controls in relation to third party management, cyber security capacity and breach notifications.

In 2016, the EBA urged EU Member States to stress test their financial institutions for cyber security risks. In addition, the JCESA commented on cyber risks and IT-related operational risks as a threat to data integrity and business continuity, in its 2017 report on risks and vulnerabilities in the EU financial system.

Meanwhile US regulators are focusing on business continuity, cross-border risk, identity theft and malicious hacking. For example, the New York State Department of Financial Services introduced a new cyber security regulation to help financial services organisations protect consumers as well as the integrity of financial markets. The regulation includes specific requirements in relation to risk assessments, the role of the chief information security officer, encryption, multi-factor authentication, incident reporting, penetration testing and annual certification, among other things.

Regulators in the Asia Pacific region are taking a more voluntary, self-regulated

approach that focuses on security risk management, authentication and authorisation of users, security monitoring, incident management, training and awareness.

The security challenge

This somewhat fragmented global regulatory framework is further complicated by regulations and directives which, while focused on other areas of financial services, nonetheless impose security requirements on firms.

PSD2 is a good example of this situation. The directive is hailed as a game changing piece of regulation, opening the way for an innovative approach to how businesses and customers undertake payment transactions. But with technological payment advances comes the threat of more sophisticated fraud attacks. So ensuring customer transactions are secure is one of the EC's primary objectives for PSD2.

Under PSD2, a number of firms are required to apply strong customer authentication (SCA): a two-factor authentication process for customers to make online payments securely. Where SCA applies, a customer will be required to authorise their payment transaction using two out of three 'elements': knowledge (something only the payer knows, such as a password or PIN), possession (something only the payer possesses, such as a card reader or smart device) and inherence (a characteristic of the payer, such as a fingerprint). After two of these elements have been invoked, the credit institution will issue a one-time authorisation code so the customer can complete their transaction. In addition to applying SCA, payment firms must also have in place effective incident management and report regularly on security matters. For some firms, PSD2 is resulting in multi-strand projects to implement the technological, operational risk and compliance changes of PSD2, of which security is a key part.

Despite the patchwork regulatory environment, the message from regulators is clear: firms must protect data and online interactions. But they also have to balance this security clampdown against competing regulatory and business objectives: to promote the free flow of information to give customers greater control and visibility over the use of their data, innovation, and the globalisation of business operations – all while maintaining the customer experience. PSD2 evidences the difficulty of balancing these objectives – the SCA process creates a difficult trade-off between security and customer convenience.

What do firms need to do?

Regulators understand that organisations will not be able to completely eliminate cyber security threats. It just isn't feasible given the fast pace of changes in technology, the threat environment and human error. But they do expect firms to do all they can to minimise cyber security threats.

Firms can take a number of key steps to protect themselves and their customers. First, they need to understand the flow and value of data: which data is critical; where data is accessed, processed, stored and transmitted; who has access to it, including third parties; why data is collected; and how data is protected. This information is crucial to minimising the cost of demonstrating compliance with regulatory requirements, and responding to regulators' queries. Firms also need to have a good understanding of their security threat and risk profile, and the potential vulnerabilities in their end-to-end supply chain.

After they've done this analysis, they should define and embed clear security strategies and strong governance structures, and follow a risk-based approach towards cyber security and data protection (ensuring risks are timely and effectively identified, measured and managed). Further, firms need to implement, monitor and enhance effective controls (across people, processes and technology), and embed security and privacy in their culture across all levels. Finally, firms should monitor the regulatory landscape for upcoming requirements and understand how new developments apply to their business.

The role of leadership is key to setting the right tone and improving oversight, awareness and ownership over secure practices. This means that any cyber resilience strategy must be defined at the board level, with senior leadership ultimately accountable for making it happen in a sustainable and consistent manner. Informing and training the firm's people to deal with cyber security threats and events effectively is also critical. Every person in the organisation has a role to play and the effectiveness of any strategy will mainly depend on getting the culture of the firm right.

Firms should put in place strategies that allow them to protect their business against targeted threats without disrupting business innovation and growth. The ultimate goal is for firms to take a proactive approach where cyber security, data protection and data privacy are enablers of the business. Looking at them as compliance requirements alone is no longer an option if organisations want to drive economic value from the free flow of information, in a world where cyber attacks are becoming more and more prevalent.

Cracking the code for FX markets

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After a turbulent few years, the Foreign Exchange (FX) market is heading into a brave new world of greater fairness and transparency. This is the hope of the newly-established Global FX Committee (GFXC) which published the *Foreign Exchange Global Code of Conduct (the Code)* on 25 May 2017. Originally commissioned by the BIS, the Code establishes a common set of global principles for good practices with the aim of restoring public confidence in the wholesale FX market. Its publication marks the end of a two-year collaboration by a broad coalition of market participants, including central banks, buy and sell-side firms, trading platforms and electronic communications networks. The Code poses a range of challenges, and in this article we consider its content, impact and what firms need to do to comply.

The FX Code applies to all market participants, regardless of their legal form, which are engaged in FX markets as a regular part of their business. This includes but is not limited to:

- financial institutions
- central banks, quasi-sovereigns and supranationals
- asset managers, sovereign wealth funds, hedge funds, pension funds, and insurance companies
- corporate treasury departments
- non-bank liquidity providers, high-frequency and algorithmic trading firms
- brokers (including retail FX brokers), investment advisers, aggregators
- e-trading platforms
- affirmation and settlement platforms
- any entity classified as an FX market participant in the relevant jurisdiction(s).

Remittance businesses, money changers, and money services businesses are covered in their interactions in the wholesale FX market, but not in their dealings with retail customers.

The FX Code is not legally binding and adherence is ostensibly voluntary. Central banks will only deal with code-compliant firms, and the FCA expects that the Code is a component of market standards. As a result, the Code is effectively a commercial and regulatory requirement.

Its principles also apply proportionally based on the nature, size and complexity of an organisation's FX business, allowing an organisation to determine the degree to which it needs to comply. But while there is no fixed compliance deadline, the GFXC anticipates that most market participants will take six to 12 months to implement the Code. The FCA has indicated that it expects compliance within six months.

Since 2015, national regulators have fined five investment firms a total of $9bn globally for manipulation and collusion in the sales and trading of FX. The Code aims to be wide ranging to address poor practices by establishing baseline expectations for acceptable industry behaviour. As a result of the Code, spot FX transactions which fall outside the scope of MiFID II will also be held to similar standards.

Understanding the Code's principles

So what exactly will the FX Global Code of Conduct mean for the industry? To understand its impact, it's worth reviewing the content in some detail. The GFXC intends the Code to 'promote a robust, fair, liquid, open and appropriately transparent [FX] market'. The 55 core principles, which are organised under six leading principles, are written as short statements in plain language. The principles are supplemented by a glossary of terms and an appendix which provides illustrative examples of both good and bad practices. We consider the six leading principles below.

1. ***Ethics****: Market participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX market.*

The first principle establishes an expectation for market participants to act honestly, fairly and with integrity in their dealings with clients and other market participants. Senior and frontline management bear responsibility for embedding ethical values in the organisation's culture. All personnel should expect to be held accountable for unethical behaviour. And market participants should have sufficient skills, knowledge, competence and qualifications to exercise professional judgement.

To comply, organisations should establish arrangements such as information barriers or conflict of interest logs to manage any actual or potential conflicts. They should also fully disclose conflicts which have not been mitigated, or else refrain from engaging in the transaction.

2. ***Governance:*** *Market participants are expected to have a sound and effective governance framework to provide for clear responsibility for and comprehensive oversight of their FX market activity and to promote responsible engagement in the FX market.*

The organisation's governance framework should be proportionate to the nature, size and complexity of its engagement in the FX market. The Code specifically calls out electronic trading and prime brokerage services. Remuneration should appropriately incentivise the highest standards of ethical and professional behavior by ensuring staff receive an appropriate mix of fixed and variable pay over the short and long term. Staff, clients and others should have a conduit for escalating concerns confidentially. Subsequent investigations should be independent and yield a result within a reasonable timeframe.

Principle 5 elaborates on the role of senior management to model the organisation's ethical values covered under Principle 1.

3. ***Execution****: Market participants are expected to exercise care when negotiating and executing transactions in order to promote a robust, fair, open, liquid, and appropriately transparent FX market.*

A market participant should clearly notify clients whether it's acting as principal or agent. The Code establishes standards applicable to principals such as informing the client that the organisation is acting on its own behalf as a counterparty to the client and informing the client of any other potential conflicts from its market-making activities. Only principals may pre-hedge their FX risk and then only with disclosure. Principals' mark-ups should be fair and reasonable. Additionally, market participants should disclose mark-ups to their clients and monitor whether or not their practices align to their policies and procedures.

Organisations acting as agent, including inter-dealer brokers executing client orders, should establish an order execution policy describing how they intend to provide 'prompt, fair and expeditious execution'. This language is the same as in MiFID II Article 28.

Order handling standards apply to market participants acting as principal or agent. Organisations should use truthful and unambiguous language, clarify whether prices are firm or indicative and provide pre-trade disclosures that enable clients to make informed decisions. Market participants should handle various order types appropriately by defining the terms of stop loss orders, determining when to partial fill orders and avoiding collusion on benchmark fixing orders.

Operators of electronic trading platforms should establish transparent rules regarding use of their platforms. Firms should disclose how they operate algorithmic trading and aggregation services, including routing preferences and whether the operator executed as principal or agent.

4. ***Information sharing****: Market participants are expected to be clear and accurate in their communications and to protect confidential information to promote effective communication that supports a robust, fair, open, liquid and appropriately transparent FX market.*

In recent years, regulators have frequently fined firms for violations which involved firms' using confidential client information for their own advantage (i.e. front-running, collusion, manipulation and the misuse of last look). To mitigate the risk of such violations recurring, market participants should identify non-public information as confidential, not to be shared internally or externally without a valid reason. This requirement includes information relating to a client's past, present and future trading activity. Communications should be clear and not misleading, and use language appropriate for the intended recipient. Crucially, organisations should establish auditable communication channels. Sales and trading desks should record communications on transactions and market colour.

5. ***Risk management and compliance:*** *Market participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage and report on the risks associated with their engagement in the FX market.*

Organisations should establish a governance framework appropriate to the risk, complexity and scope of their FX activity. This approach encompasses a three lines of defence structure with independent periodic risk assessments, effective oversight, compliance monitoring, training, escalation procedures and controls testing. This core principle also recommends good practice for managing the following risks:

- compliance
- counterparty credit
- legal
- market
- operational
- settlement
- technology.

In addition, prime brokers are expected to implement controls to manage risks specific to their business models such as real-time monitoring of permissions and credit.

6. ***Confirmation and settlement processes****: Market participants are expected to put in place robust, efficient, transparent and risk-mitigating post-trade processes to promote the predictable, smooth and timely settlement of transactions in the FX market.*

Neither the US nor UK remediation standards cover post-trade issues. This section of the Code will likely require the most work for all market participants. Organisations should have proportional systems and processes for the confirmation and settlement of FX trades, and ensure systems have sufficient capacity to support trading in normal and peak market conditions. The Code recommends automated settlement netting systems to support the ongoing monitoring of funding requirements. Further, organisations should conduct timely reconciliations and establish procedures for escalating settlement discrepancies.

Adhering to the Code

The Code proposes language for firms to complete a voluntary *Statement of Commitment*. The accompanying *Report on Adherence to the FX Global Code* explains efforts by market participants, including central banks, to promote the Code by limiting their FX trading to counterparties which have committed to adherence. This approach effectively makes compliance with the Code a commercial imperative.

In a November 2016 speech, the FCA's Head of Markets noted that 'market participants can reasonably expect the Code to be a key component of proper standards of market conduct' under the SM&CR. This effectively compels UK firms to comply. To mark the publication of the Code, the FCA reiterated its expectation that 'Senior Managers, certified individuals [...] be able to demonstrate their own adherence with standards of market conduct'.

Requesting feedback on 'last look'

The last look procedure was the subject of much debate during the drafting of Principle 17, which establishes standards for transparency and controls. The procedure permits organisations operating electronic platforms to alter the quoted price FX trade before execution, which some commentators argued conflicts with the Code's standards on use of confidential client information. As part of its responsibility to promote and update the Code, the GFXC seeks comment on the contentious procedure. It issued a *Request for Feedback on Last Look Practices in FX Markets* alongside the Code, with responses due by **21 September 2017**.

Next steps

Most organisations are likely to need to make changes to comply with the Code, albeit it in varying degrees. The FCA expects firms to comply with the Code within six months, while US regulators expect to see commitment nearer to the one-year mark. Firms should be taking steps to commit with confidence as soon as possible (and certainly no later than their peers), and use the Code to their commercial advantage. They should take these measures across all business lines that participate in the wholesale FX market, applying the concept of proportionality. Steps firms should take include:

- conducting an assessment to identify any incremental changes required to align to the Code's principles
- building a body of evidence to support the initial statement of commitment
- embedding a sustainable process to support ongoing statements of commitment.

Besides confirmation and settlement, a major new area for all firms, those firms which have not been subject to the FCA and Federal Reserve remediation programs may have to materially review their controls. Firms that have focused their FX remediation solely on the FCA's specified risks will find that last look and mark-ups require additional work. They will need to update policies and disclosures on the use of the last look procedure. The Code's recommendation that firms acting as principal should ensure that mark-ups are fair and reasonable exceeds the FCA's specified risk and extends MiFID II principles on best execution to spot FX. The expectation that firms retain an auditable record of orders and transactions, including time-stamps for voice trades, creates a challenge for smaller, less-automated firms.

Market participants have made a concerted effort to establish self-governing standards in recent years. This trend towards global

standards is resulting in an increase in voluntary codes in fixed income, currencies and commodities (FICC) markets. The London Bullion Market Association (LBMA) published the *Global Precious Metals Code* on the same day as the FX Code, setting out similar standards for participants in the OTC wholesale market for precious metals. Although compliance may be voluntary for market participants, LBMA members must attest to compliance in a signed statement of commitment. It comes after the private sector established the *FICC Markets Standards Board* in 2015 to develop standards for wholesale FICC markets.

Whether these codes will be sufficient to address regulators' concerns remains to be seen, but if firms implement compliance with them effectively, including training their relevant staff, and are disciplined in adhering to them, the codes should have a positive impact on the market. If the aspirations of the drafters are achieved, clients as well as market participants can look forward to more robust, fair and transparent markets.

Cross sector announcements

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A brief round up of other regulatory developments

Regulation

Advice

FCA amends pension transfer advice

The FCA consulted on *CP17/16: Advising on Pension Transfers* on 21 June 2017, focusing on consumers who have safeguarded benefits. It wants to ensure that transfer advice is appropriate, particularly for defined benefit to defined contribution transfers. This is in light of an increase in demand for this type of transfer following the pension freedoms introduced in April 2015.

The FCA proposes that all advice on the transfer and conversion of safeguarded benefits must result in a personal recommendation. It also plans to issue additional guidance to help advisers assess suitability for this type of transfer, and to clarify the regulator's expectations. And the FCA intends to add further guidance to its Handbook on the role of pension transfer specialists in checking personal recommendations, as it's concerned that these checks are not always thorough enough.

Further, the FCA wants to replace the current transfer value analysis with a comparison to show the value of the benefits the consumer would be giving up by transferring. It's concerned that the transfer value analysis carries a number of limitations, and argues its proposed revised method better takes into account each customer's individual circumstances.

The FCA plans to publish final rules by early 2018. The consultation closes on **21 September 2017**.

FCA expands advice unit scope

In a *press release* issued on 30 June 2017, the FCA announced that it's extending the scope of its advice unit to take in firms developing automated models for mortgage, general insurance and debt advice. Previously, the FCA only accepted firms developing advice models for investments, pensions and protection products. The FCA set up the advice unit in 2016 following a recommendation from the FAMR to provide regulatory feedback to firms.

Also on 30 June 2017, the FCA and HMT published the *FAMR Baseline report*. In this report, the FCA identifies three main themes to measure the development of the advice market: accessibility, affordability and quality of advice. It plans to track these on an annual basis, and use the baseline findings as a benchmark to assess the outcomes of FAMR in a review planned for 2019. The FCA also announced that it intends to combine its post-implementation review of the RDR, previously scheduled for 2017, with the 2019 FAMR review. It says this gives the market time to react to regulatory changes from both FAMR and MiFID II.

Capital and liquidity

ECB warning on proposed restructuring directive

The ECB issued an opinion *on a proposal for a directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU – (CON/2017/22)* on 7 June 2017. The objectives of the directive are to support the CMU by removing barriers to restructuring and giving second chances for entrepreneurs.

The ECB generally welcomes these objectives. But it suggests amendments to ensure that the proposed directive does not create unintended consequences for banks and investment firms. First, it recommends revising the text to establish a clear hierarchy for the Settlement Finality Directive, the Financial Collateral Arrangements Directive and EMIR over this proposed restructuring directive.

Secondly, the ECB notes that the proposals do not include payment institutions and e-money institutions in the exemption from the directive applying to debtors that are banks and financial institutions. It suggests the EC reviews their position in a

restructuring, given their obligation to safeguard client money, and considers them for inclusion in the exemption.

Finally, the ECB recommends amending the proposed directive to clarify the enforceability of close-out netting arrangements between banks and corporate debtors. This is because Member States apply the Financial Collateral Arrangements Directive differently. Some extend close-out netting beyond financial collateral arrangements whilst others have excluded its application to financial collateral arrangements with ordinary corporate debtors. In addition, the ECB observes that there may be practical implications in continuing to use collateral netting arrangements with corporate counterparties for credit risk mitigation and risk reduction under CRR. The Council and EP are currently negotiating the terms of the proposed directive.

Waiving collateral disclosures

The PRA published its consultation *CP10/17 – Compliance with the EBA's guidelines on disclosure: composition of collateral for exposures to counterparty credit risk* on 21 June 2017. G-SIIs, O-SIIs and other firms opted in under PRA discretion are due to apply the *EBA pillar 3 disclosure guidelines* for their 31 December 2017 disclosures. The PRA proposes to waive one of the disclosures, template 'EU CCR5-B – composition of collateral for exposures to CCR', for firms which receive or place collateral in the form of debt securities with a fair value of less than £100bn.

Its objective is to reduce the risk that firms' compliance with the EBA disclosure guidelines could enable third parties to detect the utilisation or otherwise of central bank liquidity assistance. The PRA considers this could occur where firms do not receive or place sufficiently high levels of collateral in the form of debt securities to effectively disguise liquidity assistance.

Separately, the PRA also signals the future withdrawal of *SS 11/14* which currently allows a waiver from similar collateral disclosure arising from *EBA guidelines on disclosure of encumbered and unencumbered assets*. This guideline is due to be replaced by an RTS that is in draft final form and awaits finalisation. It replaces the sensitive disclosure in these guidelines with disclosure that ensures that liquidity assistance cannot be detected. The consultation closes on 21 August 2017.

CMU

CMU priorities

The EC outlined its priorities for the second stage of CMU in its *Mid-term Review of the CMU Action Plan*, published on 8 June 2017. Two prominent announcements include the EC's exploration of a FinTech licensing and passporting regime and a review of the prudential treatment of investment firms. While the remaining priorities build upon previously identified CMU goals and work-streams, the review provides additional details on scope and focus.

The EC has begun to build upon its sustainable finance agenda by contemplating ambitious policy such as more systematic integration of sustainability analysis into reviews of financial regulation. The EC aspires to improve regional capital market formation, and is proposing a comprehensive strategy to ensure that increased integration is enjoyed across the EU and not just in existing financial service hubs. The EC also fleshes out its efforts to build a secondary market for non-performing loans.

Legislatively, the EC will prioritise regulatory proposals for a pan-European pension product, an EU framework for covered bonds and increased legal certainty of securities ownership.

Brexit inevitably casts a shadow over any EU integration effort and the EC acknowledges that Brexit makes CMU even more essential. With this in mind, and building on an earlier consultation on improving supervisory convergence and increasing the role of the ESAs, the EC specifically calls out expanding ESMA's role in capital markets supervision.

Helping SMEs access financing

Addressing concerns with SME access to financing, the EC published *Addressing Information Barriers in the SME Funding Market in the Context of the Capital Markets Union* on 6 June 2017. This staff working document is intended to capture best practices and useful examples for emulation. The EC identifies a number of innovative programmes but notes that many of these are not adequately designed for cross-border use. Also, the EC recognises a widespread hesitancy on the part of SMEs to diversify beyond bank financing despite an increasing range of options.

Some of the programmes featured by the EC include:

- feedback on declined credit applications
- SME advisers that guide firms through financing decisions
- sharing of SME credit information with alternative financing entities, such as expanded access to credit registries
- portals matching investors with investment opportunities.

With all of the other recent CMU activity, such as around securitisations and venture capital, the working document underscores that improving SME access to finance remains one of the EC's top CMU priorities

Conduct

Strengthening accountability in banking and insurance

The PRA published a consultation paper *CP8/17: Strengthening accountability in banking and insurance: optimisations to the SIMR and changes to SMR forms* on 13 June 2017. The PRA sets out proposed amendments to the SIMR, including

creating new Senior Insurance Management Functions for the chief operations function and for the head of key business area function. The PRA also proposes creating a new prescribed responsibility for the firm's outsourced operational functions and activities, among other changes.

In addition, the PRA is consulting on requiring large insurers to have a policy to promote diversity among board members. And the PRA proposes consequential amendments to the SMR forms following PS 12/17.

The PRA plans to consult shortly, alongside a corresponding consultation by the FCA, on further proposals that are being designed in the context of the BoE and Financial Services Act 2016. These will amend the SIMR to enable the extension of the SM&CR to all insurance firms and are expected to become effective from late 2018. The consultation closes on **22 September 2017** for chapters two and three, and on **14 August 2017** for chapter four.

The PRA intends to publish the final rules on the proposals in chapters two and three in Q4 2017, and proposes the rules would be implemented two months after their publication. It plans to publish the final rules and forms for the proposals in chapter 4 in Q3 2017.

IOSCO: No concerns on order routing

IOSCO published its final report on *Order Routing Incentives* on 19 June 2017. Based on a survey of members, IOSCO provides an overview of regulatory requirements for brokers and firms to manage conflicts of interest associated with routing orders and obtaining best execution. It assesses how these requirements interact with market practices in different jurisdictions, and how incentives for order routing influence the way intermediaries treat their clients. Incentives may include discounts or rebates designed to direct order flow to one particular venue, or to channel payments from one intermediary to another.

IOSCO concludes that no further work is required at this stage. It believes that existing regulation and imminent reforms such as MiFID II adequately address the conduct risks associated with order routing incentives.

Using compensation tools to address misconduct

The FSB proposed draft *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices* on 20 June 2017. Once finalised, the guidance will provide firms and supervisors with a framework to consider how compensation practices and tools, such as in-year bonus adjustments, malus and clawback, can be used to reduce misconduct risk and address misconduct.

The guidance applies to significant financial institutions. It is structured in three parts considering the governance, effective alignment, and then supervision, of compensation and misconduct risk. The consultation closes on **30 August 2017**.

FCA updates qualification requirements list

The FCA consulted on changes to its Handbook, in *CP17/14: Quarterly Consultation No 17* on 12 June 2017. It is updating its Training and Competence sourcebook to update the list of appropriate qualifications and make other minor amendments. The FCA also clarifies that firms fully authorised to operate a loan-based crowdfunding platform come within the scope of a client asset audit report requirement. This aligns with the FCA's original policy intention and its rules already cover the client asset audit requirement of firms with interim permissions to operate these platforms.

Finally, the FCA consults on minor changes to reporting requirements in its supervision manual that it intends to improve regulatory reporting returns and supporting guidance. The consultation closes on **12 July 2017** for training and competence and client asset audit report changes, and **12 August 2017** for the reporting requirement changes.

Financial crime and enforcement

FCA warns firms on dividend arbitrage

In its *Market Watch Newsletter on market conduct and transaction reporting issues No. 52* published on 2 June 2017, the FCA set out findings from its review into the practice of dividend arbitrage.

The practice, which involves placing shares in alternative tax jurisdictions to minimise tax levies known as withholding taxes (WTH) or to make a WHT reclaim, must be undertaken within the limits of the FCA rules to avoid fraud and market abuse.

The FCA found high levels of compliance among firms. But a small number of firms did not have sufficiently robust controls to assess transactions linked to WHT reclaims. The FCA says this could lead to firms failing to identify clients using dividend arbitrage for inappropriate purposes. It looked at firms' management oversight, the experience and knowledge of MLROs, KYC controls, promotion of dividend arbitrage opportunities to clients and compliance with MAR.

The FCA said that firms must have effective processes for carrying out due diligence on new business proposals and monitoring existing business. Firms must be aware of potential risks and have strong mitigating controls. They should also be aware of their obligations under MAR.

The FCA directs firms to review their processes in light of the findings and if necessary conduct an assessment and make a disclosure to the FCA.

FCA consults on implementing AMLD4

The FCA published *CP17/13: Fourth money laundering directive and fund transfer*

regulation (FTR) implementation on the 12 June 2017. The FCA sets out changes to its rules for the implementation of AMLD4 and FTR. AMLD4 gives the FCA new enforcement tools to deal with AML and CTF breaches. In the consultation, the FCA explains its approach to these, as well as proposed amendments to the DEPP and the Enforcement Guide.

The consultation closed on 7 July 2017. The FCA plans to publish final rules in a policy statement later in July 2017.

FCA investigations – The evolving approach

The FCA's Director of Investigations Jamie Symington gave a speech on the regulator's evolving approach to investigations on 15 June 2017. He clarified that the FCA uses investigations as a tool to find out what has happened when something goes wrong, rather than only as a precursor to enforcement action. Symington said that in the past, there's been a perception among firms that the FCA takes the latter approach, and this has led to disputes and delays (such as over what material can and cannot be provided to investigators).

He explained that the FCA's approach is also evolving in light of the SM&CR. Symington said that generally where there are grounds for investigating a matter, the FCA believes it needs to investigate the role of senior management in the conduct issues that arise.

Further, Symington explained that the FCA expects its changing approach to lead to more investigations. He said that to effectively manage resources, the conduct regulator has refreshed its approach to case management. This puts the emphasis on establishing the key facts that enable it to decide what to do at an early stage. Symington added that the FCA expects proportionately fewer of its investigations to progress to disciplinary enforcement action. He said an investigation can result in a broad range of responses, and the FCA aims for its responses to be proportionate and fair.

EBA gives firms AML guidance

The EBA published *Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions* on 26 June 2017.

The EBA outlines expectations for AML risk assessments, common risk factors which should be considered and guidance on simplified and enhanced due diligence processes. To ensure clarity, the EBA sets out sector-specific guidance for:

- correspondent banks
- retail banks
- electronic money issuers
- money remitters
- wealth management
- trade finance providers
- life insurance undertakings
- investment firms
- providers of investment funds.

The EBA expects NCAs and firms to comply with the guidelines by 26 June 2018.

HMT updates high risk AML jurisdictions

HMT published an advisory notice on *Money Laundering and Terrorist Financing controls in Overseas Jurisdictions* on 23 June 2017 updating its list of countries that firms should treat as high risk for the purposes of complying with the Money Laundering Regulations 2007. This list is drawn from FATF's list of high risk and non-cooperative jurisdictions. FATF continues to identify North Korea and Iran as the highest risk jurisdictions. It lists a further seven countries that it is continuing to monitor, adding Ethiopia and removing Afghanistan and Laos since it last updated the list in October 2016.

Implementing AMLD4 in the UK

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (SI 692/2017) were made on 22 June 2017 and came into effect from 26 June 2017. They implement in the UK AMLD4 and the updated EU funds transfer regulations, also known as the wire transfer regulations, in one legislative document. The new regulations further enhance existing AML requirements and are intended to make it more difficult for terrorists and criminals to move money through the UK financial system.

The regulations introduce changes which include bringing tax crimes within the definition of 'criminal activity' and adding gambling establishments to the list of firms the regulations apply to. Customer due diligence requirements are also tightened and checks are now required on domestic politically exposed persons. Greater administrative sanctions for breaches include a maximum fine of at least twice the amount of the benefit derived from the breach, or at least €1m. Breaches involving a credit or financial institution could attract a fine of at least €5m or 10% of the firm's annual turnover and €5m in the case of a natural person. The revised wire transfer regulations require PSPs to ensure that electronic fund transfers include sufficient and correct information on the parties involved in the transaction.

JMLSG publishes revised AML guidance

The JMLSG published final revised guidance, reflecting the provisions of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 on 23 June 2017. It

also takes account of the draft risk factor guidelines published by the JCESA in October 2015, which have not yet been published in final. This document will shortly be submitted to HMT for ministerial approval.

The guidance was revised following comments from respondents which covered matters of interpretation of aspects of the regulation and the format and consistency of the text.

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017. This transposes the AMLD4 into the UK, replacing the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007.

Sharing information to tackle financial crime

The FATF published a *public consultation on the draft guidance for Private Sector Information Sharing* on 29 June 2017. It is currently developing guidance to promote information sharing within financial institutions as well as between financial institutions not belonging to the same financial group. The aim is to share information on suspicions that funds are the proceeds of crime or related to terrorist financing within the financial group in a cross-border environment.

The FATF sets out the obstacles to information sharing, including legal constraints and operational challenges. It includes examples of how countries address these obstacles, such as national data protection and AML authorities working more closely together. It also sets out practices adopted by countries to promote group-wide information sharing and sharing between financial institutions which are not part of the same group.

Financial stability

Continuing high credit and market risk

ESMA announced that it continued to see very high credit and market risks during Q1 2017 in its report, *ESMA risk dashboard No 2 2017* published on 14 June 2017. It also highlights liquidity and contagion risks, and operational risk. But ESMA's overall assessment remains unchanged from the previous quarter and it views the risk outlook as stable across all risk categories. ESMA comments that the low yield environment and related sustained concerns about excessive risk taking and asset pricing continue.

Going forward, ESMA identifies political uncertainties, including the Brexit negotiations and the election calendar in the EU, as the most important sources of potential risk in 2017.

Ensuring stability in UK's financial system

The BoE published its six monthly *Financial Stability Report* on 27 June 2017. The FPC assesses the overall risks from the domestic environment to be at a 'standard level' – meaning most financial indicators are neither particularly elevated nor subdued. But it points out concerns relating to the rapid increase in consumer credit and the relaxed lending conditions in the mortgage market. Internationally, it observes that possible global risks have not crystallised, though financial vulnerabilities in China remain pronounced. With Brexit negotiations underway, it indicates there is a range of possible outcomes for, and paths to, the UK's withdrawal from the EU.

The FPC refers to a number of measures to ensure the resilience of the UK financial system. These include increasing the CCB rate from 0% to 0.5%, signalling a possible further increase to 1% in November 2017. The FPC is accelerating its assessment of stressed losses on consumer credit lending in the BoE's 2017 annual stress test. It intends this to inform the FPC's assessment at its next meeting of whether it needs to initiate any additional resilience measures. It also clarifies that it expects its existing affordability and loan-to-income limit 'insurance' measures to become structural features of the UK mortgage market. In addition, the FPC intends to increase the minimum leverage ratio from 3% to 3.25%, as detailed in consultations also published on 27 June 2017.

The FPC will continue to monitor the financial stability risks associated with Brexit. This includes overseeing contingency planning to promote an orderly adjustment to the new relationship between the UK and the EU. Finally, the FPC notes the progress being made to build resilience to cyber attacks, but indicates that the risk continues to build and evolve. The FPC sets out in this report the essential elements of the regulatory framework for maintaining cyber resilience. The FPC intends to monitor adherence with each element of it by the relevant UK authorities.

Innovation

ESMA's views on FinTech

ESMA published its response to the EC's consultation paper *FinTech: a more competitive and innovative financial sector*, on 7 June 2017. ESMA believes FinTech is a positive development as long as business models are customer-centric. It acknowledges the benefits of developments such as artificial intelligence and big data analytics, but also highlights concerns. ESMA reiterates its call for a specific EU-wide crowdfunding regime, and emphasises the importance of regulators treating entities that provide the same service equally.

Its reflections include a survey on regulated investment-based crowdfunding platforms in the EEA, providing an overview of current activities and trends.

Assessing FinTech for financial stability risk

The FSB published the *Financial stability implications from FinTech – supervisory and regulatory issues that merit authorities' attention* on 27 June 2017.

The FSB concludes that 'there are currently no compelling financial stability risks arising from emerging FinTech innovations'. But it highlights ten issues that merit authorities' attention, of which it identifies three as priorities for international collaboration. The FSB considers addressing these priority areas as important for promoting financial stability, fostering responsible innovation and preventing any derailment of authorities' efforts to achieve a more inclusive financial system. The priority areas are:

- managing operational risk from third party service providers
- mitigating cyber risks
- monitoring macro-financial risks.

Other issues include assessing and promptly updating the regulatory perimeter, governance and disclosure frameworks for big data analytics together with studying alternative configurations of digital currencies.

The FSB recognises that FinTech has the potential to expand access to financial services for both households and businesses, but says the associated risks need to be managed. In terms of regulatory approaches, the FSB finds the majority of the jurisdictions surveyed have taken or plan to take measures to respond to FinTech, although the extent of those measures varies substantially. But it observes that generally supervisors' policy objectives are consumer and investor protection, market integrity, financial inclusion and promoting innovation and competition, with financial stability not often cited.

Market infrastructure

EC issues most BMR delegated acts

The EC published four draft BMR delegated acts on 23 June 2017, based on technical advice ESMA submitted in November 2016. The EC did not issue a delegated act on endorsement. There are no major changes to ESMA's proposals.

In its delegated act on *Definitions*, the EC's draft language defining 'administering the arrangements for determining a benchmark' remains the same as ESMA's advice. The EC amended ESMA's proposed definition of 'making available to the public' by elaborating on who is to be considered a recipient.

In *Valuing benchmarks*, the EC states administrators must calculate the value of all financial instruments, financial contracts and investment funds referencing their benchmarks to determine whether the benchmark is critical, significant or non-significant.

In addition to a quantitative threshold, critical benchmarks must have a significant and adverse impact on a Member State, the EC says in *Impact of critical benchmarks on Member States*. The EC maintains ESMA's standards for determining the qualitative impact of a critical benchmark on the market integrity, financial stability, consumers and real economy in a Member State. But instead of requiring that value of financial instruments, financial contracts or investment funds be 'a significant share of the total value outstanding', the delegated act requires the values be 'both in absolute terms and relative to the total outstanding'.

In *Cessation or material change*, the EC does not define 'pre-existing' for the purposes of Article 51. Under Article 51(4), supervised users can continue using a pre-existing benchmark which does not meet the requirements of BMR, but ceasing or changing it to comply with the regulation would result in a 'force majeure' event. NCAs may permit the use of an otherwise non-compliant benchmark if cessation or change would cause material change to input data or the methodology, render the benchmark unrepresentative, or where there is no suitable alternative benchmark.

These delegated acts are subject to a four-week Better Regulation consultation. The new process aims to provide market participants with an opportunity to identify any serious issues. It doesn't affect the three-month scrutiny period (which excludes August) for the EP and Council to accept or reject the delegated acts. In Q3 2017, the EP is expected to publish RTS/ITS, and ESMA to publish Level 3 guidance. BMR goes live on 1 January 2018.

FCA Handbook changes to reflect BMR

The FCA issued *CP17/17: Handbook changes to reflect the application of the BMR* on 22 June 2017, seeking industry comment on its proposals to implement BMR in the UK.

The FCA currently regulates the administrators of and contributors to the eight specified benchmarks. HMT plans to issue a statutory instrument to remove these activities from the Regulated Activities Order (RAO) and replace them with a new regulated activity: administration of a regulated benchmark.

BMR is directly applicable and does not require transposition into UK law by an act of Parliament. The FCA plans to copy the text of BMR into the FCA Handbook and delete or disapply provisions that conflict with the new regulation. MAR 8 will continue to apply to the eight specified benchmarks the FCA currently regulates until all five administrators become authorised or registered under the BMR. It intends to retain the prudential regime in MAR 8.3.13 – 16 and require administrators of critical benchmarks to maintain minimum financial resources.

The FCA defines 'pre-existing' as benchmarks in use before 1 January 2018, and expressly notes that firms issuing new benchmarks may not apply for authorisation or registration before that date. But they may be able to submit draft applications from 1 October 2017. The FCA

requires authorisation or registration for new benchmarks by 1 January 2018 and for pre-existing benchmarks by 1 January 2020.

Firms currently subject to the Senior Managers Regime (SMR) will continue to be subject to it after they become authorised or registered benchmark administrators. The Approved Persons Regime will apply to those administrators who are not subject to SMR when they are authorised or registered. The FCA plans to consult on the application of SMR to all benchmark administrators. Supervised contributors must notify the FCA of senior personnel responsible for contributions.

The FCA is also consulting on draft application forms, seeking comment on them by **6 August 2017**. Comments to this consultation paper are due by **22 August 2017**. The FCA then plans to issue its BMR policy statement with final Handbook changes in October 2017. BMR goes live 1 January 2018.

Mandatory LIBOR contributions?

The FCA issued *CP17/15 on LIBOR contributions under BMR* on 12 June 2017, seeking comment on its authority to compel contributions to LIBOR.

The FCA expects LIBOR will be designated as a critical benchmark later this year or when BMR goes live in January 2018. At that time, BMR Article 23 will replace certain provisions of FSMA as the source of the FCA's authority to compel contributions to LIBOR. Under BMR, NCAs can impose mandatory contributions from new or existing panel banks for up to 24 months to ensure that the critical benchmark remains representative of the underlying market it intends to measure.

Building on ESMA's suggested *guidance*, the FCA proposes to select supervised contributors with an 'actual and potential participation in the interbank and corporate unsecured wholesale funding market for GBP, USD, EUR, CHF and JPY'. The banks would be of similar size to existing panel banks, issue investment-grade debt and have a presence in the UK based on the BoE's list of authorised credit institutions.

The FCA notes that BMR does not clearly state whether non-EU branches of EU firms are subject to mandatory contribution. But the UK regulator adds that it will rely on its remaining authority under FSMA to require UK branches of third country firms to make mandatory contributions.

Comments are due by **12 August 2017**. The FCA plans to publish a policy statement in September 2017.

Selecting mandatory contributors to benchmarks

ESMA published the *Methodological framework – selection of supervised entities for mandatory contribution under Article 23(7) BMR* on 2 June 2017. Under BMR, NCAs can temporarily compel supervised entities to contribute input data to a critical benchmark should its representativeness become at risk.

BMR allows the NCA of a benchmark administrator, in collaboration with the NCAs of the supervised contributors, to compel contribution based 'on the size of the supervised entities, actual and potential participation in the market that the benchmark intends to measure'. EURIBOR is currently the only benchmark deemed critical. But ESMA intends the framework selection criteria to apply to other Interbank Offered Rates Benchmarks (IBORs) and the Euro OverNight Index Average should they become critical benchmarks in the future. Supervised contributors include credit institutions in relation to IBORs and ESMA notes these are the most likely type of entity to be subject to the mandatory contribution requirement.

ESMA outlines that NCAs should first consider the size of the supervised contributor's actual participation in the market that the benchmark intends to measure, the appropriate measures being volume or number of transactions. It suggests that the characteristics of transactions may vary by market but include, where applicable:

- currency, maturity and type
- counterparty type
- geographical location.

While actual transaction levels take priority, ESMA indicates that NCAs should also consider the supervised entity's potential participation in the related market. The NCAs should then consider the creditworthiness of the supervised entity and collectively the number of entities needed to restore the representativeness of the critical benchmark – applying proportionality where appropriate.

Clarifying CCP conflicts management

ESMA published a *Consultation Paper on ESMA's Guidelines on CCP conflicts of interest management* on 1 June 2017. ESMA gives more detail on its expectations for conflict management and avoidance by CCPs. It proposes guidelines to ensure:

- CCPs have written arrangements in place to identify and manage potential client conflicts
- conflicts disclosures are made when written arrangements are identified as insufficient
- arrangements consider conflicts between a CCP parent and its subsidiaries.

ESMA invites comments on its consultation by **24 August 2017.**

Improving cross-border CSD supervision

Seeking to establish a clearer framework for supervisory cooperation of CSDs, ESMA published two separate sets of guidelines on 1 June 2017 on how to assess when such cooperation is required under CSDR. The regulation outlines various cooperative

measures that should be taken when a CSD offers services on a cross-border basis and becomes of substantial importance to investors and the securities markets of a host Member State. As a result, ESMA published guidelines *On the Process for the Calculation of Factors to Determine the Substantial Importance of a CSD for a Host Member State.*

Further, CSDR stipulates that central banks in the EU issuing the most relevant currencies in which settlement takes place should be involved in the authorisation and supervision of CSDs. ESMA published guidelines *On the Process for the Calculation of the Indicators to Determine the Most Relevant Currencies in which Settlement Takes Place.*

Both of these guidelines will push forward CSDR's innovative approach to regulatory cooperation.

Clarity on CSD default rules

ESMA published *Guidelines on CSD participants default rules and procedures* on 8 June 2017. The guidelines set out information on how CSDs should deal with participant defaults and cover:

- processes for creating default rules and procedures
- expectations for acknowledging participant defaults
- CSD actions for addressing defaults
- implementation of rules and how to communicate this information
- testing and review of default rules.

CSD operators should review ESMA's guidelines to understand expectations on default rules and procedures under CSDR.

EMMI proposes risk-free euro index

The European Money Markets Institute (EMMI) *Consulted on A New Reference Index For The Euro Repo Market* on 15 June 2017, proposing a new (nearly) risk-free reference rate as an alternative to indices based on unsecured interbank funding. The proposed index would be based on security-financed euro repo transactions which accurately represent the underlying market in secured euro funding. Comments are welcomed by **14 July 2017**. EMMI plans to publish responses in August 2017.

Supervisory stress testing of CCPs

The BIS Committee on Payments and Market Infrastructures (CPMI) and IOSCO published a consultation, *Framework for supervisory stress testing of CCPs* on 28 June 2017.

The framework covers six stages of the stress testing process: setting the purpose and exercise specifications, establishing governance arrangements, developing stress scenarios, collecting and protecting data, aggregating results and developing analytical metrics together with determining the use of results and disclosure. The consultation closes on **22 September 2017.**

ECB wants to oversee all euro clearing

The ECB announced in a *press release* on 23 June 2017 that it has adopted a Recommendation to amend its Statute which would give it greater oversight of central clearing in the euro area. The proposed change would provide the ECB with legal competence in relation to central clearing. It would enable the ECB to exercise the powers that are anticipated for central banks issuing a currency under the EC's *proposed amendments to EMIR*.

These powers include a significantly enhanced role for central banks in the supervisory system of CCPs. More specifically, the proposed amendments would increase the role of central banks in the recognition and supervision of systemically important third-country CCPs which clear significant amounts of euro-denominated transactions. This is of particular importance to UK CCPs in the context of Brexit.

In 2015, under its so-called location policy, the ECB sought to require CCPs which clear significant amounts of euro-denominated transactions to be located in the euro area. But the ECJ rejected this initiative due to the ECB not having legal competence in relation to clearing.

The ECB has sent the Recommendation to the EP and the Council for the adoption of a Decision to amend its Statute. The EC is due to issue an Opinion on this Recommendation.

Proposing third-country CCP supervision changes

The EC proposed a *Regulation of the EP and of the Council amending Regulation (EU) No 1095/2010 establishing an ESA (ESMA) and amending EMIR as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs* on 13 June 2017. It outlines changes to existing EMIR supervisory processes for third-country CCPs and provides for greater supervisory powers for ESMA. The core elements of the proposal are to:

- revise EMIR's third country equivalence regime to introduce the concept of systemically important third-country CCPs
- apply EMIR on an extraterritorial basis, by requiring third-country CCPs to meet requirements imposed by EU central banks and to provide information to ESMA upon request
- identify third-country CCPs that are of such substantial systemic importance that they should be relocated to an EU Member State.

The EC intends that these changes better recognise the growing systemic importance of CCPs. The proposal is of particular relevance to UK CCPs in the context of Brexit.

MiFID II

Honing in on product governance

ESMA published a *Final Report on Guidelines on MiFID II product governance requirements* on 2 June 2017. It gives manufacturers and distributors of MiFID II products detailed expectations on complying with the new product governance requirements.

ESMA stays close to draft guidelines it published earlier this year but adds useful scenarios for manufacturers and distributors to work through. Beyond this, it sets clear expectations on target market assessments and expected depth of assessments for complex and non-complex products. MiFID II applies from 3 January 2018.

ESMA consults on derivative trading obligation

ESMA issued a *CP on the trading obligation for derivatives under MiFIR* on 19 June 2017. ESMA seeks comment on its proposed RTS for determining whether interest rate derivatives and Index CDS are subject to the trading obligation.

Derivatives subject to the EMIR clearing obligation are eligible to be subject to the trading obligation under MiFIR. Should a class of derivatives be subject to the trading obligation, they must be traded on a trading venue (i.e. regulated market, MTF, OTF or third country equivalent). Within six months of a derivative being deemed subject to the clearing obligation under EMIR, ESMA must consult on an RTS outlining its analysis for determining whether those specific derivatives should also be traded on a venue.

MiFIR Article 32 and RTS 4 provide the procedures and standards for determining whether an EMIR-cleared derivative should be traded on a trading venue. ESMA bases its decision on a two-fold test:

- venue test – whether the derivative subject to the clearing obligation is traded or admitted to trading on a trading venue
- liquidity test – whether the derivative subject to the clearing obligation is sufficiently liquid and has sufficient third-party buying and selling interests.

ESMA proposes a phased approach for the application of the trading obligation to interest rate derivatives and Index CDS based on the category of the counterparty. The consultation closes on **31 July 2017**.

ESMA's ready for MiFID II

On 28 June 2017, ESMA published a *letter* to the EP, the Council and the EC dated 19 June 2017, providing a progress update on its MiFID II/MiFIR related IT projects. It indicates that, with only six months until the implementation of MiFID II, all projects are on schedule and within budget:

- collection and publication of reference data – scheduled to go-live on 17 July 2017
- collection of transparency data and calculation of liquidity assessments and thresholds – data collection due to go-live in September 2017 while final testing of calculations is due to start in September 2017
- implementation of the Double Volume Cap Mechanism – currently undergoing testing with roll-out in September 2017
- co-ordination of suspensions through the Suspensions and Restoration Information System – due to begin in September 2017
- changes to the Transactions Reporting Exchange Mechanism – on schedule with the testing phase for all NCAs planned for September 2017.

ESMA notes that it's receiving an increasing number of queries on implementation issues. It says 'we are doing our best to answer all requests in an expeditious and transparent manner'. It's also implementing a communications plan centred on holding workshops with EU trading venues, which it finds useful in ensuring efficient communication between itself, trading venues and NCAs. ESMA has run four workshops so far with a further two planned for the second half of 2017.

Calculating MiFID II market size

ESMA published an *opinion* setting forth it's estimation of the market size of commodity derivatives on 30 June 2017. MiFID II provides an exemption for ancillary activities which in turn requires firms to compare the size of their activities against the overall market to determine whether it qualifies as 'ancillary'. Given the lack of publicly available information on these markets and the inability of the industry to aggregate across market infrastructure, the opinion provides a common reference point with data taken from trading venues and trade repositories.

EC clarifies key MiFID II term

The EC published a draft *Regulation amending the MiFID II Delegated Regulation with respect to systematic internaliser (SI) definition* on 19 June 2017. It seeks to clarify the term 'trading on own account when executing client orders' which defines the activity of SIs. The EC confirms that a SI is not allowed to engage, on a regular basis, in the internal or external matching of trades via matched principal trading or other types of de facto riskless back-to back transactions in a given financial instrument outside a trading venue. This follows concerns about the preparations of some investment firms to set up networks of interconnected SIs, which risk undermining one of MiFID II's objectives of increasing market transparency. The EC invites feedback on this amendment by **17 July 2017.**

Pensions

EC sets out pan-EU pensions vision

The EC published proposals to create a pan-European Personal Pension Product (PEPP)

on 29 June 2017. It set out a regulatory framework for the product in a *Proposal for a Regulation of the EP and the Council on a PEPP*. PEPPs will have the same standard features wherever they are sold in the EU, and can be offered by a range of providers, including insurance companies, banks, occupational pension funds and asset managers. Under the proposals, providers need to be authorised by EIOPA to offer the product. The PEPP is also to be portable between Member States, with savers having the right to switch providers at a capped cost every five years.

The EC recommends that Member States grant the same tax treatment to this product as to similar existing national products, in *Commission Recommendation on the tax treatment of personal pension products*. It also published a list of *FAQs* about the proposal. The EC aims, through these proposals, to create a more competitive EU market for personal pensions, as part of its CMU agenda.

Recovery and resolution

PRA reviews recovery planning requirements

The PRA published a consultation *CP9/17 Recovery Planning* on 21 June 2017 proposing a new supervisory statement to replace *SS18/13*. It sets out additional expectations for firms in light of the PRA's two years' experience in assessing BRRD recovery plans.

Through the revised supervisory statement the PRA aims to enable firms to improve the quality of their recovery plans. As recovery planning is a prescribed SM&CR responsibility, the board and senior management must be able to demonstrate how they would execute the recovery plan. Firms must not treat recovery planning as a theoretical, compliance exercise, the PRA urges. With this in mind, the PRA indicates that firms produce a 'playbook' setting out a concise implementation guide for the board and senior management to use in a stressed scenario – unless a firm's recovery plan is simple enough to use as a playbook.

In addition, all firms should hold 'live' simulation exercises or 'fire drills' to test key parts of the firm's response to a chosen recovery scenario. Businesses should agree the frequency of fire drills with their PRA supervisor. Recovery plans for UK subsidiaries of non-EU parent entities should be consistent with the group recovery plan but the PRA still expects the plan to maintain a specific UK focus. The PRA also proposes to amend existing supervisory statement SS8/16 to clarify that the recovery plan for a group including a ring-fenced body (RFB) adequately reflects the RFB sub-group and not just the individual RFB as currently stated.

The PRA aims to finalise the changes during the second half of 2017, specifying a start date for compliance with the new requirements but allowing a 'reasonable period of time' to do so. The consultation closes on **21 September 2017**.

Retail products

ECON responds to retail action plan

ECON published a *Draft Report on the Action Plan on Retail Financial Services* on 1 June 2017. It welcomes the EC's action plan on retail financial services, but argues that the plan fails to adequately address several concerns raised by the EP in its green paper report on retail financial services.

ECON sets out a number of recommendations relating to the action plan. For instance, it urges the EC to prioritise consumer over-indebtedness, to remove regulatory barriers to pan-European electronic signature systems, and to protect consumers from risks associated with online sales.

Wholesale markets

IOSCO summarises tools to counter misconduct

IOSCO issued its *IOSCO Task Force Report on Wholesale Market Conduct (FR07/2017)* on 13 June 2017, describing tools available to member securities regulators to prevent and sanction misconduct. The particular characteristics of the wholesale market giving rise to misconduct include its size, organisational complexity, decentralised structure and opacity of transactions. Often, the interests of highly sophisticated market makers trading as principal conflict with those of their clients.

IOSCO initiatives establish expectations for industry conduct through various principles-based codes and encourage cooperation among national regulators through the enhanced multilateral MoU. Market regulators have both preventive and remedial tools at their disposal to address misconduct. Tailored enforcement actions permit supervisors to impose ongoing remedial sanctions under court-ordered supervision. Responsibility matrices and liability for senior managers ensure that those in charge are held to account for misdeeds committed under their management. Additionally, public and non-public registers permit supervisors, other market participants and potential clients to investigate the credentials and past bad acts of industry professionals. Laws and codes on conflicts management and trade surveillance serve to mitigate future conduct risks. Where preventive measures prove inadequate, prosecutors and regulators can impose substantial penalties on managers who may also be prevented from benefiting from indemnity clauses.

Finally, IOSCO conduct expectations provide a basis for legal, regulatory and supervisory frameworks globally. Pre-authorisation, ongoing supervision and enforcement actions empower national regulators to effectively monitor and sanction conduct risks in wholesale markets.

Reporting progress on OTC derivatives reform

The FSB published three OTC derivative related reports on 29 June 2017, *OTC derivatives market reforms – Twelfth progress report on implementation*, *Review of OTC derivatives market reforms – Effectiveness and broader effects of the reforms* and *FSB members' plans to address legal barriers to reporting and accessing OTC derivatives trade data – progress report*.

The FSB reports substantial progress by its member jurisdictions concerning some of the measures. It highlights good progress in implementing the central clearing frameworks and higher capital charges for non-centrally cleared derivatives. It also identifies progress in improving transparency. But significant challenges remain, including 'major gaps' and issues in addressing the legal barriers to trade reporting, for which the agreed deadline is June 2018. In addition, it observes that reforms relating to platform trading and margin requirements for non-centrally cleared derivatives are not as well advanced. The FSB calls on the relevant jurisdictions to 'urgently take steps to implement' the margin requirement reforms.

The FSB considers that the reforms are making meaningful progress towards mitigating systemic risk. But there is little evidence of the reforms' impact on protecting against market abuse and it considers that further work is needed to assess this aspect. More broadly, observers have mixed views on the impact of reforms on spreads and liquidity in the OTC derivative markets. The FSB also acknowledges that compliance costs have increased. But it considers that these reforms have increased the number of authorised TRs and increased rates of and participation in central clearing.

The FSB intends to report on its assessment of the interaction of the reforms on incentives to centrally clear OTC derivatives in late 2018. It also expects to report on the progress of member jurisdictions in meeting their commitments to remove the legal barriers to trade reporting ahead of the next G20 Summit in 2018.

Accounting

Accounting

Updating auditors' AML guidance

In a *consultation* launched on 26 June 2017, the FRC published revised guidance for auditors on their responsibilities with regard to money laundering under UK law. This largely reflects the changes introduced by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 which took effect on 26 June 2017 and implement AMLD4 in the UK. In addition, the FRC proposes to incorporate this guidance into an appendix to its International Standard on Auditing (ISA) (UK) 250: Consideration of Laws and Regulations in an Audit of Financial Statements. Currently this guidance resides in a standalone Practice Note. The consultation period closes on **8 September 2017.**

PwC publications

Latest IFRS news

IFRS News – June 2017 includes articles on:

- IFRS 17 issued
- Leases lab – IFRS 16
- Demystifying IFRS 9 for Corporates
- IFRIC Rejections – IAS 36
- The IFRS 15 Mole.

June year -end accounting reminders – IFRS and UK GAAP outlines the IFRS and UK GAAP reporting requirements as at 30 June 2017. And *VALUE IFRS Plc – Illustrative IFRS consolidated financial statements December 2017* presents example accounts for a fictitious listed company, VALUE IFRS Plc. The financial statements comply with IFRS as issued at 31 May 2017 and that apply to financial years commencing on or after 1 January 2017. It includes illustrative disclosures of standards available for early adoption.

Also this month

BoE

The BoE's response to climate change, on 16 June 2017, explains how it's working with firms that face climate-related risks, and how it's enhancing the resilience of the UK financial system to these risks.

CMA

The CMA and the Advertising Standards Authority published a *Memorandum of Understanding* on 21 June 2017 on how they will work together in the interest of consumer protection.

EBA

The EBA reported on the risks and benefits of innovative uses of consumer data, in *Report on innovative uses of consumer data by financial institutions* on 28 June 2017. It concludes that no additional legislative or regulatory requirements are needed at present.

EC

- The EC published *COMMISSION IMPLEMENTING REGULATION (EU) 2017/954 of 6 June 2017 on the extension of the transitional periods related to own funds requirements for exposures to CCPs set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the EP and the Council* on 7 June 2017. The EC extends transitional periods for higher own-fund

requirements for exposures to third-country CCPs to 15 December 2017. This means firms will not be subjected to the requirements until after this date.

- The EC announced in a *press release* on 2 June 2017 that it is launching a €5m programme offering technical cooperation to competition authorities in Asia.
- The EC published a *letter* dated 9 June 2017 responding to the *EBA's comments* of 26 April 2017 on the EC's CRD IV/CRR II review proposals. These concern provisions relating to NSFR, the leverage ratio and remuneration.
- The EC issued a report to the EP and the Council on *Exemptions for third-country central banks and other entities under MiFIR* on 9 June 2017. The report includes an *annex* listing the central banks which are exempt from the pre- and post-trade transparency requirements for non-equities.

EIOPA

EIOPA updated its *questions and answers* on *(EU) No 2015-2450 with regard to the templates for the submission of information to the supervisory authorities* on 30 June 2017.

EP

The EP's IMCO published a *Draft Opinion* on the EC's action plan for retail financial services on 6 June 2017.

ESMA

- ESMA published its final report, *draft RTS on cooperation arrangements with third countries under BMR* on 1 June 2017, establishing the minimum standards for agreements with supervisory authorities from third countries whose legal framework and supervisory practices the EC deems equivalent.
- ESMA updated its *Q&As* regarding the implementation of CSDR on 2 June 2017. The changes include answers regarding CSDs' investment policy, access to CSDs and conditions to provide services in another Member State.
- ESMA published its *Questions and Answers on MiFID II and MiFIR investor protection topics* on 6 June 2017. It gives updates on post-sale reporting, costs and charges and appropriateness of complex financial instruments.
- ESMA published its *Annual Report 2016* on 15 June 2017. It provides an overview of its activities in 2016 and gives detail on priority areas in 2017. For 2017, ESMA states it will focus on:
  - assessing investor risk and monitoring market stability (undertaking asset management stress tests in 2017/18)
  - developing a single rulebook
  - building on supervisory convergence
  - supervising credit rating agencies and trade repositories (focusing on strategy and governance).
- ESMA issued guidelines on the *Calibration of circuit breakers and publication of trading halts under MiFID II* on 27 June 2017. It provides guidance to trading venues enabling algorithmic trading which halt or constrain trading activity in the case of significant price movements in a financial instrument within a short space of time.

European Council

The European Council announced in a *press release* on 8 June 2017 its position on the proposed Directive on countering money laundering by criminal law. The EC tabled the *proposal* in December 2016 together with a proposal for a regulation on the mutual recognition of freezing and confiscation orders.

European Data Protection Supervisor

The European Data Protection Supervisor released the *June 2017 edition of its newsletter* on 23 June 2017, which covered its opinion on ePrivacy and its work on data ethics. It also published a report of its activities last year in its *2016 Annual Activity Report* on 21 June 2017.

FATF

The FATF announced the *outcomes* of its plenary meeting held on 21-23 June 2017.

FCA

- The FCA published guidance on how to manage the risk of cyber attacks in, *Good cyber security – the foundations* on 15 June 2017. It sets out the foundations for effective cyber security practice, and how to report cyber incidents.
- The FCA reminded firms that need to change their regulatory permissions as a result of MiFID II to submit a complete application for authorisation or variation of permission by 3 July 2017, in a *press release* on 19 June 2017.
- The FCA published a *report* analysing the impact of EMIR variation margin requirements on 30 June 2017. EMIR requires firms trading certain OTC derivatives to post variation margin, and some were concerned about being temporarily locked out of the market. But the FCA found the new requirements have not had a significant market impact so far.

IMCO

- The EP's IMCO published a report on the *Consequences of Brexit in the Area of Consumer Protection* on 30 June 2017.

- The EP's IMCO issued a report on *The Role and Powers of the EP in the Brexit Process* on 30 June 2017.

Insurance Europe

Insurance Europe published two templates on 30 June 2017 to help insurers and asset managers exchange information on multi-option products required by the PRIIPs Regulation. The *European PRIIPs template* covers the minimum information insurers need from asset managers to produce a KID. The *'Comfort' EPT* includes more data but insurers and asset managers must enter into a specific agreement to provide these. Use of the templates is voluntary and royalty-free.

JCESA

The JCESA published *Joint draft RTS on the criteria for determining the circumstances in which the appointment of a central contact point* pursuant to Article 45(9) of Directive (EU) 2015/849 is appropriate and the functions of the central contact point on 26 June 2017. The ESAs give EU Member States criteria to determine if payment service providers and electronic money issuers must appoint a central contact point. They will now submit their draft RTS to the EC for approval.

Official Journal

The EU published the *MiFID II ITS on the format and timing of position reports* in the Official Journal on 6 June 2017. Under the position reporting requirements, market operators and investment firms must submit to ESMA their aggregate commodity positions held at the close of business each week no later than Wednesday 17:30 CET of the following week.

PRA

The PRA proposed *CP6/17: Regulatory reporting: occasional consultation paper* on 12 June 2017. It includes minor amendments to the templates and reporting instructions for the PRA101 to PRA103 returns (regulatory capital forecasts). The consultation closed on 7 July 2017 and the PRA intends the changes to take effect from 1 October 2017.

SFO

- The PRA issued a *reminder* on reporting requirements for CRD firms on 16 June 2017. It expects relevant third country firms to submit liquidity information at the whole-firm level, based on data reported to the firm's home state supervisor.
- The SFO published its *operational handbook on consents*, and shed light on cases requiring the consent of the attorney general on 23 June 2017.

UK Government

- The UK Government published a briefing paper, *Financial Services: European aspects* on 30 June 2017. It summarises recent EU financial services initiatives, and provides a list of EU-based financial services measures which are being implemented or have recently been implemented in the UK.
- The UK Parliament published *The Data Reporting Services Regulations 2017* on 22 June 2017. It transposes MiFID II authorisation and organisational requirements for data reporting service providers (DSRPs). It also provides the FCA with powers to supervise and enforce MiFID II requirements for DSRPs.
- The UK Parliament published *The Financial Services and Markets Act 2000 (Markets in Financial Instruments) Regulations 2017* on 22 June 2017, transposing parts of MiFID II into UK law and giving full effect to MiFIR. It designates the FCA, PRA and the BoE as NCAs for the UK. Elements of the statutory instrument enter into force in phases between 29 June 2017 and 3 January 2018.

Banking and capital markets

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A brief round up of other regulatory developments

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Regulation

Capital and liquidity

PRA refines IRB model requirements

The PRA published policy statement *PS13/17 Residential mortgage risk weights* on 19 June 2017. This follows its consultation paper *CP29/16* published in July 2016 and finalises the changes to its IRB model requirements relating to the calculation of credit risk capital requirements. It reflects these changes in an amended supervisory statement: *SS11/13 IRB approaches*.

The changes are prompted by the PRA identifying a high level of variability in the risk weights of residential mortgage portfolios of firms using the IRB approach. The PRA revises its expectations concerning both firms' probability of default and loss given default models. In response to feedback, the PRA amends the definition and formulation of cyclicality, clarifies the application of the cyclicality cap to historical modelling and emphasises that firms should use margins of conservatism for portfolios with low levels of historical data.

The PRA originally intended that firms meet its revised requirements by the end of March 2019 with firms having until the end of May 2018 to apply for regulatory approval for their adjusted models.

In response to feedback, it's now extended the timetable to meet these requirements until the end of 2020. The PRA expects firms to contact their supervisors to agree a date by which they intend to submit their amended models for approval. The PRA also takes this opportunity to update its *Application for permission to use the IRB approach* document.

Reviewing structural foreign exchange positions

The EBA published a discussion paper on the *Treatment of structural FX under Article 352(2) of the CRR* on 22 June 2017. The CRR allows firms, with their NCA's authorisation, to exclude from their calculation of foreign exchange (FX) capital requirement structural FX positions. Structural FX positions include positions taken to hedge a firm's capital adequacy ratio and positions that relate to items that are already deducted in the calculation of own funds. The EBA observes a range of interpretations that leads to differences in the application of this provision.

The EBA outlines its view of the rationale underlying the treatment of these structural positions as well as discussing broader issues such as the nature of FX risk, both from an accounting and regulatory perspective. This includes considering the limitations of the types of FX positions and the maximum size of positions excluded.

The EBA also addresses the changes to this provision included in the EC's proposals to amend CRD IV and CRR published in November 2016.

Through this discussion paper the EBA aims to gather feedback from firms and other stakeholders to better understand current practice and interpretation of this provision. As a next step, it plans to develop a guideline to provide more clarity and so promote more consistent application. The EBA intends to hold a public hearing on this issue on 25 July 2017. The consultation closes on **22 September 2017**.

EBA monitors CVA risk exempted transactions

The EBA published its *2015 credit valuation adjustment (CVA) risk monitoring exercise – main results* and launched its 2016 exercise issuing *instructions for 2016 CVA risk monitoring exercise* and *template* on 21 June 2017. It also announced that it is putting on hold the development of its draft guideline on the treatment of CVA risk under SREP, pending developments in the CVA risk framework at the Basel Committee.

The EBA highlighted in its February 2015 *CVA report* the materiality of CVA risks that are excluded from the calculation of the pillar 1 CVA risk capital requirement due to exemptions under CRR. It recommended that these exempted CVA risks 'should be prudentially captured [and] that all EU exemptions should be reconsidered'.

The 2015 monitoring results illustrate the comparative impact of including exempted transactions in the pillar 1 capital requirement. For example, it shows that the median bank's CVA risk capital requirement increases by a factor of four, albeit for the vast majority of banks, their existing CVA capital requirement is less than 2% of their overall pillar 1 capital requirement.

The EBA will continue to monitor the potential impact on EU banks via its 2016 exercise and the deadline for data submission for this is 14 September 2017. The EBA expects NCAs to use the results of its monitoring in their assessments of firms' CVA risk for the purposes of their SREPs. The EBA intends to monitor Basel Committee developments concerning this issue and consider if it needs to provide further guidance.

EBA address credit valuation adjustment issues

The EBA published its *Final draft RTS for determining proxy spread and limited smaller portfolios for credit valuation adjustment (CVA) under Article 383(7) of CRR* on 21 June 2017. It concerns limited amendments to the RTS *Delegated Regulation 526/2014* based on two policy recommendations from the EBA's *CVA report* published in February 2015, about the calculation of capital requirement for CVA risk.

Those recommendations relate to where the existing approach cannot be applied due the unavailability of spread data for entities sharing with the counterparty similar specific combinations of rating, industry and region attributes as well as issues linked to the loss given default of the counterparty. The amendments include allowing an alternative credit quality assessment subject to conditions based on a duly documented rationale. It also addresses where it may be appropriate to use the credit spread of a parent as a proxy spread for its subsidiary.

Proposing a simplified market risk approach

The Basel Committee published a consultation, *Simplified alternative to the standardised approach to market risk capital requirements* on 29 June 2017. The primary component of the standardised approach is the sensitivities-based method (SbM) set out in its *Minimum capital requirements for market risk* Standard, also referred to as the Fundamental review of the trading book (FRTB) Standard. This is due to come into effect from 1 January 2019.

The Basel Committee proposes a new alternative, the reduced SbM (R-SbM), which it intends to address the implementation challenges for banks that maintain smaller or simpler trading books. The proposed R-SbM involves a number of significant simplifications relative to the SbM including the removal of capital requirements for vega and curvature risks, simplification of the basis risk calculation and a reduction in risk factor granularity and the correlation scenarios to be applied in associated calculations. Use of the R-SbM is subject to qualitative and quantitative criteria together with supervisory authority approval.

It also seeks views on whether an upward recalibrated version of the existing Basel II standardised approach would better serve the purpose of incorporating a simplified method in the FRTB standard. The EC's proposals to amend CRD IV/CRR published in November 2016 currently take this approach. The consultation closes on **27 September 2017.**

Increasing the UK minimum leverage ratio

The BoE published *Consultations by the FPC and PRA on changes to the UK leverage ratio framework relating to the treatment of claims on central banks* on 27 June 2017. It applies to all PRA-regulated banks and building societies with retail deposits equal to or greater than £50bn on an individual or a consolidated basis.

There are two consultations. Firstly, the FPC proposes a recommendation to the PRA to exclude claims on central banks from the leverage exposure measure in the UK leverage framework. But to compensate for the resulting reduction in capital required, it also increases the minimum leverage ratio from 3% to 3.25%. Secondly, the PRA sets out a proposal to implement the FPC recommendation, should it be adopted by the FPC.

In July 2016, the FPC recommended that the PRA considered allowing firms to exclude from the exposure measure of the leverage ratio calculation, assets constituting claims on central banks where they are matched by deposits denominated in the same currency and are of the same or longer maturity. In response the PRA invited firms to apply for a temporary rule modification to effect this. At the time the FPC recognised that this modification reduced the amount of capital needed to meet the minimum leverage ratio and signalled its intention to recalibrate it to offset the impact. The consultation closes on **12 September 2017**.

Competition

FCA bans restrictive contract clauses

The FCA published *PS17/13: Investment and corporate banking: prohibition of restrictive contractual clauses* on 27 June 2017. It confirms Handbook rules that ban the use of clauses in agreements by firms that restrict a client's choice of future providers of primary market services (debt capital market, equity capital market and merger and acquisition services). This includes rights to provide future primary services but excludes future services restrictions in bridging loans. It takes effect from 3 January 2018.

The FCA says it has been unable to identify any clear benefits to clients from these clauses. It believes the prohibition provides clients with a greater choice of providers and more competitive terms. The conduct regulator introduces the rule as a result of its *investment and corporate banking market study* findings, published in October 2016.

The FCA encourages firms to consider whether they need to amend templates for contracts and engagement letters, guidance, policies and training to comply. It remains open to extending the ban to other wholesale market services if it finds evidence that clauses are being used to the detriment of clients.

Payments

Making PSR appeals to the CMA

On 20 June 2017, the CMA consulted on rules to govern appeals that may be made to it under section 79 of FSBRA in relation to decisions made by the PSR. It published *Consultation document: Regulated Payment Systems Appeals Rules and Guide* and *Draft Regulated Payment Systems Appeals: CMA Rules*. Alongside this, the CMA issued a draft guide to help appellants through the process being consulted on: *Regulated Payment Systems Appeals: CMA Guide*.

Under FSBRA, decisions made by the PSR in relation to access to a payment system, changes in agreements relating to a payments system and the disposal of an interest in an operator, can be appealed to the CMA by anyone affected by the decision. Grounds for the appeal must be that the PSR failed to carry out its function, the decision was based on an error of fact or it was wrong in law.

The draft rules state that the PSR must make appropriate disclosure to assist the CMA in deciding to grant permission to appeal. Where permission is granted, the CMA can direct that the decision made by the PSR be suspended. Under the draft rules, the CMA can determine how the appeal process operates in relation to hearings, evidence submissions and witness statements. If the CMA upholds an appeal the PSR may be required to either reconsider or substitute the CMA's decision for its original decision. The draft guide explains the appeal process including the administrative process, the role and powers of the CMA and timeframes.

The consultation closes on **12 July 2017.**

EBA consults on extended payments supervision

In *Draft RTS on the criteria for determining the circumstances in which the appointment of a central contact point is appropriate and the functions of those central contact points* proposed on 29 June 2017, the EBA seeks views on how regulators can supervise Payment Institutions (PIs) and Electronic Money Institutions (EMIs) that are regulated in one Member State (the home Member State) but provide payment services in another (the host Member State).

Under the proposed rules, PIs and EMIs with branches or agents in host Member States will be required to give the resident regulator the name of a local central point of contact (CPC). But a CPC will only be required where:

- the PI or EMI has more than ten agents in a host Member State
- the value of annual transactions exceeds €3m and the PI or EMI has two agents or
- the number of transactions exceeds 100,000 and the PI or EMI has two agents.

The CPC will be expected to report as required to the host regulator on payment services activities carried out by agents, and will be able to facilitate visits by the host regulator to agents as necessary.

The consultation closes on **28 September 2017.**

PSR remedies payments infrastructure

The PSR confirmed its final decision on reforms to the UK payments infrastructure on 25 June 2017 in *MR15/2.5 Market review into the ownership and competitiveness of infrastructure provision Remedies Decision*. The PSR has imposed two remedies to address competition failings identified in its 2016 review *MR15/2.3 – Final report: market review into the ownership and competitiveness of infrastructure provision*:

- a competitive procurement process for the central infrastructure contracts (CICs) for Bacs, Faster Payments

and LINK to encourage fair, open and transparent procurement and competition

- a common international messaging standard for Bacs and Faster Payments to encourage new entrants to the market.

The ownership and governance issues the PSR had identified during the review as a barrier to new entrants (and which gave Vocalink a competitive advantage) were resolved by the acquisition of Vocalink by Mastercard.

The implementation for both remedies is interlinked. For the competitive procurement remedy to be effective, the new common international messaging standard must first be in place. It is expected that the new CICs will begin in 2020 for Bacs and Faster Payments and 2021 for LINK. The messaging standards competitive central infrastructure contracts will start in 2020.

Stress testing

EBA prepares 2018 stress test

The EBA published *2018 EU-Wide Stress Test – draft Methodological Note* and related *templates* on 7 June 2017. The EBA aims to test EU banks' ability to meet relevant capital ratios during an adverse economic shock, covering 70% of the EU banking sector based on a sample of 49 banking groups.

It views the draft methodology as a continuation of its existing approach, with adjustments for the implementation of IFRS 9 and lessons learnt from the 2016 stress testing exercise. The EBA intends that the results of the stress test inform NCAs' 2018 SREPs, which will impact decisions on banks' appropriate levels of capital resources. The exercise also provides transparency, allowing the resilience of EU banks to be compared on a consistent basis.

Following informal discussions with banks, the EBA expects to publish the final methodology and templates at the beginning of 2018 when it launches the exercise. It aims to publish the results in mid-2018.

Also this month

Basel Committee

The Basel Committee published its revised guidelines on the *Sound management of risks related to money laundering and financing of terrorism*, on 7 June 2017. The revisions are consistent with the FATF guidance on *Correspondent banking services* issued in October 2016.

EBA

- The EBA amended its Pillar 3 *Guidelines on disclosure requirements under Part Eight of CRR* on 9 June 2017 to rectify a small number of identified inaccuracies as well as making other language corrections and legislation updates. The EBA issued its final report on the Guidelines in December 2016.
- The EBA summarised its achievements for 2016 and some of its planned activities for 2017 in its *Annual Report* 2016 on 15 June 2017.
- The EBA summarised potential risks to consumers arising from retail banking products and services, in its annual *EBA Consumer Trends Report 2017* on 28 June 2017.
- The EBA's *response* to the EC's proposed *amendments* to the final draft RTS on strong customer authentication and common and secure communication under PSD2 on 29 June 2017 signalled that discussions about the RTS will continue. The EBA has *indicated* that it intends to only partially accept the EC's proposed changes.

ECB

The ECB released on 21 June 2017 a copy of a *letter to significant institutions* dated 31 March 2017 that further clarifies the delineation of the exercise of supervisory powers between the ECB and NCAs. It relates to powers granted under national law concerning approvals and notifications.

CMA

The CMA *opened* an investigation into the implications for the market of the proposed merger of the Bacs, Faster Payments and Cheques & Credit Clearing schemes on 23 June 2017. A decision is expected by 18 August 2017.

Asset management

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Competition 27

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Regulation

Competition

Asset management competition remedies

The FCA finalised its findings, and consulted on remedies to improve competition, in *MS15/2.3: Asset Management Market Study Final Report* and *CP17/18: Consultation on implementing asset management market study remedies* on 28 June 2017. The findings are broadly consistent with the FCA's interim report in November 2016, which found weak price competition, but some of the remedies are less onerous for firms.

Nonetheless, the FCA sets out a significant package of remedies. Firms must now make an ongoing assessment of value, taking into account factors such as fees, performance but also economies of scale and quality of service. This must be documented at least annually, and as part of the SM&CR extension later this summer, the FCA intends to create a new prescribed responsibility for 'protecting the interests of investors'. This responsibility must be allocated to the authorised fund manager chairperson who becomes directly liable for this. The FCA continues with its proposals to mandate more independent directors (iNEDs) on boards, with AIFMs required to have a minimum of 25% of the board or two iNEDs.

The FCA amends its approach to its proposal for asset managers to charge a single fee with limited recourse to recover overspend on estimated transaction fees. Instead, firms have to disclose a single fee, as per the requirements under MiFID II and PRIIPs, with possible additional rule changes to improve communications with clients.

The FCA bans firms from retaining risk-free box profits, and wants to improve transparency in the prospectus over at-risk box profits. In addition, the FCA proposes to clarify and re-issue its guidance (FG14/4) on migrating unit holders to non-trail commission paying share classes, to make this easier for firms to do. It asks for input on the idea of a phased sunset clause for trial commission paying pre-RDR share classes. The FCA wants to undertake wider work with the industry to understand the impact this would have.

The consultation closes on **28 September 2017**. The FCA plans to consult on other changes at a later stage, and to decide in September 2017 whether to refer the investment consultancy market to the CMA, having proposed to refuse the undertakings in lieu it has received. It also recommends HMT brings the sector within the regulatory perimeter.

Insurance

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A brief round up of other regulatory developments

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Regulation

Consumer issues

FCA seeks input on travel insurance

The FCA published a *Call for Input: Access to insurance* on 20 June 2017. It seeks information on the challenges firms and consumers face regarding the provision of travel insurance for individuals who have, or have had, cancer. In particular, it requests feedback on the following:

- current challenges in providing travel insurance for consumers who have, or have had, cancer
- challenges cancer sufferers face in accessing the travel insurance market and in finding suitable travel insurance
- innovative practices
- barriers to dealing with existing challenges or to innovation
- what can be done to improve the ability of cancer sufferers to obtain suitable insurance.

The FCA also considers some examples of good practice including promising initiatives such as better signposting of specialist insurance brokers and providers that could possibly be extended to benefit more consumers.

The comment period ends on **15 September 2017**.

Pensions

Reviewing pension lifestyle investment strategies

The FCA published *findings* from its review of life insurance companies' pension lifestyle investment strategies on 13 June 2017. It looked at whether life insurers had reviewed the appropriateness of pension investment strategies in light of the pension reforms in 2015 and the resulting changes in consumer behaviour. With fewer customers buying annuities and more entering flexible drawdown arrangements, investment profiles and strategies may no longer be appropriate. The FCA gathered information from a sample of 13 firms, accounting for nine million customers.

The FCA was pleased with firms' approach for new business and post-2012 auto-enrolment contracts. But it was concerned about the timeliness of firms' reviews for existing business written before 2012, and legacy business written before 2001. The FCA also noted there was a lack of clear communication to these customers

explaining how their investment strategies relate to their retirement options following the pension reforms. The FCA is following up with firms where it identified concerns and will be inviting firms to a roundtable event to discuss the findings.

Reporting

EIOPA issues draft XBRL taxonomy

EIOPA published a public working draft of its *Data Point Model and Taxonomy version 2.2.0* and *release notes* on 1 June 2017. The comment period ended on 30 June 2017 and the final 2.2.0 version is planned to be released in mid-July 2017 for application from the 31 December 2017 reference date. EIOPA also updated the *list of validations* and the *list of known issues* for the 2.1.0 version of Solvency II XBRL taxonomy.

Solvency II

EC publishes infrastructure investments regulation

The EC published a *Delegated Regulation* on 8 June 2017 amending the Solvency II delegated acts to introduce further reliefs in respect of the capital charges on infrastructure investments in the standard formula SCR. It introduces lower equity risk and spread risk charges for the new category of 'qualifying infrastructure corporate investments'. It also relaxes some of the conditions for infrastructure project investments to be eligible for existing reduced capital charges. The EP and Council have three months (which can be extended by a further three months) to consider these amendments. See our *At a Glance* publication for more details.

PRA proposes new market risk template

The PRA published *CP7/17 – Solvency II: Data collection of market risk sensitivities* on 12 June 2017. It proposes insurance and reinsurance firms with material exposure to market risk will have to submit a new template twice a year detailing sensitivities of solvency positions to key market risks. The PRA plans to notify firms within the scope of its proposal but notes that this does not preclude firms outside scope from responding to this consultation or, in due course, from submitting the return should they decide to do so following a discussion with their supervisor. See our *At a Glance* publication for more details.

The PRA plans to allow firms two weeks from the submission of their June and December Quarterly Reporting Templates to submit the new template. But for the June 2017 submission, the PRA intends to make the deadline six weeks after it finalises the supervisory statement.

Insurers will also have to submit this new template following any significant change in their risk profile such as following a recalculation of transitional measure on technical provisions or a merger or acquisition.

The comment period ends on **7 August 2017.**

Supervision

EIOPA issues ORSA findings and recommendations

EIOPA published its *Supervisory Assessment of the ORSA – First experiences* on 19 June 2017. It summarises national supervisors' initial feedback on the application of the ORSA regulation. In general, it finds the majority of firms have made good progress in implementing the ORSA process. But it recommends firms, especially small undertakings, further elaborate on the ORSA process including their ORSA policy and the quality of data used in assessments. It also expects firms to consider the following areas for improvement:

- increased involvement of the administrative, management or supervisory bodies
- expansion of the scope of risk assessments to include all potential risks and to link them to the business model and strategic management actions of the undertaking
- improvement of the assessment of the significance with which the risk profile deviates from the underlying assumptions for the SCR under the standard formula
- improvement of the quality of stress testing including reverse stress tests and scenarios used in the ORSA assessments.

The report also describes feedback given by national supervisors to supervised undertakings.

Accounting

PwC publications

IFRS 17 Insurance Contracts

Many large insurance groups have carried out financial and operational impact assessments based on the IASB's 2013 Exposure Draft (ED). Our guide *IFRS 17 – Redefining insurance accounting* outlines key differences between the 2013 IASB ED and the final version of the standard.

FRIC 23: 'Uncertainty over income tax treatments'

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 are applied where there is uncertainty over income tax treatments. The interpretation is effective from 1 January 2019 subject to EU

endorsement. See *PwC In brief – IFRIC 23: Uncertainty over income tax treatments* for more details.

Also this month

EIOPA

- In June 2017 EIOPA updated its questions and answers on:
  - *Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC*
  - *(EU) No 2015-2450 with regard to the templates for the submission of information to the supervisory authorities*
  - *(EU) No 2015-2011 with regard to the lists of regional governments and local authorities.*
- On 28 June EIOPA published its *first set of statistical information on Solvency II*. The information covers key metrics, on a country basis, included in the annual Solvency II reporting. It provides a comprehensive picture of the EU insurance sector, covering about 3,000 insurers. EIOPA intends to publish the statistics on a quarterly basis.
- EIOPA published its *Financial Stability Report* June 2017 on 20 June 2017. It finds that despite the difficult macroeconomic environment, the successful implementation of Solvency II has contributed to the stability of the EU financial sector.
- EIOPA published a *Memorandum of Understanding* (MoU) between it and the International Bank for Reconstruction and Development and the International Development Association on 15 June 2017. It sets out a framework within which the parties can develop and undertake collaborative activities to pursue their common objectives.
- EIOPA published its *Annual Report 2016* on 15 June 2016. It gives an overview of its work for the year including the tasks associated with Solvency II and advising the EC on a number of issues, such as the development of a Pan-European Personal Pension product and, within the context of the Joint Committee, on the KIDs for Packaged Retail and Insurance-based Investment Products.

IAIS

The IAIS published *Revised ICP 13 Reinsurance and Other Forms of Risk Transfer* on 1 June 2017. It proposes a number of revisions to Insurance Core Principle 13 to introduce improvements identified by its Peer Review Assessment and reflect developments in the market and supervisory practices since the last revision. The comment period ends on **31 July 2017.**

PRA

The PRA updated its *Solvency II regulatory reporting – frequently asked questions* on 10 June 2017.

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
14/07/17	A New Reference Index For The Euro Repo Market	European Money Markets Institute
17/07/17	Commission Delegated Regulation amending the MiFID II Delegated Regulation with respect to systematic internaliser definition	EC
19/07/17	Reducing barriers to cross-border distribution of investment funds	EC
20/07/17	Technical elements of the definitions set out in the Benchmark Regulation	EC
20/07/17	Calculation of total values of references to benchmarks	EC
20/07/17	Conditions to assess impacts of cessation or changing of a benchmark	EC
20/07/17	Application of qualitative criteria for critical benchmarks	EC
20/07/17	Development of secondary markets for non-performing loans	EC
31/07/17	Revised Insurance Core Principles 13 Reinsurance and Other Forms of Risk Transfer	IAIS
31/07/17	Draft Guidance for Private Sector Information Sharing	FATF
31/07/17	The trading obligation for derivatives under MiFIR	ESMA
07/08/17	Draft technical advice, ITS and guidelines under the MMF Regulation	ESMA
07/08/17	CP7/17: Solvency II: Data collection of market risk sensitivities	PRA
08/08/17	Draft RTS on simplified obligations under Article 4(6) of the BRRD	EBA

Closing date for responses	Paper	Institution
12/08/17	*CP17/15: Powers in relation to LIBOR contributions*	*FCA*
12/08/17 (chapter 4 only)	*CP17/14: Quarterly Consultation Paper No. 17*	*FCA*
18/08/17	*Draft recommendations on outsourcing to cloud service providers under Article 16 of Regulation (EU) No 1093/2010*	*EBA*
21/08/17	*CP10/17: Compliance with the EBA's Guidelines on disclosure: composition of collateral for exposures to counterparty credit risk*	*PRA*
22/08/17	*CP17/17: Handbook changes to reflect the application of the EU Benchmarks Regulation*	*FCA*
24/08/17	*Guidelines on CCP conflicts of interest management*	*ESMA*
25/08/17	*Proposal for a Regulation of the EP and of the Council on a pan-European Personal Pension Product*	*EC*
30/08/17	*Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices*	*FSB*
12/09/17	*CP11/17: Changes to the UK leverage ratio framework relating to the treatment of claims on central banks*	*PRA*
21/09/17	*CP17/16: Advising on Pension Transfers*	*FCA*
21/09/17	*CP9/17: Recovery planning*	*PRA*
21/09/17	*GFXC request for feedback on last look practices in the Foreign Exchange market*	*Global Foreign Exchange Committee*
22/09/17	*Framework for supervisory stress testing of CCPs*	*IOSCO*

Closing date for responses	Paper	Institution
22/09/17 (for chapters 2 and 3; 14/08/17 for chapter 4)	*CP8/17: Strengthening accountability in banking and insurance: optimisations to the SIMR and changes to SMR forms*	*PRA*
27/09/17	*Simplified alternative to the standardised approach to market risk capital requirements*	*Basel Committee*
28/09/17	*CP17/18: Consultation on implementing asset management market study remedies and changes to Handbook*	*FCA*

Forthcoming publications in 2017

Date	Topic	Type	Institution
Accounting			
TBD 2017	RTS on consolidation methods	Technical standards	EBA
TBD 2017	Developments in the market with regard to providing statutory audit services to public interest entities	Advice	EBA
TBD 2017	Accounting for expected credit losses	Guidelines	EBA
TBD 2017	Policy statement to CP46/16 – IFRS 9: changes to reporting requirements	Policy statement	PRA
Asset management			
TBD 2017	UCITS V Level 2 Regulation, SFTR and consequential changes to the Handbook – PS to CP16/14	Policy statement	FCA
Authorisations			
TBD 2017	ITS and RTS on authorisation of credit institutions under CRD IV	Technical standards	EBA
CASS			
TBD 2017	Asset segregation under AIFMD	Guidelines	ESMA
Conduct			
Summer 2017	Mortgage market study interim report	Report	FCA
Summer 2017	Extending the SM&CR to all regulated firms	Consultation	FCA
TBD 2017	Consultation on new rules for firms running crowdfunding platforms	Consultation	FCA

Date	Topic	Type	Institution
TBD 2017	Creditworthiness and affordability in consumer credit	Consultation	FCA
TBD 2017	Remuneration benchmarking and high earners data under Articles 75(1) and (3) CRD IV	Report	EBA
TBD 2017	The collection exercise of approved higher maximum ratios for variable remuneration under Article 94(1)(g)(ii) CRD IV	Guidelines	EBA
TBD 2017	Suitability of members of the management body and key function holders under Article 91(12) CRD IV	Guidelines	EBA
TBD 2018	Mortgage market study final report	Report	FCA
Financial crime, security and market abuse			
TBD 2017	Enhanced due diligence under AMLD4	Guidelines	EBA
TBD 2017	Simplified due diligence under AMLD4	Guidelines	EBA
TBD 2017	RTS on central contract points under AMLD4	Technical standards	EBA
TBD 2017	MAR	Technical standards	ESMA
Insurance			
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
September 2017	IDD implementation – PS to CP1	Policy statement	FCA
TBD 2017	IDD implementation – CP2	Consultation	FCA
TBD 2017	Policy statement to CP48/16 Solvency II: Matching adjustment – illiquid unrated assets and equity release mortgages	Policy statement	PRA

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

Date	Topic	Type	Institution
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			
TBD 2017	SFTR RTS and ITS	Technical standards	ESMA
Supervision, governance and reporting			
Quarterly	Risk dashboard	Report	ESMA
October 2017	FCA regulatory fees and levies: policy proposals for 2018/19	Consultation	FCA
Q4 2017	Reviewing the funding of the FSCS – PS to CP16/42 and further consultation	Policy statement	FCA
TBD 2017	ITS and RTS on the authorisation of credit institutions	Technical standards	EBA
TBD 2017	Credit Rating Agencies Regulation	Technical standards	ESMA
H2 2017	Supervision of significant branches	Final guidelines	EBA

Date	Topic	Type	Institution
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
IMCO	The European Parliament's Committee on Internal Market and Consumer Protection
IMD	Insurance Mediation Directive 2002/92/EC
IMF	International Monetary Fund
IORP	Institutions for Occupational Retirement Provision Directive 2003/43/EC
IOSCO	International Organisations of Securities Commissions
IRB	Internal Ratings Based
ISDA	International Swaps and Derivatives Association
ITS	Implementing Technical Standards
JCESA	Joint Committee of the European Supervisory Authorities
JMLSG	Joint Money Laundering Steering Committee
JURI	Legal Affairs Committee of the European Parliament
KID	Key Information Document
KYC	Know your client
LCR	Liquidity coverage ratio

LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
MA	Matching Adjustment
MAD	Market Abuse Directive 2003/6/EC
MAR	Market Abuse Regulation (EU) 596/2014
Material Risk Takers Regulation	Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the EP and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile
MCD	Mortgage Credit Directive 2014/17/EU
MCOB	Mortgages and Home Finance: Conduct of Business sourcebook
MCR	Minimum Capital Requirement
Member States	Countries which are members of the European Union
MiFID	Markets in Financial Instruments Directive 2004/39/EC
MiFID II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MiFIR
MiFIR	Markets in Financial Instruments Regulation (EU) No 600/2014
MLRO	Money Laundering Reporting Officer
MMF	Money Market Fund
MMR	Mortgage Market Review
MoJ	Ministry of Justice
MoU	Memorandum of Understanding

MPC	Monetary Policy Committee
MREL	Minimum requirements for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution
NCA	National competent authority
NDF	Non-Directive Firms – firms that do not fall within Solvency II
NFC	Non-financial counterparty under EMIR
NIS Directive	Proposal for a directive of the EP and Council concerning measures to ensure a high common level of network and information security across the EU
NSFR	Net Stable Funding Ratio
NST	National specific template
NURS	Non-UCITS Retail Scheme
OECD	Organisation for Economic Cooperation and Development
Official Journal	Official Journal of the European Union
OFSI	Office of Financial Sanctions Implementation
OFT	Office of Fair Trading
Omnibus II	Second Directive amending existing legislation to reflect Lisbon Treaty and new supervisory infrastructure (2014/51/EU). Amends the Prospectus Directive (Directive 2003/71/EC) and Solvency II (Directive 2009/138/EC)
ORSA	Own Risk Solvency Assessment

O-SIIs	Other systemically important institutions
OTC	Over-The-Counter
OTF	Organised trading facility
PAD	Payment Accounts Directive 2014/92/EU
PIFs	Personal investment firms
PPI	Payment Protection Insurance
P2P	Peer to Peer
PERG	Perimeter Guidance Manual
PRA	Prudential Regulation Authority
Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis
PRIIPs Regulation	Regulation on key information documents for investment and insurance-based products (Regulation 1286/2014)
PSD2	The revised Payment Services Directive (EU) 2015/2366
PSP	Payment service provider
PSR	Payment Systems Regulator
QIS	Quantitative Impact Study
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)
RDR	Retail Distribution Review
REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011
RFB	Ring-fenced bank
RONIA	Repurchase Overnight Index Average
RRPs	Recovery and Resolution Plans
RTS	Regulatory Technical Standards
RWA	Risk-weighted assets
SCR	Solvency Capital Requirement (under Solvency II)
SCV	Single customer view
SEC	Securities and Exchange Commission (US)
Securitisation Regulation	Proposal for a Regulation of the EP and Council laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (COM(2015)472/F1)
SEPA	Single Euro Payments Area
SFT	Securities financing transaction
SFTR	Securities Financing Transactions Regulation (EU) 2015/2365
SFO	Serious Fraud Office
SIMF	Senior Insurer Manager Function
SIMR	Senior Insurer Managers Regime
SM&CR	Senior Managers and Certification Regime
SME	Small and Medium sized Enterprises
SMF	Senior Manager Function

SOCA	Serious Organised Crime Agency
Solvency II	Directive 2009/138/EC
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SREP	Supervisory Review and Evaluation Process
SRB	Single Resolution Board
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
SSR	Short Selling Regulation (EU) 236/2012
SUP	FCA supervision manual
T2S	TARGET2-Securities
TC	Treasury Committee
TLAC	Total Loss Absorbing Capacity
TR	Trade Repository
TPR	The Pensions Regulator
UCITS	Undertakings for Collective Investments in Transferable Securities
UCITS V	UCITS V Directive 2014/91/EU
UKLA	UK Listing Authority
UTI	Unique Trade Identifier
XBRL	eXtensible Business Reporting Language

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