

Being better informed

FS regulatory, accounting and audit bulletin



PwC FS Risk and Regulation Centre of Excellence

July 2018

In this month's edition:

- **Operational resilience:** Regulators propose new approach
- **Banking:** BoE focuses on resolution
- **Conduct:** FCA shakes up retirement income investing
- **Analysis:** EC's ambitious sustainable finance agenda

Executive summary



Amanda Rowland
Partner, FS Risk and
Regulation Centre of
Excellence

'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.'

The regulatory agenda remains full of activity as we approach the summer holidays, with a particular focus on operational resilience and banking resolution.

As expected, UK and EU regulators increased their emphasis on operational resilience in recent weeks. The BoE, PRA and FCA published a discussion paper setting out a new framework for improving the operational resilience of all financial institutions in the UK. A key focus of the paper is the suggestion that firms establish impact tolerances for disruption to the provision of important business functions. The regulators also emphasise the importance of governance and individual accountability. In addition, the BoE plans to introduce stress testing for how quickly firms are able to recover from a cyber incident. Meanwhile the EBA published draft guidelines on outsourcing arrangements, which highlight a number of risk areas on which firms should focus. These developments mark a step change in the way regulators supervise operational resilience, and firms should begin preparing to meet these higher expectations.

The BoE and FSB also focused on banking resolution last month. As part of its agenda to ensure banks take resolution seriously, the BoE issued its final statement of policy on valuation capabilities to support

resolvability. It expects banks to have in place data, systems and processes to value their assets, liabilities and equity, and support timely and robust resolution valuations. The BoE also announced that it intends to consult later this year on a reporting and assurance framework, under which banks will be required to conduct a self-assessment of their resolvability for review and partial publication by the BoE. This marks a shift towards the US model where banks write resolution plans, or living wills, for the Federal Reserve and Federal Deposit Insurance Corporation to review and publish feedback.

Further to this, the BoE issued policy statements on internal MREL and its approach to setting MREL, while the PRA issued a policy statement on resolution planning and MREL reporting. This means UK banks will need to consider their likely positioning of internal MREL in light of the final policy (particularly if the group contains a ring-fenced body), and be ready to submit MREL reports from January 2019. In addition, the FSB issued guidance on bail-in execution and resolution funding to promote G-SIB resolvability. These are both topics that the BoE addressed in the October 2017 update of its approach to resolution, or Purple book. UK banks can expect the BoE to focus now on whether there are any impediments to resolvability

in their plans for bail-in execution and liquidity funding in resolution.

Meanwhile financial crime prevention remains a priority for the FCA. The conduct regulator issued a Dear CEO letter on cryptoassets, warning banks of the potential for cryptoassets to facilitate criminal activity, and advising firms to take steps to mitigate this risk. It encourages banks to perform enhanced due diligence on clients who derive significant business activities or revenues from crypto-related activities, and to develop staff knowledge and expertise on cryptoassets to help them identify risks. The FCA also highlights customer protection, noting that retail customers contributing large sums to initial coin offerings may be at heightened risk of falling victim to investment fraud.

Staying with the retail sector, the FCA published the findings of its review of how the pension freedoms have impacted the retirement income market. The FCA found that the freedoms have put some consumers at risk of harm, for instance the risk of investing in unsuitable investments, including cash. It proposes a package of remedies to help protect consumers and promote competition. These include requiring retirement income providers to offer ready-made drawdown investment pathways with appropriate charge structures, and to ensure that new

consumers accessing drawdown only invest in cash if they make an active choice to do so. Affected firms should engage with the consultation and consider the impact of the proposed changes.

Elsewhere, ISDA and other trade associations raised concerns about firms' lack of preparations for the transition from interbank offered rates to transaction-based RFRs. Global regulators and central banks are urging firms to take action and prepare for the transition. ISDA has now published a report setting out a detailed list of actions that affected firms should take, for instance around assessing their exposure to IBORS and mobilising an IBOR transition programme, which firms should consider carefully.

Sustainable finance is another hot topic, particularly for EU regulators. In our feature article this month, we consider how the EC's ambitious sustainable finance agenda is set to impact firms, resulting in new compliance obligations and forcing changes to the way they do business.

Looking ahead, trilogue negotiations are set to open on changes to EMIR, while in the coming weeks and months the FCA is due to publish its investment platforms market study interim report and the findings of its review into value in the insurance distribution chain.



Amanda Rowland

Partner, FS Risk and Regulation
Centre of Excellence
+44 (0) 7702 678480
amanda.rowland@pwc.com

Contents

<i>Executive summary</i>	<i>1</i>
<i>Sustainable finance takes centre stage</i>	<i>4</i>
<i>Cross sector announcements</i>	<i>7</i>
<i>Banking and capital markets</i>	<i>17</i>
<i>Asset management</i>	<i>24</i>
<i>Insurance</i>	<i>25</i>
<i>Monthly calendar</i>	<i>31</i>
<i>Glossary</i>	<i>35</i>
<i>Contacts</i>	<i>41</i>

How to read this bulletin?

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

Sustainable finance takes centre stage



Luke Nelson
Senior Manager

+44 (0) 7808 107043
luke.a.nelson@pwc.com

The EC's sustainable finance agenda is set to impact a wide range of firms, resulting in new compliance obligations and forcing changes to the way they do business. Sustainable finance has been on the periphery of the risk and regulatory agenda for a while, but the EC has ramped up activity in recent months, with its *Action Plan on Sustainable Finance* in March 2018 and a flurry of legislative proposals published at the end of May 2018.

The action the EC is taking is significant and will affect firms across financial services including banks, insurers, asset and wealth managers, index providers and CRAs. It's important for these firms to understand how the policies being developed will affect their organisation, including how these might inform firms' sustainability and corporate strategies, and what actions firms could take to complement the EC's initiatives.

Underpinning the EC's ambitious sustainable finance plans are the commitments the EU has made on climate change. As part of its contribution to the *Paris Climate Agreement*, the *EU's 2030 targets* include a 40% cut in greenhouse gas emissions. To achieve that goal, the EC believes it needs to fill an estimated investment gap of €180bn per year. It's the EC's firm belief that the public sector cannot fill this gap alone and the financial

sector has a key role to play. It suggests the sector can help by redirecting investments towards more sustainable businesses, financing sustainable growth over the long term and contributing to the creation of a low-carbon economy. The EC goes as far as to say that achieving its goals requires a comprehensive shift in how the financial system works. It's in this context that the EC published its action plan and its recent legislative proposals are the first step in realising the plan's goals.

So what exactly does the EC mean when it refers to 'sustainable finance'? The EC defines the term as the provision of finance to investments taking into account environmental, social and governance (ESG) considerations. It says that sustainable finance includes a strong green finance component that aims to support economic growth while reducing pressure on the environment, addressing greenhouse gas emissions and pollution, and minimising waste. Importantly, the EC also argues that sustainable finance encompasses increasing awareness of the climate and environmental risks that could have an impact on the stability of the financial system. Additionally, it stresses that sustainable finance should incorporate the need for financial and corporate actors to mitigate such risks.

Ambitious plans

The first step the EC took on sustainable finance was setting up a High-Level Expert Group (HLEG) at the end of 2016. After consulting with industry and climate experts, the HLEG delivered its *final report* in January 2018, proposing a number of recommendations and sector-specific proposals. The EC's action plan builds on the HLEG's recommendations to set out an EU strategy for sustainable finance. Its objectives are broad and ambitious; the EC hopes to channel more investment into sustainable economic activities, strengthen financial stability, and encourage investors to consider ESG factors in decision-making.

The breadth of the EC's sustainable finance ambitions is reflected in the scope of regulatory issues affected. These include prudential requirements; retail investment advice; prospectuses; fiduciary duties and corporate governance; accounting standards; credit ratings; investment research and benchmarks. In general, the EC seeks to make changes to the existing regulatory framework to achieve its policy goals where possible, but there are some areas where entirely new legislation is required.

First steps towards achieving the action plan

To begin implementing its *action plan*, the EC published a raft of proposals on

24 May 2018 – a combination of new initiatives and amendments to existing regulation.

A common framework for sustainable investment

Through its proposal for a *Regulation on the establishment of a framework to facilitate sustainable investment*, the EC hopes to create a uniform criteria for determining whether an economic activity is environmentally sustainable. In its action plan, the EC made clear that its top priority is developing a unified classification system for deciding which economic activities can be considered sustainable. It argues that such a taxonomy is a precondition for achieving other sustainable finance goals, such as creating standards and labels, calibrating prudential requirements and developing harmonised standards for low-carbon benchmarks. To address this first hurdle, the EC puts forward a proposal that provides a framework for determining whether an economic activity is environmentally sustainable.

The proposed taxonomy sets out criteria for environmentally sustainable economic activities and prescribes specific environmental objectives. It also sets out criteria for determining whether an economic activity makes a substantial contribution to:

- climate change mitigation
- climate change adaptation

- sustainable use and protection of water and marine resources
- the circular economy and waste prevention and recycling
- protection of healthy ecosystems.

The EC will adopt delegated acts which will add greater detail to the high-level criteria in the draft regulation. Through its proposal, the EC hopes to address concerns about ‘greenwashing’ – the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally-friendly, when in reality the product doesn’t meet basic environmental standards. The EC also hopes that a common taxonomy will facilitate greater cross-border sustainable investment, and in this sense its proposal is closely linked to the objectives of the CMU. Ultimately, the EC will seek to use the taxonomy as a key lever in the reallocation of capital to environmentally sustainable economic activities.

Incorporating ESG factors into advice

The EC aims to integrate ESG considerations into the investment and advisory process through its proposed *Regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341*. The regulation will amend the IORP II Directive and introduce new provisions that the EC argues are in line with existing policy frameworks, including UCITS, Solvency II, AIFMD and MiFID II.

Under the proposal, firms will be required to publish written policies on the integration of sustainability risks in the investment decision-making process.

The EC plans to amend MiFID II through its draft *Delegated Regulation amending Regulation (EU) 2017/565 supplementing Directive 2014/65/EU of the EP and the Council as regards organisational requirements and operating conditions for investment firms*. It aims to ensure that firms take ESG considerations into account when advising clients on investments. Similarly, to amend the IDD, the EC published *Regulation of the EP and the Council amending Delegated Regulation (EU) 2017/2359 with regard to ESG preferences in the distribution of insurance-based investment products*, which will compel firms to take ESG factors into account for insurance-based investment products too.

Benchmark reforms

In another amendment to existing regulation, the EC published a proposal to amend BMR: *Regulation amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks*. In response to investor demand, index providers have developed a range of benchmarks aimed at helping investors achieve sustainability goals. In its action plan, the EC argues there is a lack of transparency around the methodologies used to create such benchmarks, which diminishes their value and reliability. To

address these concerns, the EC’s proposal establishes two categories of benchmarks: low carbon benchmarks and positive carbon impact benchmarks.

Under this proposal, administrators of such benchmarks would be required to publish their methodologies. The EC thinks doing so would allow investors to compare them, and would ultimately enable better decision-making. Administrators would also be required to disclose any changes to the benchmark methodology, and explain how any changes are consistent with the benchmark’s objectives.

What’s next?

The EC’s proposals will enter into the usual EU legislative process, so it’s over to the EP and the Council for their take on the initiatives. The EP has already produced a *resolution* on sustainable finance, published on 29 May 2018. In it, the EP urges the EC and Member States to ensure there is policy coherence between financial and non-financial sectors as proposals are developed.

Meanwhile, there are a number of outstanding items from the EC’s action plan. Perhaps most significantly, the EC plans to create a technical expert group on sustainable finance. To help the EC flesh out its framework for sustainable investment, it will ask the group to publish a report on climate change mitigation activities, expected by Q1 2019. The EC plans to ask the group to provide a similar report on climate change adaptation and other

environmental activities by Q2 2019. The group's reports will inform the delegated acts the EC is required to develop under the sustainable finance framework regulation. This secondary legislation is required to add detail to the high-level sustainable finance criteria set out in the recently published draft.

The EC will also ask the technical expert group to report on an EU green bond standard by Q2 2019. The EC plans to amend the Prospectus Regulation with specifications for the content of the prospectus of green bond issuances, also in Q2 2019.

To complement the EC's proposed amendments to MiFID II and the IDD, the EC has asked ESMA to include provisions on sustainability preferences in its guidelines on the suitability assessment. ESMA's guidelines are due to be updated by Q4 2018.

The EC plans work throughout 2018 to consider the merits of amending the CRA Regulation. It's possible the EC will propose an amendment to mandate CRAs to explicitly integrate sustainability factors into their assessments.

On prudential requirements, the EC says it will explore the inclusion of climate risks in firms' risk management policies and consider whether a recalibration of CRD IV/CRR is required. The EC plans in Q3 2018 to invite EIOPA to provide an opinion on the impact of prudential rules for

insurance companies on sustainable investments.

The EC also intends to look at the adequacy of sustainability rule making and accounting standards. It will consider the merits of the Non-Financial Information Directive and analyse concerns about the impact IFRS 9 might have on long-term investments. The EC says that by Q3 2018, a European Corporate Reporting Lab (ECRL) will be established as part of the European Financial Reporting Advisory Group. The EC hopes that within the ECRL, firms will be able to share best practices on sustainability reporting, such as climate-related disclosure, in-line with the Taskforce on Climate-related Financial Disclosure's *recommendations*.

On corporate governance, the EC plans to conduct analysis and report by Q2 2019 on the possible need to require boards to develop and disclose a sustainability strategy. It will also consider whether it's necessary to clarify the rules according to which directors are expected to act in the long-term interests of a firm.

The EC plans to report on its overall progress in implementing its action plan in 2019. Its term ends in October 2019, so it is likely to seek rapid progress on its proposals.

What should firms do?

The EC's proposals are at an early stage, but there are still actions that firms should take now. First and foremost, firms should think about the impact of the proposals on their organisation. This should include both the legislative proposals published in May 2018, where action is clearer, and the broader set of activities described in the action plan, where the precise implications are less clear but should still inform strategic thinking. The impact of the proposals will evidently depend on the type of firm, its activities and the extent to which the firm is already engaged in thinking about sustainability.

But for some types of firms, there are already potential implications arising from the EC's proposals. For example, asset managers might consider how they would structure a policy on the integration of sustainability risks in the investment decision-making process, and how publishing this might affect clients. Wealth managers and financial advisers should think about how they might take their clients' ESG preferences into account when constructing a portfolio, including how to capture such preferences and what the impact is on specific types of financial instrument.

Meanwhile, benchmark administrators offering low-carbon indices should consider whether they are likely to meet the proposed criteria, and how to manage any

commercial implications of publishing their methodologies.

While regulation looks set to be a clear driver of the sustainable finance agenda, firms should also think about customer and shareholder expectations. These stakeholder groups have been active in pushing firms to integrate ESG considerations across value chains. So with sustainable finance climbing higher up the agenda for regulators and market participants alike, there are plenty of compelling reasons for firms to start taking action.

Cross sector announcements

In this section:

Regulation	7
Brexit	7
Capital and liquidity	7
Conduct	8
Consumer issues	8
Disclosure and distribution	8
Financial crime and enforcement	9
Financial stability	9
Market infrastructure	9
MiFID II	11
Operational resilience	11
Pensions	11
Retail products	12
Risk management	12
Supervision	12
Trading	13
Accounting	13
Accounting	13
Our publications	13
Also this month	14
A brief round up of other regulatory developments	

Regulation

Brexit

Further details on post-Brexit regulation

The BoE and FCA have provided further details on their approach to bringing EU financial services regulation into UK law. On 27 June 2018 the FCA published *The FCA's role in preparing for Brexit* and the BoE issued *The Bank of England's approach to financial services legislation under the EU Withdrawal Act*. HMT is proposing that the FCA and BoE should be responsible for bringing Binding Technical Standards (BTS) into UK law by March 2019 if the Brexit transitional period does not take effect. The BoE and FCA confirm they plan to consult in the autumn on the changes required to the BTS to make them operable in the UK post-Brexit.

Capital and liquidity

Further detailing the new securitisation framework

The EBA published a consultation on *Draft RTS on conditions to allow institutions to calculate K_{IRB} in accordance with the purchased receivables approach under Article 255 of Regulation (EU) 2017/2401 amending CRR* on 19 June 2018. The recent amendments to the securitisation framework aim to reduce the reliance on

external ratings in the calculation of capital requirements. It also facilitates the use of the securitisation IRB approach by firms other than originators.

This entails allowing firms to use provisions that normally apply to purchased receivables under the general IRB credit risk framework. But there are conditions, set out in this draft RTS, intended to maintain an appropriate degree of prudence concerning the use of internal models in these circumstances. The draft RTS covers the following main areas:

- general approach to the relationship between the purchased receivable IRB rules and the securitisation IRB framework
- eligibility conditions, IRB permissions and prior experience
- eligibility to use retail risk quantification standards and
- use of proxy data.

Under CRR, the EBA has to submit the finalised draft RTS to the EC by 18 January 2019. The consultation closes on **19 September 2018**.

Upgrading CCP liquidity risk assessment

ESMA issued an *Opinion on CCP Liquidity Risk Assessment* under EMIR on 22 June 2018. ESMA's opinion is addressed to NCAs

responsible for CCP supervision. ESMA recommends that CCPs should consider the liquidity risk posed by all entities to which they have a liquidity exposure. This means that CCPs should consider the risk posed by liquidity providers regardless of whether they are clearing members.

According to ESMA, a clearing member which is also a liquidity provider has multiple relationships with the CCP and each of these capacities must be considered by the CCP. This should include testing the failure of its clearing members in all their capacities. ESMA suggests that a CCP should also assess its liquidity position in each currency it clears under stressed conditions.

ESMA's opinion goes beyond the existing EMIR liquidity risk Cover 2. It recommends that when determining Cover 2, a CCP should test the default of every pair of clearing members acting in all their different capacities and select the pair with the largest exposure.

PRA amends large exposures requirements

The PRA published policy statement *PS14/18 – Changes to the PRA's large exposures (LE) framework* on 28 June 2018. Following feedback to its October 2017 consultation *CP20/17*, the PRA now implements these changes largely as proposed but with some amendments. The

finalised requirements took effect on 29 June 2018.

The LE changes concern the core UK group (CUG) and non-core LE Group (NCLEG) regime including the application of criteria for CUG and NCLEG permissions to exempt exposures within these groups from the LE limit. The PRA relaxes the originally proposed senior management attestation requirement for CUG permission applications. This now excludes group entities that need to have legally binding agreements in place with the relevant firm. In addition to specific criteria, the LE intragroup permission regime allows for a wider judgement by the PRA based on whether group entities are strongly incentivised to support each other.

The PRA originally proposed that LEs created by the issue of internal MREL resources be exempt from the LE limit. In the final rules the PRA broadens the eligibility criteria to allow exemption for other senior exposures. Firms must notify the PRA of any non-MREL exposures that they treat as exempt. But the PRA has dropped its proposal that firms formally apply to exempt MREL exposures.

Conduct

FMSB consults on information sharing practices

The FICC Markets Standards Board (FMSB) published a *Transparency Draft: Statement of Good Practice on Information and Confidentiality for Fixed Income and*

Commodities markets on 1 June 2018, to clarify some of the complex information sharing issues in these markets. The FMSB proposes nine good practice statements for FICC market participants – dealers, brokers, and clients – to follow when faced with information sharing and confidentiality concerns. The statements cover a broad range of issues including:

- information dissemination
- market colour
- sharing and use of confidential information within firms and externally
- communication channels
- policies, procedures and training.

The statement provides a definition of market colour, helping market participants to distinguish between market colour and client advice. It also provides examples of good and inadequate information sharing practices. The consultation closes on **31 August 2018**, and the FMSB expects to publish a final statement of good practice soon afterwards.

Consumer issues

ECON considers mis-selling issues

ECON published a series of studies on the mis-selling of financial products, on 13 June 2018. As part of its work looking at mis-selling, ECON issued *Mis-selling of Financial Products: Mortgage Credit*, in which it suggests the EC looks at additional aspects of the MCD in its planned review of

the directive. In *Mis-selling of Financial Products: Consumer Credit*, ECON identifies limitations to the current EU framework for consumer credit which may result in inadequate consumer protection.

It also issued *Mis-selling of Financial Products: Marketing, Sale and Distribution*, stating that the ESAs need to do more to reduce segmentation and arbitrage risks of the current sector-based approach. Finally ECON published *Mis-selling of Financial Products: Subordinated Debt and Self-placement*, which looks at historic mis-selling under MiFID I.

ESMA takes action on CFDs

ESMA *formally adopted* and published product intervention measures *for contracts for differences* (CFDs) and *binary options* (BOs) in the Official Journal on 1 June 2018. It also issued *Questions and Answers* to provide guidance for existing contracts, payments, margin close-out protection and other topics. This action is driven by ESMA's perception of the significant risks posed by these products and the impact on investors across the EU.

The measures temporarily prohibit the marketing, distribution or sale of BOs to retail clients from 2 July 2018. Similarly, the following restrictions for CFDs will apply from 1 August 2018:

- requiring retail clients to pay a minimum initial margin between 30:1 and 2:1 depending on the volatility of the

underlying currency, commodity, equity, cryptocurrency or other asset

- providing margin close-out protection at 50% of the initial required margin
- implementing negative balance protection to ensure that an investor's maximum losses are limited to the total funds in their CFD trading account
- requiring standardised and effective firm-specific risk warnings with information on the percentage of retail client accounts' losses
- banning monetary and certain types of non-monetary benefits offered to investors to trade CFDs.

These measures are effective for a period of three months. ESMA will consider the need to extend them for a further three months if appropriate. Investment firms that market, distribute or sell these products should ensure they comply with the rules when they become effective. They should also assess the impact of these changes on their business models.

Disclosure and distribution

Listings for sovereign issuers

The FCA finalised new listing rules for issuances by sovereign-controlled companies in *Policy Statement PS 18/11* on 8 June 2018. Such companies could obtain a premium listing while avoiding some of the requirements that other premium listed issuers are subject to.

Issuers would no longer need to enter into a controlling shareholder agreement, nor would they need to obtain advance shareholder approval for transactions between the company and the state. The FCA argues that these issuers will be subject to more stringent requirements than if they opted for a standard listing or listed overseas. The regulator observes that practical limitations, such as the inability for one signatory to bind all parts of a national government, make such accommodations sensible.

The FCA has stepped back from removing various disclosure requirements, strengthening its argument that investors can better assess their risk because of the increased visibility of sovereign affiliates. It's also decided that depositary receipts will be eligible for this listing status even though the equity reference may be under the 'free float' requirements. The regulator believes this will not be of concern because it expects such depositary receipts to enjoy liquid markets.

Financial crime and enforcement

Cryptoassets – FCA warns firms of abuse

The FCA issued a *Dear CEO Letter on Cryptoassets and Financial Crime* on 11 June 2018, warning firms of the potential for cryptoassets to facilitate criminal activity. The regulator provides guidance on

how to mitigate this risk to retail and wholesale banks.

The FCA encourages banks to perform enhanced due diligence on clients that provide crypto-related activities such as advising on initial coin offerings (ICOs) or providing conversions between fiat currencies and cryptoassets. This due diligence should reflect both the client and activity and can include the following:

- ensuring employees have sufficient knowledge of cryptoassets to recognise high risk activities
- adapting current financial crime frameworks to keep pace with fast-moving developments
- understanding the nature of the client's business and the potential risks
- performing due diligence on key people in the business and taking note of any adverse findings.

Where banks have customers using cryptoassets, they should tailor existing financial crime requirements to the perceived risk, the FCA says. The regulator also emphasises that the use of cryptoassets to evade sanctions is a high risk indicator. Firms should further note that customers investing in ICOs may be at higher risk of investment fraud.

Clarifying disclosure of inside information

The FCA published *Technical Note: Periodic financial information and inside information* on 11 June 2018, providing additional clarity on when firms can delay disclosure of inside information.

The FCA reiterates that this assessment needs to be done on a case-by-case basis. It notes there will be many circumstances when such information will need to be published under MAR even though it will also be included in upcoming periodic reports. But the FCA advises that delays may be warranted where public disclosure of information included in the report would impact the orderly production and release of the report and could result in the public incorrectly assessing the information. Predictably, the FCA warns that a delay would never be justified if it would result in the public being misled.

The consultation period ends on **23 July 2018**.

Financial stability

BoE highlights stability risks

The BoE published its latest *Financial Stability Report* on 27 June 2018. The report highlights particular risks to financial stability stemming from: Brexit, cyber attacks, continued reliance on LIBOR, and leverage in the non-bank financial system. It states that other risks could arise from external spillovers associated with increasing levels of Chinese debt, build-up

of external debt in emerging market economies and the US corporate sector, and political uncertainty in Italy.

The FPC considers that the UK banking system could support the real economy through a disorderly Brexit, which means that banks do not need to hold additional capital buffers against Brexit risk.

As the FPC announced in November 2017, the CCB of 1% will become binding from 28 November 2018. This is designed to temper the risk appetite of the UK banking sector.

Market infrastructure

Aligning UK rules with BMR

The FCA and the PRA updated the *FCA Handbook* and *PRA Rulebook* on 29 June 2018 to include the EU Benchmarking Regulations Instrument 2018. The instrument came into effect immediately. It is intended to make the PRA and FCA rules and guidance consistent with BMR, and to enable the FCA to supervise benchmark administrators or contributors and to enforce the regulation.

The changes mostly involve removing domestic rules that are superseded by BMR. Regulated benchmark administrators and authorised firms contributing to benchmark data submissions should read this instrument.

Euro RFRs out for consultation

The working group on euro RFRs issued its *First public consultation by the working group on euro RFRs on the assessment of*

candidate euro risk-free rates on 21 June 2018.

The group assessed different rates against a set of selection criteria the group developed in April 2018. Now the group seeks feedback on three candidate RFRs:

- the Euro Short-Term Rate (ESTER) is a new unsecured overnight bank borrowing rate, which the ECB expects to produce before 2020
- the GC Pooling Deferred Index is an existing one-day secured, centrally cleared repo rate
- the RepoFunds Rate Index is also an existing one-day secured, centrally cleared repo rate.

Compared with the Euro Overnight Index Average (EONIA), the candidate rates are transactions-based and non-panel-based rates with higher average daily volumes, number of trading participants and average number of countries represented. According to the working group, these attributes would make those rates more representative than EONIA. But the group also acknowledges that the rates could be volatile at certain points in time and/or be impacted by regulatory and collateral factors unrelated to bank borrowing.

Market participants can submit their feedback through a response form by **13 July 2018**.

IBA keeps LIBOR under review

The IBA revised the LIBOR Methodology and the LIBOR Code of Conduct and published a LIBOR Evolution – Error and Reportable Items Policy on 18 June 2018.

According to the IBA, the submission methodology will now be based on uniform parameters defined by the IBA and the LIBOR Oversight Committee. Banks' submissions are expected to be objective and based on observed transactions. The methodology defines the eligible trades and counterparty types, the transaction window for daily submission and the tenor buckets to which eligible trades must be assigned, and lists the approved funding centres. Banks are required to formulate their submissions in accordance with the 'LIBOR Output Statement'.

The Code of Conduct sets out the practice standards within which contributor banks should operate and should assist users in deciding whether LIBOR is an appropriate benchmark to use in contracts. The Code contains requirements on input data, governance, compliance and audit, and record-keeping. It should be read in conjunction with BMR and any benchmark requirements in the FCA Handbook.

Meanwhile the Error and Reportable Items Policy sets out how contributor banks and the IBA should handle reportable items (which are essentially errors) that may affect submitted trades.

The three measures – methodology, code of conduct and reporting policy – are being implemented as part of the 2016 LIBOR Roadmap triggered by BMR.

Implementing the IBOR transition

ISDA and several major trade associations published a joint IBOR Global Benchmark Transition Report on 25 June 2018, to help market participants understand and prepare for the transition from interbank offered rates (IBORs) to RFRs.

The report analyses the current state of market readiness, and identifies challenges and potential solutions for an orderly, efficient and coordinated transition. Despite the significant progress made, the report shows that some institutions still have to start planning or acting to implement the transition.

Market participants can find an implementation checklist in the report to track their transition progress. According to the checklist, they should:

- mobilise an IBOR transition program
- assess their exposure to IBORs
- determine the impact of a permanent cessation of IBORs on them and their clients
- define their communication and engagement strategies
- develop an implementation route map.

The authors of the report encourage firms to act now.

BoE's spotlight on CCP resolution

Jon Cunliffe, Deputy Governor for Financial Stability at the BoE, gave a speech on central clearing and CCP resolution on 5 June 2018. He drew relevant lessons from the bankruptcy of Lehman Brothers, especially the need to mandate the clearing obligation for OTC derivatives. He also explained the reciprocal link between CCP resilience and bank resilience – two of the main objectives of the post-crisis reforms. Cunliffe argued that the reforms have been successful in significantly increasing the use of central clearing for both exchange traded and OTC derivatives.

He described the benefits of central clearing in terms of lower systemic risk, more efficient use of collateral, and greater transparency over the network of derivatives transactions. But Cunliffe also acknowledged the potential risks stemming from the expected increase in concentration of counterparty risk within CCPs. To mitigate this risk, CCPs need to be highly resilient and have effective recovery and resolution planning, he explained. Cunliffe stated that recovery and resolution regimes for CCPs need to consider threats coming from both potential member defaults and operational failures. Then he presented the different lines of defence that CCPs can use to deal with both default losses and non-default losses, including in comparison with bank defences. In addition, Cunliffe also

emphasised the role of the CCP resolution authorities in preserving financial stability where the action or inaction of the CCP could amplify a systemic problem.

HMT raises BoE capital

HMT published a new *MoU on the financial relationship between HMT and the BoE* on 21 June 2018. It also released copies of a *letter* dated 21 June 2018 from the Chancellor of the Exchequer authorising the new MoU and a *letter* dated the same day from the Governor of the BoE confirming its formal adoption.

The MoU documents a new capital and income framework for the BoE that reflects its larger role in ensuring financial stability since the financial crisis. It sets a new target level of £3.5bn for the BoE's loss-absorbing capital with a floor of £0.5bn and a ceiling of £5.5bn. The BoE will receive a £1.2bn capital injection in the 2018-19 financial year to meet the target level. It also introduces a variable dividend-sharing mechanism. The BoE pays no dividend to HMT when capital is below the target and 50% of net income when capital is between the target and the ceiling. If capital exceeds the ceiling, the BoE pays all net income to HMT.

In return for its new funding, the BoE agrees to provide more information to HMT. It will share updates on its performance against budget, the level of its capital, the risks borne by it and, where appropriate, notes explaining the key

drivers. HMT and the BoE plan to review the arrangements at least every five years in line with the review of the Cash Ratio Deposit scheme.

MiFID II

ESMA chair assesses MiFID II implementation

ESMA Chair Steven Maijoor delivered a speech on *MiFID II Implementation – Achievements and Current Priorities* at the Federation of European Securities Exchanges Convention in Vienna on 21 June 2018.

Maijoor noted that implementation of the directive went smoothly, with significant limits on dark trading and a tenfold increase in the number of systematic internalisers (SIs). However, he provided examples of the need for improvements in key areas, including:

- inadequate data from trading venues for the double volume cap mechanism (DVCM)
- DVCM limitations on waivers driving dark trading to periodic auction trading systems.
- Level 2 amendment pending to ensure SIs equity quotes meet tick size rules.
- upwards of 400% increase in the price of market data which should be made available on a 'reasonable commercial basis'.

ESMA may resolve some of these issues with Q&As or amendments to Level 2 texts. But others may require the EC to revise the Level 1 texts.

Operational resilience

BoE sets sights on operational resilience

The BoE's Deputy CEO, Lyndon Nelson, delivered a speech on *Resilience and continuity in an interconnected and changing world* on 13 June 2018, noting that operational resilience is a critical risk – with cyber being a key component. He discussed the need for regulators to clearly define their expectations for firms in this area and highlighted some of the work underway by regulators. This includes considering tolerances for the minimum levels of service for providing key economic functions during a disruption. These tolerances will be based on a time, volume, market share and measures of interconnectedness, Nelson explained. He emphasised the importance of regulators being joined up globally to develop a common framework for the tolerances. The BoE is also building a suite of tools to help supervisors assess firms' resilience.

Nelson talked about firms being able to withstand, absorb and recover from operational incidents. Firms should define and test tolerances to ensure they can continue to deliver key business functions, he stated. Although firms plan to withstand operational disruptions, they should

prepare for when an event occurs by developing and testing their incident management plans. Similarly, Nelson said firms should have adequate contingency plans to resume delivery of key services.

Continuing the cyber theme, the FCA published *Network security – the basics* on 15 June 2018. It provides guidance for firms to secure their networks by controlling access, using firewalls, performing regular vulnerability scans and segregating networks.

Pensions

FCA targets pensions charges and choices

The FCA published the findings of its review into how the retirement income sector has been working since the pension freedoms were introduced, in *MS16/1.3: Retirement Outcomes Review – Final report* on 28 June 2018. It also proposes a package of remedies to help protect consumers, improve engagement and promote competition, in *CP18/17: Retirement Outcomes Review – Proposed changes to our rules and guidance*.

The FCA found that, while consumers have welcomed the freedoms, some are at risk of harm. For instance, it is concerned consumers who don't take advice may end up in unsuitable investments, including cash. The regulator also found weak competitive pressure and low levels of switching in the non-advised drawdown

market, which it believes may lead to consumers paying too much in charges.

As part of its package of remedies, the FCA proposes retirement income providers offer three ready-made drawdown investment solutions ('investment pathways'), with appropriate charge structures. The FCA plans to review investment pathways a year after implementation – if it finds evidence of excessive charges, the regulator says it's likely to introduce a charge cap.

The FCA also proposes that new consumers accessing drawdown should have to make an active choice to invest in cash. It expects firms to have a strategy for dealing with consumers who have already been defaulted into cash, but are unlikely to be best served by this strategy.

In addition, it puts forward plans to require providers to send more regular communications to customers (including 'wake-up packs' from age 50), to address poor consumer engagement and make information on charges clearer.

The FCA asks for responses on the proposals that are for discussion by **9 August 2018**, and responses to the proposals for consultation by **6 September 2018**. It plans to issue a policy statement on the consultation issues, and a consultation on discussion matters in January 2019.

Retail products

Promoting sustainable investment

The Government and FCA set out plans to promote sustainable investment, in *Pension funds and social investment: the Government's final response* and *Our response to Law Commission recommendations on pension funds and social investment* on 18 June 2018.

In response to recommendations made by the Law Commission in 2017 on pension funds and social investment, the Government is proposing requiring trustees to assess the sustainability of their investment decisions and make this assessment available to members. It issued *Pension trustees: clarifying and strengthening investment duties* on 18 June 2018. The consultation closes on **16 July 2018**.

Meanwhile the FCA confirms plans to consult on rule changes in Q1 2019 requiring independent governance committees to report on their firms' policies on:

- evaluating environmental, social and governance (ESG) considerations, including climate change
- taking account of members' ethical concerns
- stewardship.

The FCA also intends to consult on introducing related guidance for providers

of workplace personal pension schemes on considering financial factors (such as ESG risks) and non-financial factors (such as responding to members' ethical concerns) when making investment decisions.

Risk management

Cryptoassets: risk management is key

The PRA issued a *Dear CEO letter* on 28 June 2018 to banks, insurance companies and designated investment firms emphasising the importance of risk management where firms are exposed to cryptoassets. Cryptoasset exposures should be considered by both the board and executive management, the PRA states. Decisions to become involved in cryptoassets exposures, direct or indirect, should be taken by an appropriate senior manager approved by the PRA. Firms should also consider their remuneration policies and not incentivise behaviour that encourages excessive risk-taking. In addition, firms should ensure they possess relevant knowledge to assess the risks of cryptoassets and implement adequate systems and controls, the PRA says.

The PRA's letter follows a *letter issued by the FCA* on 11 June 2018 warning of the financial crime risks posed by cryptoassets. Firms should take note of the guidance issued by both regulators and be aware of the increasing international regulatory focus on cryptoassets highlighted in the PRA's letter.

Supervision

BoE introduces fees for supervising FMI

The BoE published its policy statement, *Fees regime for the supervision of FMI* on 19 June 2018 – implementing requirements in line with its *March 2018 consultation*. It replaces existing arrangements which currently draw on income from the BoE's cash ratio deposit scheme, which has also been adjusted.

The BoE structures the supervisory fees to cover expected 'business-as-usual' supervisory expenditure, with fees calibrated based on the relative risks of each type of FMI and on the systemic importance of each individual FMI. The regime also caters for 'one-off' special projects that require additional resources. Finally, it also incorporates fees for applications by FMIs for authorisation, recognition or designation as applicable. The regime takes effect from 10 July 2018, applying in the first instance to a 'short' fee period ending February 2019.

Plans to regulate claims management companies

The FCA published a consultation paper, *CP18/15: Claims management: how we propose to regulate claims management companies* (CMCs) on 5 June 2018. It expects to become the regulator of CMCs established or serving customers in England, Wales and Scotland on 1 April 2019. At the same time, FOS will become

responsible for resolving disputes about CMCs.

In CP18/15, the FCA sets out draft rules and guidance in a new Claims Management: Conduct of Business sourcebook (CMCOB) and proposes changes to FOS's jurisdiction as part of a joint consultation with FOS. It intends to add new rules dealing with vulnerable customers, pre-contractual information, details of free alternatives in marketing, due diligence on lead generators, and recording and retaining all customer calls for at least 12 months.

The FCA also proposes that all CMCs (except lead generators) hold a minimum level of eligible capital that is the higher of:

- £10,000 for CMCs with annual total income of £1m or above or £5,000 for CMCs with annual total income below £1m; and
- a fixed overheads requirement being two months of actual or projected annual expenditure.

If CMCs (including lead generators) hold client money, they must in addition hold £20,000 of eligible capital.

To continue operating after 1 April 2019, CMCs must obtain a temporary permission by notifying the FCA and paying the relevant fee between 1 January and 31 March 2019. They will need to replace their temporary permissions by applying for re-authorisation in one of two application periods determined by the sector of the

CMCs. All financial services CMCs must apply in the first application period from 1 April 2019 to 31 May 2019.

The FCA intends to publish a policy statement with final rules in Q4 2018. It will also consult further on the fees payable by CMCs to the FCA and the application of SM&CR to CMCs.

The consultation closes on **3 August 2018**.

Trading

PRA finalises algo trading expectations

The PRA published *PS12/18: Algorithmic trading* and *SS5/18: Algorithmic trading* on 15 June 2018. The PRA explains that the policy statement is relevant to firms that engage in algorithmic trading and are subject to rules in the Algorithmic Trading part of the PRA Rulebook and Commission Delegated Regulation 2017/589. Its supervisory statement applies to all algorithmic trading activities of a firm, including in respect of unregulated instruments such as spot FX. The policy statement contains feedback to responses to *CP5/18* on algorithmic trading, which was published in February 2018. The final supervisory statement sets out the PRA's expectations of firms' governance and risk management relating to algorithmic trading.

The PRA has made some changes to its draft supervisory statement, based on feedback it received, but does not consider that any of these changes are significant. The algorithm

approval requirements have been amended to make clearer where responsibility lies for approval. The PRA's expectation is that each function that has a role in the approval of algorithms should sign off the risks relevant to them. The testing and deployment requirements have been altered to make clearer that when testing algorithms, firms are only expected to document material differences between the test environment and production environment, rather than all differences.

Finally, the PRA has made a minor amendment to the inventories and documentation requirements. The PRA expects that a change in documentation will be available, rather than 'immediately available', to all personnel who have responsibility for the oversight of algorithmic trading.

The expectations in SS5/18 will take effect from 30 June 2018. The PRA says that any remediation work required by firms to meet the expectations after 30 June 2018 will be taken forward through the PRA's normal supervisory activities.

Accounting

Accounting

FRC issues Corporate Reporting Review Briefing

The FRC issued a *Corporate Reporting Review Briefing* on 12 June 2018. It sets out the current 'hot topics' of its corporate

reporting review function. These topics will be particularly relevant to entities preparing their interim accounts.

FRC publishes Wates corporate governance principles

The FRC published a *Consultation on The Wates Corporate Governance Principles for Large Private Companies* on 13 June 2018. It sets out a draft set of corporate governance principles for large private companies issued by a coalition group chaired by James Wates and facilitated by the FRC. It proposes to encourage large private companies to follow six principles to inform and develop their corporate governance practices and adopt them on an 'apply and explain' basis. The reporting requirements are intended to apply for periods beginning on or after 1 January 2019.

Our publications

IFRS 9 disclosures in interim financial statements

IFRS 9, the new standard on financial instruments, is required to be applied for annual reporting periods beginning on or after 1 January 2018. Many entities will be required to issue interim financial statements under IAS 34, 'Interim Financial Reporting', before they issue their first annual financial statements applying IFRS 9. See our *In brief – Disclosures required in interim financial statements on the initial adoption of IFRS 9* for the details.

Also this month

BoE

- The BoE issued its *Annual Report and Accounts* on 14 June 2018, reviewing its activities and achievements during 2017-18.
- The BoE updated the *Terms of Reference* for the Working Group on Sterling RFRs (RFRWG) and published a provisional *timeline* with milestones for transition to RFRs on 18 June 2018. The timeline shows that the RFRWG plans to conduct significant work in H2 2018 and 2019. It also lists a series of immediate steps that market participants could undertake.

Council

- The Council published a proposal for a regulation on *Information and Communication Technology (ICT) cybersecurity certification* on 8 June 2018, establishing a framework for an EU cybersecurity certification for ICT products, services and processes.
- The Council published *COUNCIL DECISION (EU) 2018/817* of 4 June 2018, through which it incorporated several EMIR Delegated and Implementing Regulations into the EEA Agreement. The Decision entered into force on 22 May 2018.

- The Council and the EP agreed *new rules* to combat money laundering across the EU. The new rules aim to provide an EU-wide definition of money laundering-related crimes, facilitate cross-border cooperation and align EU rules to international standards.
- The Council published an interim *compromise text* on the recognition and supervision of third-country CCPs on 26 June 2018. The text was discussed at the Council meeting on 27 June 2018. This is an updated version that comes after the Council published an *earlier version* of its compromise text on 14 June 2018, which was discussed at its meeting on 19 June 2018.

EBA

- The EBA issued a consultation on the *Guidelines on Interpretation of STS Criteria* on 11 June 2018. It proposes to use a ‘traffic light’ approach to interpret all simple, transparent and standardised (STS) criteria for securitisation transactions. The more difficult or ambiguous a regulatory provision in the Securitisation Regulation is, the more granular the interpretation proposed by the EBA.
- The EBA published its *Recommendations on the Call for Advice on European Secured Notes on European Secured Notes (ESNs)* on 26 June 2018. As part of its CMU plans the EC is assessing the case for ESNs for

SME bank loans and infrastructure banks loans. It intends this asset class covers a funding segment between traditional covered bonds and simple, transparent and standardised securitisations.

EC

- *Regulation (EU) 2018/815 on the extension of the transitional periods related to own funds requirements for exposures to CCPs set out in CRR and EMIR* appeared in the Official Journal on 4 June 2018. It extends by six months the period for which all third-country CCPs can be treated as qualifying CCPs, allowing exposures to those CCPs to benefit from lower credit risk capital requirements.
- The *Fifth Anti-Money Laundering Directive (Directive 2018/843)*, on preventing the use of the financial system for money laundering or terrorist financing, was published in the Official Journal on 19 June 2018. This Directive should be transposed into Member States’ national laws by 10 January 2020.
- The EC published a *Proposal for a Regulation of the EP and of the Council amending BMR on low carbon benchmarks and positive carbon impact benchmarks* on 19 June 2018. The small amendment enhances the transparency of sustainability benchmark methodologies and sets up standards for

the methodology of low carbon benchmarks in the EU.

- EC Vice President Valdis Dombrovskis *wrote a letter* to ESMA Chair Steven Maijoor on 31 May 2018, responding to *ESMA’s request* for clarification on the application of the ancillary activity test for exemption from MiFID II under Art. 2(1)(j). The EC states that the test in RTS 20 should be completed by every ‘person within a group’ who engages in the potentially exempt activity.

ECB

- Benoît Cœuré, Member of the Executive Board of the ECB, gave a *speech* about the future of payment systems on 26 June 2018. In order to make payment systems faster, cheaper and safer, Cœuré emphasised the importance of digital innovation, the modernisation of real-time gross settlement systems, and enhanced cyber resilience.
- The ECB published the *ESTER methodology and policies* for calculating and managing the Euro Short-Term Rate (ESTER) and handling data errors on 28 June 2018. ESTER will be an unsecured overnight interest rate that will complement the existing benchmark rates and act as a backstop reference rate. The ECB plans to start publishing the rate by October 2019.

ECON

ECON and the Committee on Constitutional Affairs *voted* in favour of bringing CCPs under the ECB's regulatory powers on 19 June 2018. However, the MEPs stated that the new powers of the ECB should be limited to monetary policy matters. Next the EP's *Report on the draft decision of the EP and of the Council amending Article 22 of the Statute of the ESCB and of the ECB* will be voted by the EP Plenary either in July or September 2018.

EMMI

EURIBOR administrator EMMI *announced* on 6 June 2018, that it would cease publication of two-week, two-month and nine-month tenors as of 3 December 2018. It will continue to publish one-week, one-month, three-month, six-month and 12-month EURIBOR. The EU Risk-Free Reference Rate Working Group is testing a hybrid methodology in an attempt to save the critical benchmark which is widely used in retail contracts.

EP

- The EP issued an *erratum* to its report on the EMIR CCP supervision proposal on 6 June 2018. It proposes that the central bank of issue notifies the EP and the Council and coordinates with the EC and ESMA when planning to extend certain requirements imposed on CCPs.
- The EP Plenary *voted* on 12 June 2018 to give ECON the mandate to negotiate

the *draft text* on EMIR REFIT adopted by ECON on 16 May 2018. ECON agreed to simplify the clearing rules for small and non-financial counterparties and to temporarily exempt pension funds from clearing.

ESMA

- ESMA issued its latest *Risk Dashboard* on 6 June 2018, which covers risks in the securities markets in the EU for Q1 2018. The main risks identified by ESMA stem from asset over-valuations in equities, market uncertainty associated with the end of very low interest rates, the purchase of virtual currencies, and operational disruptions. While market risk is deemed very high but stable, operational risk presents a deteriorating outlook.
- ESMA reviewed its activities and achievements over the past year, in its *Annual Report 2017* published on 19 June 2018.
- ESMA published the monthly update of the *double volume cap register* on 7 June 2018. Under Article 5 MiFIR, the double volume cap mechanism restricts dark pools by limiting the use of waivers for pre-trade transparency requirements. Currently 932 instruments have been suspended.
- ESMA *announced* the end of the six-month grace period for trading without LEIs on 20 June 2018. Transactions

executed on or after 3 July 2018 must include an LEI issued before the trade.

- ESMA issued the first annual report on *Supervisory Measures and Penalties under Articles 4, 9, 10 and 11 of EMIR* on 13 June 2018. The report analyses NCA actions regarding the clearing and reporting obligations, non-financial counterparties and risk mitigation techniques.

FCA

- The FCA consulted on minor changes to its Handbook, in *CP18/14: Quarterly Consultation No 21* on 1 June 2018. The consultation closed on 30 June 2018 for chapters 2, 4, 5 and 6, and closes on **31 July 2018** for chapter 3.
- The FCA gave an update on its recent and upcoming publications, in *Policy development update* on 1 June 2018.
- The FCA published the latest analysis from its Financial Lives survey – *The financial lives of consumers across the UK* – on 20 June 2018, highlighting the vulnerability of certain UK consumers.
- The FCA has made changes to the FCA Handbook as a result of the Listing Rules (Sovereign Controlled Commercial Companies) Instrument 2018 which came into force on 1 July 2018. The changes appear in *Handbook Notice 56* which was released on 29 June 2018.

- The FCA published *research on periodic auctions* on 25 June 2018, exploring evidence of a slight increase in trading on these platforms since MiFID II entered into force on 3 January 2018. The results of the initial research is inconclusive, indicating that the increase is more likely due to OTC trading alternating between periodic auctions and SIs, than a response to limits on dark trading resulting from the double volume cap mechanism.

FSB

The FSB Plenary *met* on 25 June 2018 to discuss market risks and developments, and progress against its 2018 workplan, ahead of the G20 Summit in November 2018. It agreed on a framework to monitor emerging risks associated with crypto-assets, and discussed other topics such as cyber resilience.

Global Foreign Exchange Committee

The Global Foreign Exchange Committee *met* on 27 June 2018. At the meeting, the Committee agreed a new leadership structure, discussed its work to date, and agreed priorities for 2018-19. According to the Committee, the FX Global Code is widely adopted globally, as evidenced by over 300 market participants which committed during 2017-18 to adopt the good practices set forth in Code.

IMF

Christine Lagarde, Managing Director of the IMF, wrote a blog titled *Estimating Cyber Risk for the Financial Sector* on 22 June 2018, discussing the financial sector's vulnerability to cyber-attacks and the resulting financial losses. The IMF also released a *working paper* describing a framework to quantify cyber-attack losses.

JCESA

The JCESA held its annual *Consumer Protection Day* on 22 June 2018. Participants discussed issues such as the regulatory approach to virtual currencies, information to consumers on costs and past performance, and concerns about whether self-placement can go hand-in-hand with investing in the best interest of customers.

PRA

- The PRA published its *Annual Report* on 14 June 2018, in which it reviews its activities for 2017-18. The regulator invites comments from the public on how it has advanced its objectives and discharged its functions during the period, by **28 September 2018**.
- The PRA released updated statement of responsibilities forms for PRA authorised *UK firms* and *third country firms* within scope of the SM&CR, on 29 June 2018.
- The PRA set out its final fee rates and rules to cover its annual funding requirement for 2018/19, in *PS13/18*:

Regulated fees and levies: rates for 2018/19 on 28 June 2018. It also published the corresponding *PRA Rulebook Fees Instrument*.

PSR

The PSR published a *statement on its approach to financial services legislation under the European Union (Withdrawal) Act 2018* on 27 June 2018. It intends to consult on proposed changes to binding technical standards made under the Interchange Fee Regulation (Regulation (EU) 2015/751) in due course.

TC

The TC published a report calling for a range of reforms to the financial services industry to help eradicate gender inequality. In *Women in finance*, issued on 13 June 2018, the TC recommends measures such as requiring firms to publicly set out how they will abolish their gender pay gap and support the progression of women.

UK Finance

UK Finance published *Sustainable Financial Services in the Digital Age* on 30 May 2018. It focuses on the use of artificial intelligence, the cloud and distributed ledger technology to develop new and innovative financial services products. The industry body also identifies the risks associated with these new technologies and calls on firms, policymakers and regulators to work together to address the evolving risks.

UK Government

- The Government issued proposals to strengthen TPR's powers and increase protections for members of defined benefit pensions, in *Protecting Defined Benefit Pension Schemes – A Stronger Pensions Regulator* on 26 June 2018. The consultation closes on **21 August 2018**.
- Chancellor Philip Hammond delivered his *Mansion House speech* on 21 June 2018. He noted the challenges the UK faces from Brexit and advances in technology, and discussed the steps being taken to ensure the country remains at the forefront of technological innovation, and London retains its position as the top international financial services centre. The BoE's Governor, Mark Carney, also delivered a *speech* at the event highlighting BoE initiatives in light of these challenges.

Banking and capital markets

In this section:

Regulation	17
Brexit	17
Financial crime and enforcement	18
Operational resilience	18
Payments	18
Recovery and resolution	20
Retail products	21
Supervision	22

Also this month 22

A brief round up of other regulatory developments



Anne Simpson
Banking Lead Regulatory
Partner
anne.e.simpson@pwc.com



Hortense Huez
Prudential Regulation, Basel
III, Liquidity and Funding
hortense.huez@pwc.com

Regulation

Brexit

EBA warns on Brexit preparedness

The EBA warned that financial institutions' planning for Brexit is inadequate and called for greater progress to be made in preparing for Brexit, without delay. In its *Opinion on Preparations for the Withdrawal of the UK from the EU* on 25 June 2018, the EBA warns that further progress is required from financial institutions in identifying the risks posed by Brexit. The EBA is also calling on firms to ensure they have the necessary regulatory permissions to operate in the UK and EU-27 post-Brexit, and to ensure that booking models and outsourcing arrangements do not undermine the resilience of EU-27 financial entities.

In addition, the EBA urges firms to take further steps to identify contracts (such as derivative contracts) that might be impacted by Brexit and to address the risks to these contracts. Firms should also ensure they fully understand the implications of Brexit on current practices for data storage and transfer between the UK and EU-27.

The EBA will continue to monitor firms' Brexit planning in partnership with national regulators.

Capital and liquidity

Calling for TLAC feedback

The FSB issued a Call for public feedback on Monitoring the Technical Implementation of the FSB TLAC Standard on 6 June 2018. It aims to monitor implementation of the TLAC standard and identify any technical issues or operational challenges for G-SIBs. It is not seeking views on the standard itself or any changes to it.

It particularly seeks feedback on:

- how home and host jurisdictions of G-SIBs have transposed the TLAC principles and the term sheet into regulatory rules and policies
- any cross-border aspects, particularly in identifying material subgroups and any trigger conditions or mechanisms for internal TLAC
- the progress of G-SIBs in meeting their external and internal TLAC targets and any specific features of the instruments such as public disclosures
- any obstacles to issuance or holdings of TLAC instruments
- any technical issues, jurisdiction specific circumstances or other key factors affecting implementation of the TLAC standard.

The FSB plans to report on the results of its review at the G20 summit in June 2019 and, depending on its findings, FSB members may decide to develop further TLAC implementation guidance. The feedback period closes on **20 August 2018**.

Financial crime and enforcement

FCA penalises AML failings

The FCA fined Canara Bank £896,100 on 6 June 2018 for its failure to maintain adequate AML systems and controls, and to remedy identified deficiencies. The bank is also restricted from accepting deposits from new customers for 147 days as part of the FCA's enforcement action.

In its Final Notice, the FCA emphasises that senior management at overseas branches should ensure they have adequate knowledge of the UK's regulatory environment and implement appropriate systems and controls to comply with regulations. It notes that staff from the bank's head office were seconded to the UK to fill senior positions. These individuals did not understand UK AML requirements and failed to establish an appropriate framework to manage financial crime risk.

Operational resilience

EBA consults on outsourcing approach

The EBA launched Consultation Paper: EBA Draft Guidelines on Outsourcing arrangements, through which it aims to establish a more harmonised outsourcing

framework for financial institutions. The consultation, published on 22 June 2018, is relevant for credit institutions and investment firms subject to CRD, payment and electronic money institutions and NCAs. The EBA provides guidance on proportionality and group application, outsourcing arrangements, governance frameworks and the outsourcing process.

Institutions will need to focus on:

- identifying critical or important outsourcing arrangements
- protecting the confidentiality, integrity and availability of data – including personal data
- effective supervision of third country outsourcing arrangements
- concentration risk
- documentation requirements for outsourcing registers
- the role of internal audit as an effective Third Line of Defence.

The EBA's Recommendations on outsourcing to cloud service providers have also been integrated in the guidelines. The guidelines build on CEBS' existing outsourcing guidelines from 2006, which only applied to credit institutions. Firms should review their existing outsourcing arrangements to ensure compliance when the guidelines come into force, expected in June 2019. The EBA plans to issue final guidelines subsequent to the consultation.

Relevant firms should consider responding to the consultation which closes on **24 September 2018**.

Proposed changes for fraud complaints

The FCA issued a Consultation Paper on Authorised Push Payment (APP) fraud – extending the jurisdiction of the FOS (CP18/16) on 26 June 2018. It wants to address concerns of consumers and micro-enterprises who fall victim to APP fraud that receiving PSPs do not do enough to prevent or respond to APP fraud.

The FCA proposes that receiving PSPs handle complaints about alleged APP fraud in line with the Dispute Resolution: Complaints sourcebook (DISP). In addition, as part of joint consultation with FOS, it proposes to allow eligible complainants to refer their complaints about receiving PSPs to FOS if they are unhappy with the outcome or if they have not received a response to their complaint. The FCA will consider feedback to the consultation and publish any finalised rules in due course.

Later this year, the FCA also plans to consult on requiring PSPs to report data on complaints received about alleged APP fraud as an indicator of progress on the issue and to inform FCA supervisory work.

The consultation closes on **26 September 2018**.

Payments

EBA guidance on key PSD2 issues

The EBA issued an opinion on the implementation of the RTS on strong customer authentication (SCA) and common and secure communication (CSC) on 13 June 2018. On the same date it also launched a consultation on draft Guidelines on the conditions to be met to benefit from an exemption from contingency measures under Article 33(6) of Regulation (EU) 2018/389 (the RTS on SCA and CSC).

Following receipt of numerous queries, the EBA issued the opinion and draft guidelines to set out supervisory expectations and provide clarity for PSPs as they build or adapt their infrastructures and systems to comply with the RTS by 14 September 2019.

As well as providing general comments on the requirements for dedicated interfaces and API initiatives, the opinion contains specific comments on the data that third-party providers can access, limitations on frequency of access and methods of access, the application of SCA, exemptions from SCA and methods of carrying out SCA.

The draft guidelines review the four conditions that an account servicing payment service provider must meet to benefit from an exemption under Article 33(6) of the RTS. They aim to ensure that both NCAs and the market participants are clear and ready for the tight timelines in ensuring that exemption requests are

handled promptly when the bulk of them are received in early 2019.

The EBA also plans to provide further clarification on interpretation of the RTS on SCA and CSC via its *online interactive single rulebook and Q&A tool that was extended to cover PSD2* on 22 June 2018.

The consultation on the draft guidelines closes on **13 August 2018**.

Supporting EBA's approach to PSD2

The FCA issued a *statement* supporting the EBA's approach set out in its recent opinion and draft guidelines on strong customer authentication (SCA) and common and secure communication (CSC) on 22 June 2018. The EBA published its *opinion on implementing the RTS on SCA and CSC in Regulation (EU) 2018/389* together with *draft guidelines on meeting the conditions for an exemption from the fallback option under Article 33(6) of the RTS* on 13 June 2018.

In light of the EBA publications, the FCA plans to consult this summer on changes to its guidance and rules to set out the proposed process for firms to apply for the exemption and the level of information required from firms. It expects to be able to make assessments from early 2019 and, given that the RTS apply from 14 September 2019, it will aim to respond to firms' exemption requests promptly.

But the FCA warns Account Servicing Payment Service Providers (ASPSPs) not to

leave exemption applications until the deadline of 14 March 2019. ASPSPs need to make available technical specifications in good time and allow for stress testing to be carried out. To facilitate the application process, the FCA plans to provide opportunities for ASPSPs to engage with it before submitting exemption requests.

Generally, the FCA advises the payments industry to take on board the EBA's views. In particular, ASPSPs must avoid imposing unnecessary requirements such as additional consent checks when designing and implementing dedicated interfaces. The FCA warns that ASPSPs will not get the exemption if their interfaces create delays and friction in the customer journey for third-party account information and payment initiation service providers.

Operationalising bail-in and resolution funding

The FSB issued final guidance for the resolution of G-SIBs with its *Principles on Bail-in Execution* and *Funding Strategy Elements of an Implementable Resolution Plan* published on 21 June 2018. It also issued feedback notes setting out how it incorporated in the final guidance *responses to its consultation on bail-in execution* and *responses to its consultation on resolution funding*.

In the bail-in guidance, the FSB aims for bail-in to occur without cost to the taxpayer and with minimal impact on financial stability. The 21 Principles cover:

- disclosures on the instruments and liabilities within scope of bail-in
- valuations to inform and support bail-in
- processes to suspend or cancel the listing of securities, notify creditors, and deliver new securities following resolution
- securities law and exchange requirements during bail-in
- processes to transfer governance and control and establishing a new board for the firm in resolution
- market and creditor communications.

The FSB also amends the draft principles to remove references, for example, to specific accounting standards and technological infrastructure. Further, it clarifies home-host responsibilities in the valuation process.

In the funding strategy guidance, the FSB identifies as key elements:

- firm capabilities to support the execution of the funding strategy
- the development of the resolution funding plan by authorities
- reliance on firm assets and private funding as preferred sources of funding in resolution
- access to temporary public sector backstop funding and central bank facilities

- information sharing and coordination between authorities.

In its feedback, the FSB resists calls for disclosure of resolution funding plans due to confidentiality concerns and moral hazard risks. But it recognises the need to disclose temporary public sector backstop funding mechanisms and intends to consider disclosure in more detail as part of resolution planning and resolvability.

Adopting ISO 20022 for UK payments

The BoE, in conjunction with the PSR and the New Payments System Operator (NPSO), published an *ISO 20022 consultation paper: a global standard to modernise UK payments* on 6 June 2018. They propose that the UK's three main interbank payments systems, CHAPS, Faster Payments and Bacs, adopt the common global 'language' or messaging standard known as ISO 20022.

The proposed adoption of ISO 20022 coincides with the BoE's commitment to move CHAPS messaging to ISO 20022 as part of its renewal of the Real Time Gross Settlement system and the NPSO's planned development of the New Payments Architecture (NPA) for Bacs and Faster Payments.

The BoE proposes to establish a common message format for credit payments across CHAPS, Faster Payments and Bacs, known as the Common UK Credit Message (CCM). The CCM can carry more information than messages currently used in the UK,

particularly on the identity of payers and payees and the purpose of the payment. The BoE also wants to make certain data elements within the CCM mandatory in CHAPS as part of the migration to ISO 20022. Finally, the BoE plans a phased migration to ISO 20022 for CHAPS payments starting in 2021 at the earliest.

The BoE intends to publish a response to the consultation by the end of 2018. As the design of the NPA develops, the NPSO also plans to consult in due course on its proposals for implementing CCM in the retail payments systems.

The consultation closes on **18 July 2018**.

PSR reviews payments data use

The PSR launched a *Discussion Paper: Data in the payments industry (DP18/1)* on 13 June 2018. It explains that the UK payments industry is rapidly evolving with data becoming increasingly important. The way data is collected, used and shared presents opportunities for PSPs and end users by creating new business models or improved access for new entrants to the sector. But it is concerned that some opportunities – particularly those that might benefit end users – may not happen through market forces alone.

The PSR identifies three key areas where it may play a role in removing barriers to competition and innovation. First, some users may have concerns about sharing data attached to their payments with third party companies providing other payments-

related services if they believe that their data may not be treated appropriately. This may hamper the development of innovative payment services.

Secondly, potential providers of new services may have limited access to data about transactions across a whole payment system that can assist the development of new ways of combating fraud and financial crime.

Thirdly, the PSR is concerned that there are potential barriers that stop consumers and businesses getting the benefits from additional enhanced data attached to transactions. This enhanced data could make processing payments more efficient and lead to cheaper payment services.

The PSR seeks the views of industry and stakeholders on its findings to ensure it can take the right actions to develop policies, reduce risks or unlock benefits for end users of UK payment systems.

The deadline for responses is **3 September 2018**.

Recovery and resolution

Peer review on bank resolution planning

The FSB launched its third *Thematic peer review on bank resolution planning* on 4 June 2018. It aims to assess the progress by FSB jurisdictions in implementing its resolution planning standards and the use of resolvability assessments to test the feasibility and credibility of resolution

strategies. Whilst covering all G-SIBs, D-SIBs and any other banks that could be systemic in failure, the FSB intends to focus its review particularly on the implementation of resolution planning for non G-SIBs.

The FSB's primary source of information for the review are responses to its questionnaire by FSB jurisdictions. But the review team also expects input from relevant banks and market participants through a *request for public feedback* with a deadline of 4 July 2018. The FSB is also scheduling a roundtable to exchange views on experiences and challenges in implementing resolution plans.

The FSB expects to publish its peer review report in the first half of 2019. It plans to highlight different approaches to resolution planning for different types of banks. It does not intend to grade jurisdictions on their compliance with FSB requirements or make jurisdiction-specific recommendations. But the FSB aims to provide generic recommendations for improvements and follow-up actions to address any identified weaknesses in implementation or common issues.

Setting valuation capabilities in resolution

The BoE issued its *Policy on valuation capabilities to support resolvability* on 13 June 2018. It provides feedback on responses to its *August 2017 consultation* and sets out its finalised Statement of Policy

(SoP). The SoP applies to UK-based banks whose preferred resolution strategy involves the use of stabilisation powers, and to material UK subsidiaries of overseas-based banking groups. Under the SoP, the BoE expects all relevant banks to have the capabilities to produce timely and robust resolution valuations. This means having in place data, systems and processes to value their assets, liabilities and equity.

Following consultation feedback, the BoE confirms it is maintaining its principles-based approach although it is making some changes. In particular, the BoE is extending the timeline for compliance to 1 January 2021. But it may set an earlier compliance date if it has specific concerns about the resolvability of an individual firm. It also explicitly requires banks to have operational documentation in place to demonstrate how they would use their capabilities in a resolution scenario. Finally, it recognises that certain smaller, simpler firms may not need to have resolution valuation models in place in business-as-usual.

As part of its next steps, the BoE expects to send an information request asking in-scope banks to carry out a more detailed gap analysis of existing capabilities and to provide their plans for complying with the SoP by the 2021 deadline. More generally, banks should expect further guidance on how the BoE will assess resolvability. It plans to consult by the end of 2018 on its approach to ensuring banks have put in

place policies to remove barriers to their resolvability.

Setting internal MREL policy

The BoE issued its policy statement *Responses to Consultation on 'Internal MREL – the BoE's approach to setting MREL within groups and further issues' and Statement of Policy (SoP)* on 13 June 2018. It provides feedback on the main themes raised in responses to its *October 2017 consultation*. Although the BoE's general approach is unchanged, it sets out a small number of areas where it modifies aspects of its policy.

The BoE plans to communicate interim internal MREs for relevant subsidiaries of G-SIBs in the second half of 2018. Meanwhile, relevant subsidiaries of non G-SIB groups should expect to receive their interim internal MREs in early 2019. In both cases, the BoE's plans are subject to an EU joint decision process for relevant subsidiaries based on the BoE's revised SoP. The BoE intends to keep the revised SoP under review in light of the proposed revisions to BRRD and CRR and its planned review of interim and end state MREs before the end of 2020.

To complete its approach to MREL the BoE also issued *indicative interim and final external MREs* for each of the UK's G-SIBs and D-SIBs calculated by reference to their December 2017 balance sheets on 13 June 2018. It also sets out average indicative and final external MREs for the nine other UK

banks and building societies that have an MREL in excess of their minimum regulatory going concern capital requirements. These replace the first indicative external MREL figures published in May 2017.

Finalising MREL reporting

The PRA issued its policy statement *PS11/18: Resolution Planning – MREL reporting* together with a revised version of supervisory statement SS19/13 – resolution planning, final versions of *MREL reporting templates* and related *guidance* on 13 June 2018. It provides feedback on responses to its *January 2018 consultation* and makes minor amendments to reduce the frequency of reporting and to provide further clarity on the reporting templates and guidance.

The revised SS19/13 takes effect from 1 January 2019 and the BoE expects firms to use its electronic data submission portal (BEEDS) for the three MREL returns. The BoE plans to have BEEDS available from January 2019 and intends to contact firms directly in preparation for this reporting.

Ensuring resolvability of UK banks

The BoE published the report of its Independent Evaluation Office (IEO) on the *Evaluation of the BoE's resolution arrangements* and *The BoE's response to the IEO's evaluation of its resolution arrangements* on 5 June 2018. It also published on the same day a speech by Sir Jon Cunliffe, BoE Deputy Governor Financial Stability, entitled *Central*

Clearing and Resolution – learning some of the lessons of Lehmans. As well as reviewing CCP resolution, Cunliffe reveals that the BoE plans for a reporting and assurance framework involving UK banks submitting self-assessments of resolvability.

The IEO considered three areas in its review of resolution arrangements: the BoE's progress in making the UK banks resolvable by 2022, working together across supervisory and resolution functions; together with preparing for resolution at short notice. Its recommendations include:

- setting clear milestones for delivery of the resolution framework by 2022
- ensuring that the Resolution Directorate (RD) has the right skillsets to implement the framework
- improving collaboration between the PRA and the RD
- formalising governance arrangements in readiness for a 'fast death' arising from operational issues such as a cyber-attack.

In response, the BoE plans to consult by the end of 2018 on its approach to publishing summaries of resolution plans and their effectiveness. It believes that transparency is an incentive for banks to ensure they are resolvable. Also, as Cunliffe indicated, the BoE intends to require banks to submit self-assessments of resolvability from 2020.

From an internal perspective, the BoE aims to review governance arrangements and the

RD's skillsets by the end of 2018. Meanwhile the PRA expects to consider how to reflect the implementation of the resolution framework in its approach to supervision and identifying supervisory priorities. It plans to implement any changes by the end to 2020 to allow time for the ring-fencing regime to bed down during 2019.

Retail products

Retail banking review: FCA takes stock

The FCA published an update on its review of retail banking, *Strategic Review of Retail Banking Business Models – Progress report*, on 27 June 2016. The regulator does not envisage taking policy action as a direct result of the review. Instead, the FCA says the review will inform its ongoing policy work in retail banking, including: potential interventions on overdrafts as part of its high-cost credit review, its mortgage market study and its work on competition in the cash savings market.

The FCA sets out its initial analysis of major banks' competitive advantages, such as large branch networks and personal current account books. In the next stage of the review, the FCA intends to focus on how the changing banking landscape (for instance, increased digitalisation and new initiatives such as open banking) will impact banks' business models and their customers. Two particular areas it plans to analyse are banks' customer bases, and how the costs of

servicing customers differs for different types of banks.

The regulator asks for responses to the update by **7 September 2018**.

Supervision

Basel Committee outlines 2018-19 work programme

The Basel Committee published details of its *2018-2019 work programme* on 5 June 2018. It structures this around four themes: policy development, implementation, supervision, and monitoring and evaluation. Its policy development work involves finalising the revisions to its revised market risk framework and its G-SIB assessment framework as well as the 'Phase III' revisions to its Pillar 3 disclosure framework. The Committee also expects to continue to review the regulatory treatment of accounting provisions and to further discuss the regulatory treatment of sovereign exposures. New policy work relates to cyber risk and operational resilience, together with proportionality.

On implementation, the Committee intends to continue monitoring the adoption of its post-financial crisis reforms and it expects to publish its next Basel III monitoring report in October 2018. Its supervision work includes aiming to finalise a set of principles on stress-testing practices and continuing to review Pillar 2 practices. Finally, with most of its post-crisis policy reform agenda now complete, the Basel Committee expects to allocate more time to

evaluating and monitoring the impact of its reforms and assessing emerging risk – with a focus in 2018 on crypto-assets and FinTech risks.

EBA outlines plans for 2018

The EBA published its *Annual Report 2017* on 18 June 2018. As well as summarising its achievements in 2017 the EBA also outlines its plans for 2018. Following the finalisation of the Basel III post-crisis reforms in December 2017, the EBA expects to start preparations for implementation of the reforms in the EU – initially focussing on the impact of the reforms. Non-performing loans (NPLs) remains a key area and it intends to introduce guidelines on non-performing exposure management and loan origination, monitoring and internal governance as well as improved disclosure requirements for NPLs. Other areas of focus include:

- following up on issues identified from its annual benchmarking exercise of credit and market risk internal models
- commencing work on pillar 2 interest rate in the banking book related technical standards
- developing guidelines for firms on information and communication technology risk
- continuing work to better understand and analyse the impact of FinTech on business models and on risks and opportunities for firms

- further convergence work in payment services including PSD2-related RTS and guidelines
- continuing to support resolution planning and preparedness in the EU through participation in supervisory colleges and engagement with resolution authorities.

Finally, one of its 'highest-level priorities' is the improvement of the collection, analysis and dissemination of banks' supervisory data. The EBA plans to continue efforts to extend its EUCLID platform for the collection of all banking regulatory data, including supervisory returns, funding plan data and supervisory benchmarking of internal models.

Also this month

Banking Standards Board

The Banking Standards Board released an essay on *Getting the measure of managing culture* on 5 June 2018. The essay, which was originally published in the Federal Reserve Bank of New York blog, explains that there is no 'one size fits all' approach to good culture.

Basel Committee

- The Basel Committee published *Progress in adopting the Principles for effective risk data aggregation and risk reporting* on 21 June 2018. It observes that most G-SIBs have 'made, at best,

marginal progress in their implementation', due mainly to the complexity and interdependence of IT improvement projects. The Committee plans another assessment in 2019.

- The Basel Committee published technical amendment, *Basel III: Treatment of extraordinary monetary policy operations in the NSFR* on 29 June 2018. This amendment aims to provide greater flexibility in the treatment of extraordinary central bank liquidity-absorbing monetary policy operations.

EBA

- The EBA published its final report, *Draft ITS amending EC Implementing Regulation (EU) 650/2014 on the format, structure, contents list and annual publication date of supervisory information to be disclosed by NCAs under CRR* on 1 June 2018. The changes include those arising from amendments to the EU regulatory framework such as LCR, the EBA SREP guidelines and the establishment of the SSM.
- The EBA published updated versions of its supervisory data related guides, *Guidance Note – Compiling the IMF financial soundness indicators for 'deposit-takers' using the ITS on supervisory reporting* and *EBA Methodological Guide – risk indicators and detailed risk analysis tools* on 25

June 2018. The updates reflect necessary changes following the introduction of financial instrument accounting standard, IFRS 9 as well as additional guidance on the computation of financial stability indicators.

- The EBA *updated* its ITS on benchmarking of internal approaches used for the calculation of own funds requirements for market and credit risk on 29 June 2018. The ITS include all benchmarking portfolios that will be used for the 2019 benchmarking assessment exercise conducted by NCAs. Alongside the updated ITS, the EBA also *updated* the draft benchmarking package for the 2019 exercise.
- The EBA published its *first binding mediation decision between the SRB and the National Bank of Romania (NBR)* on 18 June 2018. The NBR asked the EBA to use its powers under the BRRD to help settle a dispute with the SRB concerning resolution planning for two banking groups.

ECB

- The ECB published a *letter* dated 7 June 2018 sent to significant institutions concerning internal models related applications and requests to amend internal model approvals. It sets out details of the application process and the information that firms should submit. It applies from 1 July 2018.

- The ECB updated its supervisory *Asset Quality Review – Phase 2 Manual* on 20 June 2018. This reflects the effect of the financial instrument accounting standard, IFRS 9 and the increased supervisory importance of bank's business models focused on investment services, particularly in the context of Brexit.

ECON

ECON announced in a *press release* on 19 June 2018 that it has adopted its position on the *November 2016 package of banking reforms*. This includes what is referred to as CRD V and CRR II that implement elements of the Basel III reforms as well as amendments to BRRD and SSM. This proposed legislation now proceeds to the trilogue negotiation phase between the EC, the Council and the EP.

EP

The EP prepared a *briefing* to support ECON's work on scrutiny of forthcoming EBA Level 2 measures under CRD IV/V and CRR/CRR II on 18 June 2018. The briefing provides an updated overview on the state of play of pending Level 2 measures under CRD IV/CRR and a brief outlook on Level 2 measures proposed under CRD V and CRR II.

FSB

The FSB published a *speech on effective global resolution schemes* given by its Secretary General, Dietrich Domanski, on

12 June 2018. As well as discussing FSB initiatives from June 2018, Domanski reports on its ongoing reviews of the public disclosure of resolution plans and resolvability, and trading book wind-down. The FSB plans to report findings by year end.

PSR

The PSR published *PS18/12: PSR regulatory fees* together with *2018/19 fees figures* on 29 June 2018. The final rules are set out in the *Fees (Payment Systems Regulator) Instrument (No 7) 2018* that came into force on 29 June 2018. It states on its *webpage* that the new regime will apply from 2018/19.

UK Government

- *The Banking Act 2009 (Fees) Regulations 2018 SI 2018/734* together with an *explanatory memorandum* was laid before Parliament on 18 June 2018. The Regulations set the fees the BoE can charge to operators of recognised payment systems (RPSs) and service providers to RPSs. They came into force on 10 July 2018.
- A draft of *The FSMA (Ring-fenced Bodies and Core Activities) (Amendment) Order 2018* together with a *draft explanatory memorandum* was laid before Parliament on 25 June 2018. The draft Order relaxes the requirement to transfer accounts into a RFB where an account holder has been subject to financial sanctions at any time within

the last six months. It is due to come into force on 31 October 2018.

Asset management

In this section:

Also this month **24**

A brief round up of other regulatory developments



Amanda Rowland
Asset Management
Regulatory Lead
amanda.rowland@pwc.com



Andrew Strange
FS Regulatory Centre of
Excellence
andrew.p.strange@pwc.com

Also this month

FCA

- The FCA published the *money market authorisation form* on 22 June 2018, which firms will use to demonstrate that the formation and management of money market funds are aligned with EU regulations.
- The FCA published a *money market fund checklist*, providing guidance to firms on what needs to be considered to ensure compliance with MMF Regulation requirements.

Insurance

In this section:

Regulation	25
Brexit	25
Capital and liquidity	25
Consumer issues	26
Corporate governance	26
Innovation	26
Operational resilience	26
Retail products	27
Solvency II	27
Supervision	27
Accounting	28
IFRS 17	28
Our publications	29
Also this month	29
<i>A brief round up of other regulatory developments</i>	



Jim Bichard
UK Solvency II Leader
jim.bichard@pwc.com



Mike Vickery
FS Regulatory Centre of
Excellence
mike.p.vickery@pwc.com

Regulation

Brexit

EIOPA issues Brexit reminder

EIOPA published an *Opinion on disclosure of information to customers about the impact of the withdrawal of the UK from the EU* and *Frequently Asked Questions* on 28 June 2018. It reminds supervisors about the duty of insurers and intermediaries to inform customers about the possible impact of Brexit on insurance and contingency measures taken by insurers regarding continuity of services.

Insurers and intermediaries are required to provide customers with clear and non-misleading information on the contingency measures taken or planned and on their impact on insurance contracts. They are also expected to properly inform potential new customers about the impact on their contractual rights and on the provision of insurance services that may emerge from Brexit.

In addition, EIOPA reminds supervisors they are required to make sure that insurers and intermediaries take appropriate contingency measures to ensure the continuity of services for cross-border

insurance contracts. It also expects them to monitor whether insurers and intermediaries fulfil their obligations to inform their customers about the implications of Brexit.

Capital and liquidity

Securitised assets – EC adopts capital requirements

The EC adopted *Commission Delegated Regulation (EU) .../... of 1.6.2018 amending Delegated Regulation (EU) 2015/35 as regards the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings* on 1 June 2018.

It provides for a more risk-sensitive approach in the calculation of the amount of capital that insurers need to set aside under the standard formula when they invest in securitisations. In particular, there are different capital requirements if securitisations qualify as 'simple, transparent and standardised' (STS) under the new Securitisation Regulation. It also includes transitional measures for existing securitisations that qualify as 'Type 1 securitisations' under present requirements, but do not meet the definition of STS securitisations.

The new requirements apply from 1 January 2019 if the EP and Council raise no objection.

Consumer issues

Travel insurance – FCA seeks improved access

The FCA published *FS18-01 – Feedback Statement on Call for Input on Access to Insurance* on 25 June 2018. Based on responses to its *Call for Input: Access to insurance*, the FCA is concerned that consumers find it difficult to access the specialist travel insurance market.

The FCA is concerned that consumers given a high quote or refused cover are not provided with quality information on alternative options which can lead them to assume they are uninsurable. It also believes consumers and firms do not fully understand insurance terms and the risk factors considered by providers in calculating premiums. The conduct regulator is worried that the lack of transparency around pricing, the risk factors which drive quotes, and how premiums are calculated limit consumers' awareness of their options. It says this can mean consumers have difficulty finding competitive insurance appropriate for their medical condition.

As a result, the FCA plans to work with key industry stakeholders to create a new

service to redirect customers to specialist providers. It also intends to use its findings to inform wider work on insurance pricing practices, as announced in its Business Plan for 2018/19.

Corporate governance

IAIS consults on guidance for boards

The IAIS published a *Draft Application Paper on the Composition and the Role of the Board* on 29 June 2018. It provides additional material to help with the practical interpretation and application of Insurance Core Principles, ICP 5 'Suitability of Persons' and ICP 7 'Corporate Governance'. It considers issues and potential solutions in the following areas:

- competence of individual board members
- diversity of competencies of the board
- allocation of the roles and responsibilities
- delegation of activities and tasks of the board
- combining the roles of the Chair and CEO
- being a board member of multiple entities within the same group
- access to information

- behavioural aspects of the board's functioning.

The feedback period ends on **13 August 2018**.

The IAIS is intending to hold a *public background call* on 16 July 2018 to discuss the supervisory and supporting material published for consultation on 29 June 2018. This comprises two draft Application Papers (Composition and the Role of the Board and Supervision of Insurer Cybersecurity) and two draft revised ICPs (ICP 6 – Change of Control and Portfolio Transfers and ICP 20 – Public Disclosure).

Innovation

EIOPA asks for InsurTech insight

EIOPA has set up an InsurTech Taskforce to better understand the risks and benefits of InsurTech solutions such as the use of big data, algorithms, artificial intelligence, cloud computing and blockchain technology.

EIOPA published a *stakeholder survey on licensing requirements, barriers to InsurTech and InsurTech facilitation* on 28 June 2018. It is collecting views on InsurTech from the insurance industry and those not directly active in the insurance value chain. It defines Insurtech as technology-enabled innovation in insurance that could result in new business models,

applications, processes or products with an associated material effect on the provision of insurance products and services. The survey focuses in particular on licencing requirements, barriers to InsurTech and InsurTech facilitation. EIOPA plans to use the results to contribute to its work on mapping of supervisory approaches to InsurTech with the aim to identify and report on best practices and identifying possible regulatory barriers to financial innovation.

The survey closes on **12 August 2018**.

Operational resilience

IAIS develops cybersecurity guidance

The IAIS published a *Draft Application Paper on Supervision of Insurer Cybersecurity* on 29 June 2018. It provides guidance to supervisors seeking to develop or enhance their approach to supervising the cyber risk, cybersecurity, and cyber resilience of insurers. It also invites insurers to use this paper to help them develop and implement good cyber security practices in their firms.

The feedback period ends on **13 August 2018**.

Retail products

IAIS publishes Index-based Insurances paper

The IAIS published an *Issues Paper on Index-based Insurances particularly in Inclusive Insurance Markets* on 18 June 2018. Index-based insurances are insurance contracts in which claims are linked to a pre-determined index. They are used to manage weather and catastrophic events, support food security and enhance access to insurance.

The IAIS mainly focuses on weather-related or natural catastrophe event risks in this paper. It considers the design of index-based insurances, the roles of various stakeholders including government agencies, legal issues such as certainty, insurable interest and the nature of the product as insurance and issues relating to consumer protection.

EIOPA submits updated base euro amounts

Following consultation (see *CP 18/001*), EIOPA submitted its *Draft RTS for professional indemnity insurance (PII) and for financial capacity of intermediaries in the IDD* to the EC on 27 June 2018. EIOPA also published its *Final Report on CP 18/001 on the proposal for RTSs adapting the base euro amounts for PII and for*

financial capacity of intermediaries under the IDD.

The IDD requires intermediaries to hold PII or a comparable guarantee against liability arising from professional negligence. In the final draft RTS submitted to the EC, EIOPA recommends increasing the minimum level of cover for each claim from €1.25m to €1.3m and the aggregate cover from €1.85m to €1.92m per year. It also plans to increase minimum intermediary financial capacity from €18,750 to €19,510.

EIOPA has made no material changes to the draft RTS for adapting the minimum and aggregate insured amounts in the consultation paper, as feedback mainly expressed support for the proposals.

Insurable Interest – Law Commissions propose modernisation

The Law Commission and the Scottish Law Commission issued a draft *Insurable Interest Bill* on 20 June 2018. It proposes making the law of insurable interest more modern and flexible to allow people to better protect themselves and their families.

Insurable interest is the requirement where someone taking out insurance must be at risk of suffering a loss or disadvantage if the insured event occurs. Without insurable interest, an insurance contract is void. The Law Commissions suggest a number of

changes to the concept of insurable interest for life-related insurance including:

- giving individuals an automatic insurable interest in cohabitants, not just spouses or civil partners
- extending insurable interest to cover children and grandchildren, so that they could lawfully be covered under travel or health policies
- confirming in law that pension trustees and other administrators of group schemes have an insurable interest in the lives of members of the group
- allowing trustees of private trusts to purchase life insurance bonds if the settlor or trustee of the trust would have had the necessary insurable interest to do so.

The comment period ends on **14 September 2018.**

Solvency II

EIOPA updates taxonomy for 2018 reporting

EIOPA published its *Insurance Data Point Model and Taxonomy 2.3.0 Public Working Draft (PWD) for review and Release notes for the 2.3.0 PWD release of the EIOPA Insurance DPM and XBRL taxonomy* on 1 June 2018. It asked stakeholders to submit details of any issues they have with this

PWD by 30 June 2018. EIOPA also published an updated *Provisional List of known issues for 2.3.0 PWD* on 23 June 2018.

EIOPA expects insurers to use the updated Insurance Data Point Model and Taxonomy from the 31 December 2018 year end.

PRA publishes planned reporting timescales

On 29 June 2018, the PRA *published* details of when it plans to make information required for year-end 2018 reporting available. The PRA hopes that these indicative timings will help firms plan to implement the year-end reporting changes it proposed in *CP11/18 Solvency II: changes in reporting format* (published in April 2018). The PRA plans to finalise its proposed changes to national specific templates in July and plans to issue public working drafts of the relevant XBRL technical artefacts in August and September prior to their finalisation in October 2018.

Supervision

EIOPA updates Q&As

In June 2018, EIOPA updated its *questions and answers* on:

- *Guidelines on application of outwards reinsurance*
- *Guidelines on contract boundaries*

- [Risk-Free Interest Rate – Financial market data](#)
- [Risk-Free Interest Rate Extrapolation](#)
- [Risk-Free Interest Rate – Credit and currency adjustments](#)
- [Risk-Free Interest Rate – General questions](#)
- [Risk-Free Interest Rate – VA calculations](#)
- [EU No 2015-2450 templates for the submission of information to the supervisory authorities](#)
- [EU No 2015-2011 lists of regional governments local authorities exposures](#)
- [Commission Delegated Regulation EU 201535](#)
- [Other.](#)

EC launches in-depth group supervision review

On 25 June 2018, EIOPA published a request from the EC for a report on the benefit of enhancing group supervision and capital management within a group of insurance or reinsurance undertakings.

Under Solvency II, the EC is expected to assess the benefit of enhancing group supervision and capital management by

31 December 2018. But, the EC request goes beyond the Solvency II requirements and also covers other aspects of group supervision as well as specific topics related to freedom to provide services and freedom of establishment. The EC asks EIOPA to consider the following issues:

- early intervention
- practices in centralised group risk management and functioning of group internal models including stress testing
- intragroup transactions and risk concentrations
- diversification effects between undertakings of a given group
- mediation of supervisory disputes
- barriers to asset transferability
- level of protection of policy holders and beneficiaries of the undertakings of the same group, particularly in crisis situations
- insurance guarantee schemes
- scope of group supervision
- group solvency calculation and group supervision
- freedom of establishment and freedom to provide services.

The EC asks EIOPA to submit its report by 1 November 2018.

Risk margin – no changes from PRA

The PRA published a [letter](#) updating the TC about its work on the risk margin on 6 June 2018. It acknowledges perceived flaws in the current design of the risk margin (particularly for long dated annuities). The PRA also notes that new annuity business firms have responded to the level of risk margin by reinsuring a substantial proportion of the longevity risk offshore.

While the PRA has considered suggestions for changes to the risk margin, it concludes that it ‘does not yet see a durable way to implement a change with sufficient certainty for firms to be able to rely on it for pricing, capital planning and use of reinsurance’.

Accounting

IFRS 17

The latest on IFRS 17 implementation

The IASB met on 21 June 2018 to discuss possible minor changes to IFRS 17 – Insurance Contracts. It agreed to clarify certain IFRS 17 requirements through its annual improvement amendment process. See our [In transition – the latest on IFRS 17 implementation – June 2018](#) for details.

IFRS 17 – ECON calls for further analysis

ECON passed a [motion for resolution](#) on the implementation of IFRS 17 in the EU on 19 June 2018. It notes the benefits of implementing IFRS 17 in the EU but also the significant efforts and costs of implementation. ECON calls for the EC to provide further analysis on the interactions between the Solvency II framework and the incoming IFRS 17 standard.

The motion also notes the ongoing work of the European Financial Reporting Advisory Group (EFRAG) and calls on it to address a number of issues, including whether:

- transactions with similar economic substance are treated consistently
- IFRS 17 meets the endorsement criterion of understandability
- the requirement that permits an insurance entity to determine a discount rate using a top-down or bottom-up approach might increase the inconsistency in application.

ECON expects EFRAG to liaise closely with ESMA and EBA on the treatment in its endorsement advice of their concerns.

It also calls on EFRAG to assess the potential interaction and mismatches between IFRS 17 and IFRS 9, and whether

allowing the application of IFRS 15 is appropriate.

On the current implementation timeline, ECON calls on the EC and EFRAG to examine its achievability and consider the interaction with implementation dates in other jurisdictions. It also suggests that the EC and ESAs should monitor the implementation and prepare an ex-post impact assessment no later than June 2024.

Our publications

PwC considers global IFRS 17 progress

It is now more than a year since the announcement of IFRS 17 and the scale of the implementation challenge is becoming clear. Our IFRS 17 webcast, *IFRS 17 one year* on, looks at progress to date. It shares stories of the varied ways companies around the world are tackling their IFRS 17 programs, and discusses some of the issues that have arisen along the way. It also includes details of the latest developments at the IASB and the Transition Resource Group.

Also this month

EIOPA

- EIOPA published its *Annual Report 2017* on 15 June 2018. For 2018 EIOPA plans to focus on issues related to digitalisation and InsurTech, sustainable

finance and other items on the EC's financial services agenda, including the CMU.

- Gabriel Bernardino, EIOPA chairman, gave a speech on *European supervision in a changing environment* at the CIRSIF Annual International Conference on 6 June 2018. Bernardino discussed EIOPA's top three priorities: further enhancing supervisory convergence, reinforcing consumer protection in an era of digital transformation, and maintaining financial stability in a changing environment.
- EIOPA published *Solvency II – The way ahead*, a speech by Chairman Gabriel Bernardino on 26 June 2018. Bernardino considered EIOPA's first review of Solvency II, due at the end of 2018 and which will focus on increasing proportionality, removing technical inconsistencies and removing unjustified constraints to financing the economy. He also discussed EIOPA's Supervisory Convergence Plan for 2018-19, aimed at developing new common supervisory tools and benchmarks, supervision of cross-border services and supervision of emerging risks.
- EIOPA published *Solvency II statistics* and an *Accompanying note* on 21 June 2018. It reports statistics on the European insurance sector based on Solvency II regulatory reporting for the fourth quarter of 2017. In addition to the regular statistics, it includes new exposure statistics for the first time.
- EIOPA published its latest *Financial Stability Report* on 25 June 2018. It reports that overall, the insurance sector continued to show robust results in 2017 and insurers are adequately capitalised and deliver positive profitability despite the low yield environment. EIOPA also highlights emerging climate change and cyber security risks and includes a thematic article on 'Potential drivers of insurers' equity investments'.
- EIOPA published a *Statement on consumer detriment resulting from policyholder exposure to contracts for differences and binary options* on 1 June 2018. It highlights that it will use its powers to enforce ESMA's ban on providing contracts for differences and binary options to retail investors. It has no immediate concerns about their use by insurers, but emphasises that they must not be used in insurance-based investment products such as unit-linked contracts.

IAIS

As part of its project to revise its *Insurance Core Principles (ICPs)*, the IAIS published

Revised ICPs 6 (changes in Control and Portfolio Transfers) and 20 (Public Disclosure) on 29 June 2018. It seeks feedback on the revisions by **28 August 2018**. The IAIS plans to consult on the overall ComFrame material, including ICS 2.0, in August 2018.

International Underwriting Association of London

The International Underwriting Association of London published a *Brexit Contract Continuity Clause* on 25 June 2018. It aims to clarify how firms plan to continue to pay claims despite any business disruption if adequate transitional arrangements are not agreed. It is not compulsory for firms to use this clause and they are free to adopt and adapt its provisions as they see fit.

PRA

- On 29 June 2018, the PRA announced that it is finalising its policy on Solvency II internal models, following *CP27/17 'Solvency II: Internal models update'* and intends to publish it shortly.
- The PRA *announced* plans to update *SS 3/17 – Solvency II: Matching adjustment – illiquid unrated assets and equity release mortgages* on 12 June 2018. It intends to clarify its expectations on the valuation of the non-negative-equity guarantee for the

purpose of the effective value test and on the applicability of TMTPs. The PRA published this consultation on 2 July 2018 (see [*CP13/18 -Solvency II: Equity release mortgages*](#)).

UK Government

The [*Civil Liability Bill*](#) completed its House of Lords stages on 27 June 2018 and was presented to the House of Commons on 28 June 2018 for its first reading. There was no debate on the Bill at this stage and the date for its second reading debate has yet to be announced. See the Government's [*Civil Liability Bill webpage*](#) for further information.

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
13/07/18	<i>CP10/18 Solvency II: Updates to internal model output reporting</i>	PRA
16/07/18	<i>Pension trustees: clarifying and strengthening investment duties</i>	DWP
17/07/18	<i>Draft Guidelines on specification of types of exposures to be associated with high risk under Article 128(3) of Regulation (EU) No 575/2013</i>	EBA
18/07/18	<i>ISO 20022 consultation paper: a global standard to modernise UK payments</i>	BoE
20/07/18	<i>Draft Guidelines on the STS criteria for non-ABCP securitisation</i>	EBA
20/07/18	<i>Draft Guidelines on the STS criteria for ABCP securitisation</i>	EBA
20/07/18	<i>Establishment of a framework to facilitate sustainable investment</i>	EC
20/07/18	<i>Review of the Motor Insurance Directive</i>	EC
21/07/18	<i>Sovereign bond-back securities product regulation</i>	EC
23/07/18	<i>GC18/3: Primary Market Bulletin No. 19</i>	FCA
24/07/18	<i>IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality</i>	IOSCO
27/07/18	<i>Draft Guidelines on disclosure of non-performing and forborne exposures</i>	EBA
31/07/18	<i>CP18/14: Quarterly Consultation Paper No 21</i>	FCA
31/07/18	<i>MS16/2: Mortgages Market Study Interim Report</i>	FCA
01/08/18	<i>CP18/11: Reviewing the funding of the FSCS</i>	FCA
03/08/18	<i>CP18/15: Claims management: how we propose to regulate claims management companies</i>	FCA

Closing date for responses	Paper	Institution
09/08/18 and 06/09/18	<i><u>CP18/17: Retirement Outcomes Review: Proposed changes to our rules and guidance</u></i>	FCA
13/08/18	<i><u>Draft Guidelines on the conditions to be met to benefit from an exemption from contingency measures under Article 33(6) of Regulation (EU) 2018/389 (RTS on SCA & CSC)</u></i>	EBA
20/08/18	<i><u>Monitoring the Technical Implementation of the FSB TLAC Standard</u></i>	FSB
21/08/18	<i><u>Protecting defined benefit pension schemes – a stronger Pensions Regulator</u></i>	Government
22/08/18	<i><u>CP12/18 Securitisation: The new EU framework and Significant Risk Transfer</u></i>	PRA
31/08/18	<i><u>CP18/12: High-cost Credit Review: Consultation on rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit</u></i>	FCA
31/08/18	<i><u>Information Confidentiality for the Fixed Income and Commodities markets Statement of Good Practice Transparency Draft</u></i>	FICC Markets Standards Board
31/08/18	<i><u>CP18/13: High-cost Credit Review: Overdrafts</u></i>	FCA
07/09/18	<i><u>GC18/2: Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015</u></i>	FCA
07/09/18	<i><u>Strategic Review of Retail Banking Business Models: Progress report</u></i>	FCA
19/09/18	<i><u>Draft RTS on the conditions to allow institutions to calculate KIRB in accordance with the purchased receivables approach under Article 255 of [Regulation (EU) 2017/2401 amending Regulation (EU) No 575/2013]</u></i>	EBA
24/09/18	<i><u>Consultation Paper on draft guidelines on outsourcing arrangements</u></i>	EBA
26/09/18	<i><u>CP18/16: Authorised push payment fraud – extending the jurisdiction of the Financial Ombudsman Service</u></i>	FCA
28/09/18	<i><u>PRA Annual Report 2018</u></i>	PRA

Forthcoming publications in 2018

Date	Topic	Type	Institution
Accounting			
TBD 2018	RTS on methods of prudential consolidation	Technical standards	EBA
Asset management			
Q2 2018	EU Money Market Funds Regulation – PS to CP18/4	Policy statement	FCA
Q3 2018	Investment platforms market study	Interim report	FCA
Q1 2019	Asset management market study remedies	Policy statement	FCA
Banking			
Q4 2018	Strategic review of retail banking business models	Consultation paper	FCA
Q4 2018	Improving competition in current accounts	Policy statement	FCA
Q4 2018	Mortgage market study final report	Report	FCA
Conduct			
Q3 2018	Review of cryptocurrencies	Assessment report	FCA
Consumer credit			
Q4 2018	Motor finance review	Final report	FCA
Q1 2019	Consumer Credit Act retained provisions review	Consultation paper	FCA
Q1 2019	Debt management sector review	Review findings	FCA
Q1 2019	Market study on credit information	Terms of reference	FCA
Financial crime, security and market abuse			
Q3 2018	Financial crime review of e-money	Report	FCA
TBD 2018	RTS on central contract points under AMLD4	Technical standards	EBA

Date	Topic	Type	Institution
<i>Insurance</i>			
Q3 2018	Value in the distribution chain review	Review findings	FCA
Q4 2018	Wholesale insurance brokers market study	Interim report	FCA
<i>Pensions</i>			
Q4 2018	Non-workplace pensions	Feedback statement	FCA
Q4 2018	Unsuitable pension transfer advice	Policy statement	FCA
Q1 2019	Savings adequacy	Occasional paper	FCA
<i>Securities and markets</i>			
Q3 2018	Reforms to the listing regime	Consultation paper	FCA
TBD 2018	Technical standards on Securitisation Regulation	Technical standards	ESMA
TBD 2018	Technical advice and standards on Prospectus Regulation	Technical standards	ESMA
TBD 2018	Technical standards under EuSEF, EuVECA, ELTIF and SFTR	Technical standards	ESMA
TBD 2018	Technical standards on revised Short Selling Regulation	Technical standards	ESMA
Q1 2019	Approach to market integrity	Report for consultation	FCA
Q2 2019	Money laundering in capital markets	Report	FCA
<i>Supervision, governance and reporting</i>			
Q3 2018	Providing SMEs access to FOS	Policy statement	FCA

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

Glossary

ABC	Anti-Bribery and Corruption	BMR	EU Benchmarks Regulation
ABI	Association of British Insurers	BRRD	Bank Recovery and Resolution Directive 2014/59/EU
ABS	Asset Backed Security	CASS	Client Assets sourcebook
AIF	Alternative Investment Fund	CCA	Consumer Credit Act 1974 (as amended)
AIFM	Alternative Investment Fund Manager	CCB	Countercyclical capital buffer
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU	CCD	Consumer Credit Directive 2008/48/EC
AML	Anti-Money Laundering	CCPs	Central Counterparties
AMLD3	3rd Money Laundering Directive 2005/60/EC	CDS	Credit Default Swaps
AMLD4	4 th Money Laundering Directive 2015/849/EU	CEBS	Committee of European Banking Supervisors (predecessor of EBA)
AMLD5	5 th Money Laundering Directive	CESR	Committee of European Securities Regulators (predecessor of ESMA)
AQR	Asset Quality Review	CET1	Common Equity Tier 1
ASB	UK Accounting Standards Board	CFTC	Commodities Futures Trading Commission (US)
Banking Reform Act (2013)	Financial Services (Banking Reform) Act 2013	CGFS	Committee on the Global Financial System (of the BIS)
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework	CIS	Collective Investment Schemes
Basel III	Basel III: International Regulatory Framework for Banks	CMA	Competition and Markets Authority
Basel Committee	Basel Committee of Banking Supervision (of the BIS)	CMU	Capital markets union
BBA	British Bankers' Association	COBS	FCA conduct of business sourcebook
BCR	Basic capital requirement (for insurers)	COCON	FCA code of conduct sourcebook
BIS	Bank for International Settlements	CoCos	Contingent convertible securities
BoE	Bank of England	COREP	Standardised European common reporting
		Council	Generic term representing all ten configurations of the Council of the European Union

Executive summary	Sustainable finance takes centre stage	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
CRA1	Regulation on Credit Rating Agencies (EC) No 1060/2009			EC	European Commission		
CRA2	Regulation amending the Credit Rating Agencies Regulation (EU) No 513/2011			ECB	European Central Bank		
CRA3	Proposal to amend the Credit Rating Agencies Regulation and directives related to credit rating agencies COM(2011) 746 final			ECJ	European Court of Justice		
CRAs	Credit Rating Agencies			ECOFIN	Economic and Financial Affairs Council (configuration of the Council of the European Union dealing with financial and fiscal and competition issues)		
CRD	‘Capital Requirements Directive’: collectively refers to Directive 2006/48/EC and Directive 2006/49/EC			ECON	Economic and Monetary Affairs Committee of the European Parliament		
CRD II	Amending Directive 2009/111/EC			ECP	Eligible counterparty		
CRD III	Amending Directive 2010/76/EU			EDIS	European Deposit Insurance Scheme		
CRD IV	Capital Requirements Directive 2013/36/EU			EEA	European Economic Area		
CRR	Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms			EEC	European Economic Community		
CSD	Central Securities Depository			EIOPA	European Insurance and Occupations Pension Authority		
CSDR	Central Securities Depositories Regulation (EU) 909/2014			ELTIF	European long-term investment fund		
CSMAD	Criminal Sanctions Market Abuse Directive 2014/57/EU			EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EU) No 648/2012		
CTF	Counter Terrorist Financing			EP	European Parliament		
DEPP	The FCA’s Decision Procedure and Penalties Manual			EPC	European Payments Council		
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union			ESA	European Supervisory Authority (i.e. generic term for EBA, EIOPA and ESMA)		
DG MARKET	Internal Market and Services Directorate General of the European Commission			ESCB	European System of Central Banks		
DGS	Deposit Guarantee Scheme			ESEF	European Single Electronic Format		
DGSD	Deposit Guarantee Schemes Directive 2014/49/EU			ESMA	European Securities and Markets Authority		
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act (US)			ESRB	European Systemic Risk Board		
D-SIBs	Domestic Systemically Important Banks			EU	European Union		
EBA	European Banking Authority			EURIBOR	Euro Interbank Offered Rate		
				Eurosystem	System of central banks in the euro area, including the ECB		

Executive summary	Sustainable finance takes centre stage	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
EuVECA	European Venture Capital Funds Regulation (EU) 345/2014			FSOC	Financial Stability Oversight Council		
FAMR	Financial Advice Market Review			FTT	Financial Transaction Tax		
FASB	Financial Accounting Standards Board (US)			G30	Group of 30		
FATCA	Foreign Account Tax Compliance Act (US)			GAAP	Generally Accepted Accounting Principles		
FATF	Financial Action Task Force			GDPR	General Data Protection Regulation		
FC	Financial counterparty under EMIR			G-SIBs	Global Systemically Important Banks		
FCA	Financial Conduct Authority			G-SIFIs	Global Systemically Important Financial Institutions		
FICC	Fixed income, currencies and commodities			G-SIIs	Global Systemically Important Institutions		
FiCOD	Financial Conglomerates Directive 2002/87/EC			HCSTC	High Cost Short Term Credit		
Fiat currency	Currency whose value is underpinned by the strength of the issuing government, e.g. USD, GBP, euro and other major world currencies			HMRC	Her Majesty's Revenue and Customs		
FiCOD1	Amending Directive 2011/89/EU of 16 November 2011			HMT	Her Majesty's Treasury		
FMI	Financial Market Infrastructure			IA	Investment Association		
FMLC	Financial Markets Law Committee			IAIS	International Association of Insurance Supervisors		
FOS	Financial Ombudsman Service			IASB	International Accounting Standards Board		
FPC	Financial Policy Committee			IBA	ICE Benchmark Administration		
FRC	Financial Reporting Council			ICAAP	Internal Capital Adequacy Assessment Process		
FSA	Financial Services Authority			ICAS	Individual Capital Adequacy Standards		
FSB	Financial Stability Board			ICOBS	Insurance: Conduct of Business Sourcebook		
FSBRA	Financial Services (Banking Reform) Act 2013			IDD	The Insurance Distribution Directive (EU) 2016/97		
FS Act 2012	Financial Services Act 2012			IFRS	International Financial Reporting Standards		
FSCP	Financial Services Consumer Panel			ILAA	Internal Liquidity Adequacy Assessment		
FSCS	Financial Services Compensation Scheme			ILAAP	Internal Liquidity Adequacy Assessment Process		
FSI	Financial Stability Institute (of the BIS)			ILS	Insurance-Linked Securities		
FSMA	Financial Services and Markets Act 2000			IMAP	Internal Model Approval Process		

Executive summary	Sustainable finance takes centre stage	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
IMCO	The European Parliament's Committee on Internal Market and Consumer Protection			MCR	Minimum Capital Requirement		
IMD	Insurance Mediation Directive 2002/92/EC			Member States	Countries which are members of the European Union		
IMF	International Monetary Fund			MiFID	Markets in Financial Instruments Directive 2004/39/EC		
IORP	Institutions for Occupational Retirement Provision			MiFID II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MiFIR		
IOSCO	International Organisations of Securities Commissions			MiFIR	Markets in Financial Instruments Regulation (EU) No 600/2014		
IRB	Internal Ratings Based			MLRO	Money Laundering Reporting Officer		
ISDA	International Swaps and Derivatives Association			MMF	Money Market Fund		
ITS	Implementing Technical Standards			MoJ	Ministry of Justice		
JCESA	Joint Committee of the European Supervisory Authorities			MoU	Memorandum of Understanding		
JMLSG	Joint Money Laundering Steering Committee			MPC	Monetary Policy Committee		
KID	Key Information Document			MREL	Minimum requirements for own funds and eligible liabilities		
KYC	Know your client			MTF	Multilateral Trading Facility		
LCR	Liquidity coverage ratio			NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution		
LEI	Legal Entity Identifier			NCA	National competent authority		
LIBOR	London Interbank Offered Rate			NDF	Non-Directive Firms – firms that do not fall within Solvency II		
MA	Matching Adjustment			NFC	Non-financial counterparty under EMIR		
MAD	Market Abuse Directive 2003/6/EC			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		
MAR	Market Abuse Regulation (EU) 596/2014			NSFR	Net Stable Funding Ratio		
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			NST	National specific template		
MCD	Mortgage Credit Directive 2014/17/EU			NURS	Non-UCITS Retail Scheme		
MCOB	Mortgages and Home Finance: Conduct of Business sourcebook			OECD	Organisation for Economic Cooperation and Development		
				Official Journal	Official Journal of the European Union		

OFT	Office of Fair Trading	REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011
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)	RFB	Ring-fenced bank
ORSA	Own Risk Solvency Assessment	RFQ	Request for quote
O-SIIs	Other systemically important institutions	RFRs	Risk-free rates
OTC	Over-The-Counter	RONIA	Repurchase Overnight Index Average
OTF	Organised trading facility	RRPs	Recovery and Resolution Plans
PAD	Payment Accounts Directive 2014/92/EU	RTS	Regulatory Technical Standards
PIFs	Personal investment firms	RWA	Risk-weighted assets
PPI	Payment Protection Insurance	SCR	Solvency Capital Requirement (under Solvency II)
P2P	Peer to Peer	SCV	Single customer view
PERG	Perimeter Guidance Manual	SEC	Securities and Exchange Commission (US)
PRA	Prudential Regulation Authority	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)
Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis	SEPA	Single Euro Payments Area
PRIIPs	Packaged retail and insurance-based investment products	SFT	Securities financing transaction
PSD2	The revised Payment Services Directive (EU) 2015/2366	SFTR	Securities Financing Transactions Regulation (EU) 2015/2365
PSP	Payment service provider	SFO	Serious Fraud Office
PSR	Payment Systems Regulator	SIMF	Senior Insurer Manager Function
QIS	Quantitative Impact Study	SIMR	Senior Insurer Managers Regime
QRT	Quantitative Reporting Template	SM&CR	Senior Managers and Certification Regime
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)	SME	Small and Medium sized Enterprises
RDR	Retail Distribution Review	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
TMTP	Transitional Measure on Technical Provisions
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

Contacts



Amanda Rowland
+44 (0) 7702 678480
amanda.rowland@pwc.com



Hortense Huez
+44 (0) 7738 844840
hortense.huez@pwc.com
*Prudential regulation, Basel III,
liquidity and funding*



David Brewin
+44 (0) 7809 755848
david.r.brewin@pwc.com
*Client assets and prudential
regulation*



Sharon-Marie Fernando
+44 (0) 7889 642744
sharon-marie.fernando@pwc.com
Investment funds, insurance



Tessa Norman
+44 (0) 7826 927070
tessa.norman@pwc.com
Publications and retail distribution



Andrew Strange
+44 (0) 7730 146626
andrew.p.strange@pwc.com
*Retail distribution, SM&CR,
upcoming regulatory change*



Penny Bruce
+44 (0) 7841 567520
penny.a.bruce@pwc.com
*Recovery and resolution, consumer
credit, structural reform*



Dominic Muller
+44 (0) 7841 103998
dominic.b.muller@pwc.com
*Derivatives reform, asset
management, US and cross border,
structured products*



Conor MacManus
+44 (0) 7718 979428
conor.macmanus@pwc.com
Prudential regulation



Mike Vickery
+44 (0) 7808 573882
mike.p.vickery@pwc.com
Insurance, Solvency II



Luke Nelson
+44 (0) 7808 107043
luke.a.nelson@pwc.com
*MiFID II, conduct risk and
benchmark reform*



Cheryl Wallace
+44 (0) 7725 632492
cheryl.m.wallace@pwc.com
*MiFID II, US and cross-border
regulation and benchmarks*



Hannah Swain
+44 (0) 7803 590553
swain.hannah@pwc.com
*Operational resilience and
financial crime*



Tania Lee
+44 (0) 7976 687457
tania.a.lee@pwc.com
Insurance, Solvency II



Daniela Bunea
+44 (0) 7561 789058
daniela.bunea@pwc.com
*Central counterparties,
derivatives reform, securitisation*