

# *Being better informed*

## FS regulatory, accounting and audit bulletin



*PwC FS Risk and Regulation Centre of Excellence*

*November 2017*

*In this month's edition:*

- Insurance: TC issues Solvency II inquiry findings
- Banking: PRA consults on updates to group risk policy
- Brexit: EBA publishes supervisory opinion
- Insurance: How to prepare for the IDD

# Executive summary



Laura Cox

Lead Partner

PwC 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.’*

October brought a raft of important regulatory developments, particularly in the prudential space, with regulators issuing key statements on group risk, internal MREL and Solvency II, and the EBA giving us a better idea of its approach to Brexit-driven bank restructuring.

Starting with the banking sector, the PRA consulted on updates to its group risk policy on the distribution of financial resources in banking groups, and the calibration of requirements for individual group entities. It proposes that firms should assess and mitigate the risks to group resilience

stemming from double leverage and the differences between consolidated capital requirements and the aggregate requirements for individual group entities. The PRA plans to fully implement the policy changes from 1 January 2019, and expects firms to incorporate the changes in their 2018 ICAAP and ILAAP submissions before then. So banks should start to assess the possible impact of the proposals on their prudential models.

In another prudential development for banks, the BoE published a consultation on its updated approach to internal MREL and resolution. It proposes that internal MREL will cover both UK-headquartered banking groups and UK subsidiaries of overseas banking groups. Impacted firms should **review how the BoE’s proposal would apply** to their material subsidiaries and their plans for internal MREL.

Meanwhile the EBA issued an opinion to provide guidance to firms considering restructuring their operations in response to Brexit, and to ensure NCAs and the ECB promote a consistent approach. The EBA provides guidance on the authorisation of banks, the treatment of branches of UK banks in the EU, internal model approval, outsourcing arrangements and potential booking models, such as back-to-back booking, that many banks are exploring. The EBA strikes a pragmatic tone but calls

**for a tightening of the EU’s third country** equivalence regime under MiFID II and for the ECB to be given supervisory powers over large investment firms. These two developments might further limit the ability of UK investment firms to access the Single Market post-Brexit.

In the wholesale sector, the FCA published two policy statements on changes to the listing regime and the IPO process. It has finalised COBS rules requiring that the **publication of ‘connected’ IPO research** either be delayed or published concurrently with independent research. The FCA is also narrowing the range of transactions which will result in delisting or heightened shareholder disclosure. The changes will likely result in earlier direct engagement with prospective IPO investors, and some banks refraining from distributing connected research. Listed companies and their advisers should familiarise themselves with the new requirements.

The Government continues to scrutinise Solvency II. In its final report following an inquiry into the directive, the TC urged the PRA to reconsider its approach to Solvency II. The TC criticised both the directive itself and the way the PRA has implemented it. It wants the PRA to issue a strategy setting out what changes could be made to Solvency II, both now and post-Brexit, for the benefit of the insurance industry. The TC also called

on the PRA to do more to promote competition. In response, the PRA proposed a series of improvements to the implementation of Solvency II, and committed to publishing a progress report by March 2018. Insurers should keep a close eye on developments in this space.

Insurance firms will also no doubt be preoccupied with the IDD. With the implementation date just three months away, in our feature article we analyse the latest developments from regulators and supervisors. We consider what firms need to do to comply, and the steps they should take between now and February 2018 to prepare for the directive.

Looking ahead, in the coming weeks and months we expect the FCA to publish further policy statements on IDD and MiFID II implementation, ESMA to release the results of its 2017 CCP stress test, and the EC to publish a legislative proposal on the investment firms prudential regime review. In the meantime, we hope you enjoy our latest articles.

Laura Cox  
FS Risk and Regulation Centre of Excellence  
020 7212 1579  
[laura.cox@pwc.com](mailto:laura.cox@pwc.com)

# Contents

<i>Executive summary</i>	<i>1</i>
<i>IDD deadline looms</i>	<i>3</i>
<i>Cross sector announcements</i>	<i>5</i>
<i>Banking and capital markets</i>	<i>17</i>
<i>Asset management</i>	<i>25</i>
<i>Insurance</i>	<i>27</i>
<i>Monthly calendar</i>	<i>32</i>
<i>Glossary</i>	<i>37</i>
<i>Contacts</i>	<i>44</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.

# IDD deadline looms



**Kareline Daguer**

Director

020 7804 5390

kareline.daguer@pwc.com

We are now just three months away from the implementation of the IDD on 23 February 2018. And with regulators and supervisors still finalising rules and guidelines in the run up to that **date, it's a** good time to take stock of what firms need to do to comply, and the steps they should be taking to prepare. ECON last month threw something of a spanner into the works by calling on the EC to delay implementation of the IDD by six months, given the very tight timescale between the rules being finalised and firms having to comply. While the delay, if approved, would give firms some much-appreciated breathing space, for now it just adds another uncertainty to the mix.

What does the IDD mean for UK insurers and intermediaries? The answer really depends on what products you write and how and where you sell them. The IDD applies to both insurers and intermediaries, including price comparison websites. In the UK, the FCA has historically been very proactive in gold plating EU conduct regulation. As a result, UK firms are already in compliance with certain elements of the directive. The IDD is the successor of the Insurance Mediation Directive (IMD), and both are minimum harmonising directives, meaning Member States can have rules that go over and above those dictated by the directive. So in practice, different EU

countries will apply the IDD in slightly different ways.

One significant change from the IMD is that the IDD will have a lengthy set of Level 2 regulations and EIOPA Guidelines to back it up. These Level 2 measures and Guidelines do not need to be transposed into national law to be effective. So firms need to consider **these, as well as the FCA's consultations and** policy statements, to fully understand what they need to do to comply.

## What's new?

**We highlight below what's new from** regulators and supervisors, and what areas firms need to focus on over the next three months. Since we last covered the IDD in-depth in our March 2017 BBI edition, regulators and policymakers have issued a range of publications which further clarify how the directive will be applied.

The EC has approved both IDD delegated acts so far planned under the Directive, which cover insurance based investments products (IBIPs) and Product Oversight and Governance (POG). On 11 August 2017 the EC approved the ITS on the Insurance Product Information Document (IPID). Further, EIOPA finalised the guidelines on execution-only sales of IBIPs on 11 October 2017. With these measures, all expected EU legislation on the IDD to date has now been **finalised. It's possible that EIOPA will be** commissioned to draft more guidelines on

other aspects of the Directive over the next year, but this is not yet certain.

In July 2017 the FCA released its second consultation on the IDD (CP 17/23: IDD Implementation – Consultation Paper 2), followed by its third consultation (CP 17/33: IDD Implementation – Consultation Paper 3) and first policy statement (PS 17/21: IDD implementation – Feedback to CP17/7 and near-final rules) in September 2017.

The second consultation covers the changes to FCA rules required to implement IDD for life insurers. The third consultation addresses specific areas the FCA took longer to reach a conclusion on such as POG requirements, MiFID alignment around suitability and appropriateness for the life industry, and treatment of inducements when selling IBIPs. Lastly, in PS 17/21 the FCA confirms the proposals in the first consultation and includes near final rules to provide more certainty to firms. In addition, it considers areas where the FCA may issue more guidance in the near future, such as POG and the implementation of the best interest of customer principle in practice.

## Understanding the IDD's impact

The IDD is based on the overarching principle that firms should act in the **customer's best interest at all times, which** seems an obvious thing to require of firms.

But some business models are complex, and some firms in the distribution chain might be adding little if any apparent value to the customer. The directive requires firms to disclose the nature and basis of their remuneration before a contract is concluded and the FCA made it clear in PS 17/21 that vague, non-specific statements will not be enough to comply with the new requirements. The best interest principle, **coupled with the FCA's continued focus on value in distribution chains and rules on remuneration disclosure**, are areas firms should look at closely as they prepare for implementation.

Firms selling on a non-advised basis (usually non-life products) will have to comply with stricter requirements to **identify the client's insurance demands and needs** and only offer products that are consistent with them. So firms will need to go beyond adding a generic statement to communications with clients – they have to ask the right questions in the first place, to **enable them to determine what a customer's demands and needs are**. More importantly, insurers must have controls in place to establish that distributors are offering the right products to the right clients across the distribution chain. This change will require firms to draft distribution agreements across the chain and might result in simplified products.

EIOPA provided more clarity on this area last month, in its guidelines on execution-only sales of IBIPs. The guidelines typically

apply to IBIPs sold via telephone or online and where the insurance distributor neither **provides advice nor verifies the customer's** knowledge of the product and the risks involved. The guidelines include criteria for firms to identify product features which are difficult for customers to understand.

EIOPA seems to have listened to the industry and adapted the guidelines to make them more flexible. Compared to what it consulted on earlier this year, EIOPA has removed some of the criteria that would make a lot of life policies fall in the complex category. Although insurers will still have to look at their products to assess whether they fall into the complex or non-**complex category**, **we don't expect this** process to be as onerous as under the original guidelines.

### *What do firms need to do?*

All firms subject to the IDD should already be preparing for its implementation. The FCA is proposing to strengthen POG-related requirements in a number of ways, affecting both firms that manufacture insurance products as well as those that distribute them. Firms should look at their current processes and controls to ensure they are able to meet the new requirements. Some firms may find this exercise more demanding than they expect.

The IDD also brings in minimum training requirements for a broader spectrum of staff, plus the requirement to have a system in place to monitor compliance and a

designated senior person responsible for training who can communicate with the regulator. To accurately determine **customers' demands and needs, retail firms** will need to ensure their sales scripts allow them to capture the necessary information from individual customers to offer products consistent with those needs.

Finally, in the general insurance sector, insurers will have to provide customers with the IPID, a standardised document which includes specific information about the contract. At present, this information is commonly included in contract schedules but not in a single document. Firms that have fragmented systems might find that creating the IPID triggers significant IT challenges.

So firms have lots to contend with in a short period of time. And while the IDD legislative puzzle is complete for now on the **EU side, we're still waiting for various** documents from the FCA. The FCA intends to publish policy statements on the second and third consultations in December 2017 and January 2018, respectively. As mentioned above, the FCA is also considering creating new guidance in a number of areas to support firms to **implement IDD. But it's not likely to issue** this guidance until early 2018, very close to the implementation date.

These tight timescales are challenging for firms, and although the EU is now discussing a delay to implementation of the

directive, that remains uncertain for now so for now firms have to continue pressing ahead with implementation. Last month ECON requested the EC draft proposals for a six-month delay, a recommendation we believe the EC is likely to adopt. The delay, if agreed, would give firms some much-needed time to prepare once they have legal certainty on the rules. Although until the delay is finalised, firms need to be ready for implementation by the current deadline of 23 February 2018, and so they should urgently prioritise preparations over the coming months.

# Cross sector announcements

In this section:

<i>Regulation</i>	5
Brexit	5
Capital and liquidity	5
Compensation schemes	6
Conduct	6
Consumer issues	6
Finance	7
Financial stability	8
Financial crime and enforcement	8
Innovation	8
Market infrastructure	8
MIFID II	9
Pensions	10
Reporting	11
Shadow banking	12
Supervision	12
Wholesale markets	13
<i>Accounting</i>	14
Accounting	14
IFRS 9	15
Our publications	15
Reporting	15
<i>Also this month</i>	15

*A brief round up of other regulatory developments*

## Regulation

### Brexit

#### *EBA strikes a balance on Brexit*

The EBA published an opinion on *Issues related to the withdrawal of the United Kingdom from the European Union* on 12 October 2017. The opinion is wide ranging and provides a significant amount of detail for banks and investment firms seeking to relocate activity to the EU due to Brexit. The opinion is non-binding on EU-27 regulators but provides an important framework for them when dealing with relocation requests. The opinion covers:

- authorisation
- the prudential regulation and supervision of investment firms
- internal models
- outsourcing
- internal governance, risk transfers via back-to-back and intragroup operations
- resolution and deposit guarantee scheme issues.

The EBA emphasises that it will not accept so-called ‘shell entities’ if firms attempt to establish these in the EU-27 to gain passporting rights. It stresses that firms must understand and manage issues such as

governance, booking models and the use of outsourcing risks at the EU-27 level.

But the EBA also strikes a pragmatic balance on issues such as internal models already approved by UK authorities and waiving information requests under the authorisation process where the firm seeking authorisation is already familiar to EU-27 authorities.

### Capital and liquidity

#### *Clarifying IFRS 9 ICAAP stress testing*

The PRA updated its stress test scenario webpage to add *Clarification on IFRS 9 for 2018 ICAAP stress testing and capital planning* on 25 October 2017. It is relevant to firms adopting IFRS 9 or equivalent under UK GAAP in respect of their ICAAPs based on accounts as of 31 December 2017 or a later date.

It indicates that firms should use the initial date of application of IFRS 9 as the starting point for ICAAPs rather than the closing IAS 39 balance sheet, so 1 January 2018 for firms with 31 December 2017 year ends. This allows firms to include the day one IFRS 9 impacts into forecasting starting points. But firms must also provide equivalent IAS 39 data to allow the PRA to understand the day one changes. It expects firms to submit a full set of forecasts on an IFRS 9 basis, acknowledging that this can be on a ‘reasonable endeavours basis’.

In its September 2017 *letter to CEOs* the PRA encourages firms to use the transitional provisions being finalised in the EU to phase-in the impact of expected credit loss (ECL) accounting on capital resources. Subject to the need for sufficient resilience at the end of the transitional period the PRA intends to carry out all aspects of supervision of a firm using transitional data **on capital resources and not the ‘fully loaded’ amounts. This includes the data used for the stress testing component of ICAAPs and the PRA’s setting of stress testing buffers.** But to allow a better understanding of the forecast modelling made by firms in their capital plans and stress tests the PRA requires firms to include in their ICAAPs both fully loaded and transitional capital forecasts for their base and stress scenarios.

It indicates that firms unable to incorporate IFRS 9 in their ICAAPs should contact their supervisors. A higher PRA buffer assessment may result if the PRA is unable to assess adequately the impact of stress on **a firm’s capital position under IFRS 9.** But the PRA recognises that firms will continue to refine their IFRS 9 processes during 2018 which will result in better quality related information.

### *Easing the IRB application process*

The PRA published policy statement *PS23/17 - IRB approach: clarifying PRA*



expectations on 3 October 2017. This follows its March 2017 consultation [CP5/17](#) and the PRA's review of its approach to IRB model applications from smaller firms as reported in its [Annual Competition Report 2016](#). The changes concern:

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

In response to feedback, the PRA makes two additional clarifications in finalising its amendments. These relate to the calibration of margins of conservatism in PD and LGD estimation and to the monitoring of rating systems. Implementation of this policy statement involves the update of supervisory statement [SS11/13 - IRB approaches](#). This update applies with immediate effect including to IRB applications already received by the PRA but on which it is yet to make a decision.

### Compensation schemes FCA takes forward FSCS changes

The FCA proposed changes to FSCS compensation limits and the way the scheme is funded, in [Reviewing the funding of the FSCS: feedback from CP16/42, final rules, and new proposals for consultation](#) on 30 October 2017. It also finalises rules that it consulted on in [CP16/42](#) to change

the scope and operation of the FSCS. These final rules include: introducing FSCS coverage for certain debt management activities, extending coverage for some aspects of fund management, and additional reporting requirements. The final rules will mostly come into effect on 1 April 2018.

The FCA is consulting on changes to the way the FSCS's funding is shared between different types of firms, as well as amendments to the amount of protection available for consumers in the investment market (following market changes resulting from the pension freedoms). In addition, the FCA is seeking views on how it might reduce activity that leads to costs falling on the FSCS. It's considering requiring firms with professional indemnity insurance (PII) exclusions to hold an amount of capital in trust, and requiring firms to take out a surety bond to cover claims in the event of their failure. Following CP16/42, the FCA has decided not to consult on significant changes to firms' PII requirements.

The consultation closes on 30 January 2018.

### Conduct FCA reports on complaints data

The FCA released guidelines on [complaints data](#), including [aggregate](#) and [firm-level](#) complaints data, on 23 October 2017. It also reported [complaints data analysis](#) which revealed that more than three million complaints were received in the first six months of the year.

PPI continues to be the most complained about product making up a third of all complaints. Of the £2bn total redress paid in the period, 82% was paid out to PPI customers. The total number of PPI complaints also increased by 24% from 899,000 in the second half of 2016 to 1.1 million in the first half of 2017. Advising, selling and arranging issues are the top reason for complaints, accounting for 43% of all complaints.

FCA found that standards of complaint handling had improved since its previous review, but says firms could do more to ensure consistency in how they deliver fair outcomes.

### Reforming primary capital markets

The FCA published a package of measures designed to ensure that the UK's primary capital markets remain effective, on 26 October 2017. These measures follow work the FCA has undertaken over the last 18 months to look at how UK primary markets work.

Following consultation, the FCA published final rules to: [Reform the availability of information during the UK equity initial public offering \(IPO\) process](#) and [Clarify and enhance some elements of the Listing Rules](#).

As a result of the changes the FCA has made to the availability of information during the IPO process, firms must ensure that the publication of 'connected' IPO research is either delayed or published concurrently

with independent research. Meanwhile, the changes the FCA has made to the Listing Rules include altering its approach to the suspension of listing for reverse takeovers, updating how premium listed issuers may classify transactions, and enabling property companies to better take into account asset values when seeking a premium listing.

The FCA also published a [Feedback Statement to DP17/2 Review of the Effectiveness of Primary Markets: the UK Primary Markets Landscape](#) on the same date. The FCA says it plans to further explore the following topics and may issue consultations in due course: retail access to debt markets, supporting the growth of science and technology companies, the split between standard and premium listing.

### Consumer issues FCA looks at consumers' financial lives

The FCA published its first Financial Lives Survey, [Understanding the financial lives of UK adults](#), on 18 October 2017. The survey is based on responses from 13,000 UK consumers on their experiences of using financial services products and providers, and their attitudes to managing money. The FCA primarily analyses the data by age, focusing on six age groups to show key themes at each life stage.

The FCA found that 50% of UK adults display one or more characteristics that signal potential vulnerability. The characteristics that the FCA uses to define vulnerability (which include financial

capability, health and life events) may be helpful for firms in developing or maintaining their own policy on vulnerable customers.

The regulator says it will use the survey results to help it identify where consumers may be experiencing harm. The FCA plans to publish a strategy document on its approach to consumers later this year.

### *EC focuses on consumers for 2018*

The EC published its 2018 Commission work programme – key documents on 24 October 2017, setting out its agenda for the coming year. EC First Vice-President Frans Timmermans presented the work programme in a speech to the EP, and emphasised how crucial this period is as 2018 is the last year to put forward proposals before the 2019 election. He said proposals should be presented by mid-2018 at the latest to be finalised in time.

The EC sets out a number of new proposals for 2018, with a particular focus on consumers. These include:

- a legislative proposal on the protection of secured creditors from business borrowers' default
- a targeted revision of the EU consumer directives following the fitness check of EU consumer and marketing laws
- a legislative initiative to facilitate coordination and effective action from national consumer authorities.

The EC has also decided to withdraw its proposal on structural measures to improve the resilience of EU credit institutions, arguing the issue has been addressed by other regulatory measures in the banking sector.

### *EC looks to build capital markets*

The EC is eager to encourage retail investors back into capital markets and issued its Request to the ESA to report on the cost and past performance of the main categories of retail investment, insurance and pension products on 13 October 2017.

The EC explains the aim of its request is to build deep capital markets, requiring retail investors to be attracted to capital markets investment on a widespread and sustained basis. It aims to ensure new disclosures and reporting are easily accessible and support retail investors in their investment choices. The EC plans to use the report to establish a consistent approach for future reporting developments.

It wishes certain products, such as UCITS investment funds, to be assessed by the ESA in its report and argues this should be based on disclosures already required under EU law, such as under MiFID. **The EC's request** has been agreed by the JCESA, and the EP and Council will be informed of the mandate.

## *Finance*

### *EC suggests P2P finance proposals*

The EC published an Inception impact assessment for a legislative proposal for an EU framework on crowd and P2P finance.

The impact assessment, published on 30 October, is part of the EU's work in establishing the CMU. The EC is seeking to address two main problems: market fragmentation and a lack of scale; and a perceived lack of reliability of crowdfunding and P2P platforms.

The impact assessment analyses whether a proposal from the EC is necessary and focuses on four broad policy options:

- baseline scenario – no EU framework
- building on reputational capital – a self-regulatory approach with minimum EU standards
- a comprehensive EU approach – treating crowdfunding platforms like regulated trading venues or payment institutions
- the cross-border solution – a standalone opt-in EU framework.

The impact assessment also examines more specific issues such as the scope of the types of platforms to be covered. The deadline for comments on the impact assessment is 27 November 2017.

### *Developing new asset classes*

The EC issued a Call for advice to the EBA on European Secured Notes (ESNs) in a letter dated 3 October 2017. 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 to cover a funding segment between traditional covered bonds and simple, transparent and standardised securitisations. The EC acknowledges the work the EBA has already undertaken on covered bonds, most recently in its 2016 report. It requests the EBA assesses:

- the extent to which covered bonds' best practices could be applied to ESNs
- the appropriate regulatory risk treatment given ESNs' particular features and risk-return profile
- the asset encumbrance impact and the effect on unsecured bank creditors that ESNs could have.

The EC aims to complete its assessment by Q2 2018. It requests the EBA submits its final report by 30 April 2018.

### *STS securitisations moves forward*

The EP published a legislative resolution on common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation on 26 October 2017. **The EP's** version of the simple transparent and standardised (STS) securitisations text follows the **EC's proposal** which was



published on 30 September 2016. The initiative to reform securitisations forms part of the CMU agenda.

**The EP's amendments to the EC's proposal** include introducing a ban on resecuritisations. The EP argues that resecuritisations could hinder the level of transparency that the proposed regulation seeks to introduce.

**The EP's version of the text also makes clear** that originators or sponsors should not take advantage of the fact that they hold more information than investors on the assets transferred to the securitisation special purpose entity (SSPE). It calls for a prohibition on originators or sponsors transferring assets into the SSPE whose credit risk profile is higher than that of comparable assets held on the balance sheet of originators, without the prior knowledge of investors.

## Financial stability

### Understanding non-traditional credit ratings

IOSCO published its *Other CRA Products – Final Report* on 11 October 2017. It provides market participants with a better understanding of certain non-traditional products and services offered by CRAs.

IOSCO highlights areas such as private ratings, national scale ratings and data feeds as examples of other CRA products. It assesses why participants may use other CRA products, ranging from the ability to

assess the creditworthiness of an entity to understanding how a CRA would ultimately rate a new issuance.

IOSCO, after consulting market participants, observes that some of the other CRA products share similar processes **and features with 'traditional' credit ratings**. It concludes that regardless of the way CRAs are structured, they should comply with the four high level objectives of the IOSCO CRA principles for both their traditional and other products.

### Update on Eurozone financial structures

The ECB published its annual *Report on Financial Structures* covering banks, insurance companies, pension funds and other financial intermediaries in the euro area on 23 October 2017.

It reveals ongoing consolidation in the banking sector with the number of banks declining by 25% between 2008 and 2016. Regulatory capital ratios continue to increase. But non-performing loans (NPLs) remain persistently high in a number of countries. The ECB highlights the need for Eurozone banks to address NPLs so that they free up capital to facilitate credit growth, support economic recovery and improve profitability.

For insurance companies and pension funds (ICPFs), total assets continued to grow in 2016. But the sector is highly concentrated, with over 80% of total assets being held in France, Germany, the Netherlands and

Italy. The ECB finds that profitability in the insurance sector is constrained by the current low-yield environment. But the solvency position of insurers is well above Solvency II requirements.

Despite a period of stagnation in 2015, the non-bank financial sector (excluding ICPFs) saw an increase in 2016. The ECB notes that this builds on expansion across the sector by more than 80% since December 2008.

This report, with its clear structural focus, **complements the ECB's semi-annual financial stability report** that concentrates more on cyclical factors.

## Financial crime and enforcement

### Govt seeks to replicate AML legislation

The Government introduced the *Sanctions and AML Bill* in the House of Lords on 18 October 2017. The legislation will give the UK the necessary legal powers to maintain existing sanctions, AML and anti-terrorist financing legislation post-Brexit. It will also allow the UK to implement standards published by the FATF relating to combating threats to the integrity of the international financial system. Alongside the bill, the Government issued an *impact assessment*.

The bill is expected to move onto its second reading later this autumn.

## Innovation

### Lessons learned from the FCA sandbox

On 19 October 2017, the FCA released *Regulatory sandbox lessons learned report*, outlining how this initiative has met its objectives in its first year of operation. The regulatory sandbox enables firms to test innovative products, services or business models in a live user environment. It aims to promote more effective competition for consumers and reduce the time and cost of getting innovative ideas to market.

The FCA says its early testing evidence suggests it is making progress towards these goals. Firms from a number of sectors have tried out the sandbox, with applicants mainly coming from retail banking and insurance start-ups mostly based in London. The FCA says there is scope for expanding the sectors that use the initiative and drawing from a wider variety of areas around the UK.

The FCA also discusses the limitations of the sandbox initiative and says it understands that not all testing challenges, such as access to banking services, can be overcome for firms using sandbox.

## Market infrastructure

### Increasing central bank authority over CCPs

The EC issued an *opinion* on 6 October 2017 in support of the ECB's recommendation that Article 22 of the ESCB and ECB

statutes be amended to empower the ECB to adopt regulations with respect to CCPs.

In line with the EC's proposed amendments to EMIR published in June 2017, central banks will be expected to take on an enhanced supervisory role over CCPs. But such a strengthened role is at odds with an opinion of the General Court of the ECJ which interpreted the current scope of the ECB's power as limited to payment clearing systems alone, as opposed to clearing of other instruments such as derivatives by CCPs. As a result, the legislative amendment is a necessary precursor to central banks taking on an enhanced role under EMIR.

### *SONIA reforms go live April 2018*

The BoE published *SONIA: Key features and policies* on 16 October 2017, explaining reforms to the publication, methodology and governance of the transaction-based sterling interest rate benchmark.

The BoE will assume responsibility for SONIA's calculation and publication from the Wholesale Markets Brokers' Association which has been the administrator since April 2016. The benchmark will be published at 9 a.m. on the business day after the transactions on which the rate is based. ESMA clarified in recent Q&As that although central bank administrators are generally exempt from BMR, contributors to and users of SONIA are not. The new arrangements take effect on 23 April 2018.

### *ECB delivers CCP supervision opinion*

The ECB published its *OPINION on a proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 1095/2010 and Regulation (EU) No 648/2012 with regard to the procedures and authorities involved for the authorisation of CCPs and the recognition of third country CCPs* on 4 October 2017. Overall, the ECB supports proposals put forward by the Council and EP. It recommends revision of article 22 of the ECSB statute to give it regulatory competence over clearing systems.

The ECB also provides views on:

- voting arrangements in supervisory colleges
- requirements to obtain the consent of central bank of issue on draft decisions
- its involvement in EMIR review and evaluation processes
- its advisory role on draft delegated and implementing acts
- third country CCPs of substantial systemic importance
- exchange of information between the proposed CCP executive session and supervisory colleges
- proposals for it to be a non-voting member of the ESMA Board of Supervisors

- additional considerations regarding the proposed framework for the recovery and resolution of CCPs.

### *EC extends CCP transitional period*

The EC has extended the transitional period relating to capital requirements for exposures to CCPs that have not been recognised as qualifying CCPs under EMIR to 15 June 2018 through an *Implementing Regulation on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council*. Under the CRR, capital requirements for banks and investment firms' exposures to non-qualifying CCPs are significantly higher than those to qualifying CCPs. The EC extended the transitional period on 24 October to allow time for the remaining third country CCPs that have not received approval to do so.

### *EC publishes proposal on CCP supervision*

The EC published a *Proposal for a REGULATION OF THE EP AND OF THE COUNCIL amending Regulation (EU) No 1095/2010 establishing a ESA (ESMA) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs* on 13 October 2017. It sets out changes to existing CCP supervisory processes by proposing EMIR and ESMA

regulation amendments. On EMIR, the EC covers:

- CCP authorisation and supervision processes
- cooperation between authorities
- enhancing third-country equivalence and CCP recognition regimes
- revised supervision processes for third-country CCPs post-recognition
- model and parameter validation procedures.

It also sets out necessary changes to the ESMA regulation. It covers:

- relationships between the newly proposed CCP Executive Session and ESMA Board of Supervisors
- organisation of the CCP Executive Session
- accountability and independence of members of the CCP Executive Session
- interactions between the CCP Executive Session and Executive Director of ESMA
- enhancements to ESMA's ability to collect CCP-related information.

### *MiFID II*

#### *ESMA issues Q&As*

ESMA published updated *Q&As on MiFID II and MiFIR investor protection and intermediaries topics* on 3 October 2017. The update covers clarifications on:

Executive summary	IDD deadline looms	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
<ul style="list-style-type: none"> <li>best execution for OTFs</li> <li>scope of recording telcons and e-comms</li> <li>post-sale reporting of depreciation</li> <li>costs and charges (i.e. methodology, mark-ups, disclosure to professionals and eligible counterparties, zero costs)</li> <li>client disclosures regarding new categorisation.</li> </ul> <p><i>ESMA clarifies transparency topics</i></p> <p>ESMA published updated <i>Q&amp;As on MiFID II and MiFIR transparency topics</i> on 3 October 2017. The update covers clarifications on:</p> <ul style="list-style-type: none"> <li>pre-trade transparency for request for quote systems</li> <li>real-time post-trade transparency for trading venues and SIs</li> <li>deferred publication of OTC trades</li> <li>package orders/transactions</li> <li>normal trading hours for non-equities</li> <li>SI thresholds for derivatives, structured finance products and emissions allowances</li> <li><b>‘executing client orders’ when dealing on own account outside of trading venues</b></li> <li>commercial policy for restricting access to quotes</li> <li>SIs limiting transactions at given quote.</li> </ul>		<p><i>ESMA updates market structures Q&amp;As</i></p> <p>ESMA published updated <i>Q&amp;As on MiFID II and MiFIR market structures topics</i> on 3 October 2017. The update covers clarifications on:</p> <ul style="list-style-type: none"> <li>direct electronic access suitability checks and controls</li> <li>liquidity bands for tick size regime</li> <li>NCA for dual listings</li> <li>OTFs trading REMIT wholesale energy products</li> <li>OTF best execution obligations for third-party brokers</li> <li>equity SIs executing orders at better than the quoted price <b>‘in justified cases’</b>.</li> </ul> <p><i>MiFID technical standards in Official Journal</i></p> <p>The following MiFID II technical standards with forms and procedures for authorisations were published in the Official Journal on 26 October 2017:</p> <ul style="list-style-type: none"> <li>RTS on information and requirements for the authorisation of investment firms</li> <li>RTS with exhaustive list of information to be included by proposed acquirers in the notification of a proposed acquisition of a qualifying holding in an investment firm</li> <li>ITS on notifications by and to applicant and authorised investment firms</li> </ul>		<ul style="list-style-type: none"> <li>ITS with standard forms, templates and procedures for the consultation process between relevant competent authorities in relation to the notification of a proposed acquisition of a qualifying holding in an investment firm.</li> </ul> <p>Each enters into force 20 days after publication.</p> <p><i>Resolving conflict of laws on research</i></p> <p>The EC issued <i>MiFID II: FAQs on obtaining brokerage and research services from non-EU brokers</i> on 26 October 2017. This resolves the conflict of laws whereby MiFID II requires the payment of research, which the US prohibits unless a firm is a registered investment adviser subject to fiduciary obligations.</p> <p>The SEC issued <i>no-action letters</i> on the same day, permitting US brokers and research services to provide research to EU firms for payment without violating US law. The EC clarified that the cost of research and execution paid to non-EU brokers can remain bundled as long as the price of the research is identifiable and the EU firm ensures there is a clear audit trail for research payments.</p> <p><i>Firms must validate clients’ LEIs</i></p> <p>ESMA published a <i>briefing</i> on LEIs on 9 October 2017, clarifying that firms will be <b>expected to validate their clients’ LEIs</b> for MiFIR transaction reporting purposes. Specifically, firms will be required to ensure that the length and construct of the code are</p>		<p>compliant with the ISO 17442 standard, that the code is included in the Global LEI database and that it pertains to the client concerned.</p> <p>While LEIs are used across transaction reporting regulations and for other purposes, the ramifications of the requirement are most significant under MiFIR, which prohibits firms from trading on behalf of those clients that fail to obtain such identifiers. Firms had previously interpreted the rules to mean that their only responsibility was to insist that clients provide them with their LEIs. But ESMA emphasises that firms need to take additional steps to validate the information they receive. MiFIR transaction reporting requirements apply from 3 January 2018.</p> <p><i>Pensions</i></p> <p><i>FCA reveals pension transfer advice concerns</i></p> <p>Advice firms are not sufficiently considering customer outcomes when changing their business models in the wake of the pension reforms, finds the FCA in an <i>update</i> on 3 October 2017. It is looking at how advisory firms have adapted their business models and processes, with a particular focus on defined benefit (DB) pension business. Over <b>the past two years it’s requested detailed</b> information from 22 firms on their DB transfer business, and as a result of its assessments, four firms have stopped advising on DB transfers.</p>	

The FCA is particularly concerned about firms introducing clients to specialist pension transfer advice businesses. It set out the risks associated with accepting such introductions in *August 2016*, but says some firms have not taken this on board. The FCA highlights concerns such as:

- a lack of information sharing between the introducing firm and transfer firm, which can result in unsuitable advice
- firms making a recommendation without knowing where the transfer funds would ultimately be invested
- transfer analysis routinely based on ‘default’ schemes or funds, despite the advice firm knowing these would not be the actual receiving schemes
- firms failing to ensure they have enough specialist transfer or compliance resources to deal with an increase in DB transfer business.

The FCA also sets out its concerns on the suitability of DB transfer advice, which include: firms failing to obtain enough **information about clients’** needs and circumstances, firms failing to consider the needs of the client alongside their objectives, and inadequate risk assessments.

Firms should consider this update and take appropriate steps to comply with the requirements. The FCA intends to carry out further supervisory assessments at a later date.

### *FCA updates guidance on pensions redress*

The FCA issued finalised guidance on how firms should calculate redress for unsuitable defined benefit (DB) pension transfers, in *FG17/9: Guidance for firms on how to calculate redress for unsuitable DB pension transfers* on 27 October 2017. It’s updated the methodology, including the underlying assumptions, to reflect recent changes to the pensions environment. The FCA says that under the new methodology, consumers are more likely to be put back in the position they would have been in had they not been given unsuitable advice to transfer out of a DB scheme.

The FCA also published a *Summary of feedback received* to its earlier consultation (*GC17/1*) on changes to the guidance.

### *Govt increasing pension cost disclosure*

The Department for Work and Pensions (DWP) issued a consultation on proposals for trustees and managers of occupational pension schemes to publish information on costs and charges. It published *Disclosure of costs, charges and investments in defined contribution (DC) occupational pensions* and *Draft Regulations* on 26 October 2017.

The Government is proposing requiring trustees and managers of certain occupational pension schemes to: publish information about cost and charges and tell members where they can find it; and provide information, if a member asks,

about the funds in which their money is invested. It also published guidance for trustees and managers for complying with the requirements: *Cost and charge reporting: guidance for trustees and managers of occupational schemes*.

It comes after the FCA published rules in September 2017 requiring asset managers to provide information about transaction costs and charges in response to requests from pension schemes.

The consultation closes on 7 December 2017. DWP plans to publish a response, including final regulations for parliamentary approval, within 12 weeks of that date. And it says the FCA will consult on corresponding rules in the New Year.

Also on 26 October 2017, DWP issued a report showing how charges in DC pensions have changed since the Government introduced a charge cap in April 2015: *Pension Charges Survey 2016: Charges in DC pension schemes*.

### *DWP eyes easier bulk DC transfers*

The Department for Work & Pensions (DWP) consulted on 26 October 2017 on draft regulations intended to make it easier for firms to bulk transfer defined contribution (DC) pensions without member consent. It published *The Occupational Pension Schemes (Preservation of Benefits and Charges and Governance) (Amendment) Regulations 2018*, seeking views on *Draft Regulations* which would replace the current

requirement to obtain an actuarial certificate for bulk DC transfers with an alternative test and new member protections. DWP also proposes to remove the scheme relationship condition.

DWP is consulting in response to stakeholder feedback that the current bulk transfer process is complex, and prevents employers and trustees from consolidating. The consultation closes on 30 November 2017. DWP expects the regulations will come into force on 6 April 2018, subject to parliamentary approval.

### *Reporting Simplifying regulatory reporting*

The EC published an *Evaluation Roadmap* on 17 October 2017, as part of its initiative to carry out a fitness check of reporting requirements. It’s responding to stakeholder feedback that reporting requirements are inconsistent with one another, which can make reporting overly complex and costly.

Through the fitness check, the EC aims to assess whether supervisory reporting requirements are fit for purpose from a cross-sectoral point of view. In particular, it’s looking at whether reporting requirements meet their objectives, whether the different frameworks are consistent with each other, and whether they pose a reasonable burden to firms. The EC hopes to identify areas where it can streamline and simplify requirements.



The EC welcomes feedback by 14 November 2017.

## Shadow banking

### Mitigating risk from shadow banking

The Basel Committee published *Identification and management of step-in risk* guidelines on 25 October 2017. It aims to build on existing provisions to further mitigate the risk that potential distress faced by shadow banking entities spills over to banks.

Step-in risk arises where banks have incentives beyond contractual or equity ties to support unconsolidated entities to which they are connected, typically because of reputational risk. Post-financial crisis reforms such as the revised securitisation framework, LCR provisions together with pillar 2 and stress testing considerations of reputational risk already address aspects of step-in risk.

But the Basel Committee aims, through the guidelines, to provide an overall framework using a forward-looking regime leveraging existing prudential tools. It recognises that it's appropriate to address step-in risk through bank-specific assessment, a tailored rather than standardised approach, and so the guidelines entail no automatic pillar 1 capital or liquidity charge additional to existing Basel Standards.

The guidelines require banks to establish their own policies and procedures to identify, assess and respond to step-in risk

as part of their risk management processes. Banks also need to be able to report the results of their self-assessment to their supervisors annually. The Basel Committee expects the guidelines to enter into force as soon as possible but no later than 2020. It expects to undertake implementation reviews in 2020

## Supervision

### ESMA highlights Brexit and MiFID II priorities

Steven Maijoor, Chair of ESMA, highlighted MiFID II, Brexit and third country issues as priorities for ESMA in a *statement* to the EP on 8 October. Maijoor is confident of **ESMA's ability to meet the MiFID II implementation deadline** but has concerns over the resources available to ESMA in meeting the challenge.

He also remains concerned that Brexit may result in financial stability risks, and notes ESMA has provided guidance to EU-27 regulators when dealing with firms relocating to the EU-27. ESMA, as direct supervisor of CRAs and trade repositories, expects these firms to conduct contingency planning for Brexit. Maijoor also believes that Brexit means a significant amendment **to the EU's equivalence regime may be needed**.

### FSB discusses 2018 priorities

The FSB published an *update* on its 2018 **workplan on 6 October 2017**. The FSB's priorities for 2018 include monitoring and publicly reporting on member **jurisdictions'**

implementation of agreed regulatory reforms as well as evaluating the effects of these reforms. The planned evaluation of post-financial crisis reforms will have two components. First, the FSB will undertake an assessment of the effects of regulation on infrastructure financing. This assessment will be prepared for the 2018 G20 summit. The second component will evaluate the effects of regulation on various sources of financing including banks and market-based sources.

The FSB has also announced plans to extend BoE Governor Mark Carney's chairmanship of the FSB from 4 November 2017 to 1 December 2018.

### ESMA sets out 2018 work plan

ESMA published its *2018 Work Programme* on 5 October 2017. It sets out the work it plans to carry out over 2018 under four main priorities: promoting supervisory convergence; assessing risks to investors, markets and financial stability; completing a single rulebook for EU financial markets; and directly supervising specific financial entities.

Under supervisory convergence, ESMA plans to focus on: corporate finance, corporate reporting, investment management, investor protection and intermediaries, market integrity and market data, post-trading, and secondary markets. It also intends to continue to assist NCAs in preparing for Brexit.

Secondly, in its risk assessment work, ESMA intends to improve data management, take a co-ordinated approach to supervising innovative services, and continue to monitor market risks.

On the single rulebook for EU financial markets, ESMA plans to:

- deliver relevant Level 2 work for the revised prospectus regime and the Securitisation Regulation
- produce RTS, ITS and advice relating to various pieces of investment management legislation
- provide advice and required Level 2 work on short selling, market abuse and data reporting
- **support the EC's review** of EMIR
- review RTS on transparency for non-equities.

Finally, on supervising specific financial entities, ESMA intends to improve the effectiveness of its supervision of individual CRAs and TRs. It also plans to continue existing work to recognise third country CCPs and CSDs.

### EC recognises US equivalence on OTC swaps

The EC finally confirmed that the legal, supervisory and enforcement regime of the US is equivalent to that of EMIR with respect to:



Executive summary	IDD deadline looms	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
<ul style="list-style-type: none"><li>risk-mitigation techniques applied to OTC transactions of swaps</li><li>exchange of collateral for OTC transactions of swaps.</li></ul> <p>It published <u>COMMISSION IMPLEMENTING DECISION (EU) 2017/1857 on the recognition of the legal, supervisory and enforcement arrangements of the US for derivatives transactions supervised by the CFTC as equivalent to certain requirements of Article 11 of Regulation (EU) No 648/2012 of the EP and Council on OTC derivatives, CCPs and trade repositories</u> on 13 October 2017.</p> <p>Swap dealers and major swap participants subject to CFTC and EU margin rules for uncleared swaps can now rely on substituted compliance where applicable under CFTC or EU rules.</p> <p><b>Wholesale markets</b></p> <p><b>Updating EMIR Q&amp;A</b></p> <p>ESMA published <u>updates to its EMIR Q&amp;A</u> on 2 October 2017. In the guidance ESMA confirms that derivative contracts traded on MTFs or OTFs are OTC derivatives in the context of EMIR, and so are subject to all of the EMIR requirements.</p> <p>By contrast, derivatives executed on equivalent third country exchanges will not be considered OTC and so will not be covered by EMIR, nor do they count towards determining the clearing threshold.</p>	<p>ESMA also clarifies the risks that CCPs should monitor on an ongoing basis.</p> <p><b>Updating TR data rules</b></p> <p>The EC published an EMIR <u>Delegated Regulation</u> on 7 October 2017. It imposes additional requirements on TRs to ensure that transaction reporting data can be easily aggregated.</p> <p>The new rules will require TRs to collect and store data using XML format templates and messages. In addition, the ISO 20022 methodology should be used for data access and to facilitate communications between TRs. To ensure confidentiality, any type of data exchange between TRs and relevant entities should be carried out through a secure machine-to-machine connection and use data encryption protocols. The Regulation applied from 1 November 2017.</p> <p><b>ISDA's Common Domain Model</b></p> <p>ISDA published its <u>Common Domain Model (CDM) Version 1.0 Design Definition Document</u> on 16 October 2017. ISDA hopes the CDM will provide an industry standard blueprint for how derivatives are traded across the post-execution trade lifecycle, and how each step in the process should be represented.</p> <p>ISDA intends to deliver a standardised model for the post-execution trade lifecycle as it believes a consistent approach will lead to less fragmentation in post-trade activities.</p> <p>Using this initial version of the model, ISDA wishes to start a debate with its membership</p>	<p>and the broader industry, around the feasibility of the CDM as the basis for common processes and data standards.</p> <p><b>Improving governance of product identifiers</b></p> <p>Seeking to facilitate consistent and aggregated transaction reporting, the FSB published a consultation paper <u>Governance arrangements for the unique product identifier (UPI): key criteria and functions</u> on 3 October 2017. The FSB wants stakeholder feedback on how many UPI service providers should be established overall and whether there should be restrictions on the number of service providers per asset class.</p> <p>These service providers would assign UPIs to derivative products and maintain a corresponding UPI Reference Data Library. As part of its wider role in developing a global UPI system, the FSB will be exploring: whether there should be an International Data Standard for the UPI, how service providers should be regulated domestically and whether to establish an international oversight body.</p> <p>The consultation closes on 17 November 2017.</p> <p><b>New issuance risk management standard</b></p> <p>The Fixed Income Currencies and Commodities Market Standards Board (FMSB) published its <u>Transparency Draft of the Risk Management for New Issuance</u></p>	<p><u>Standard for the Fixed Income markets</u>, on 25 October 2017.</p> <p>The standard applies to activity in the wholesale primary bond markets in Europe but is expected to be adopted by participants in primary markets in other jurisdictions over time. It involves all market participants directly involved in risk management transactions. Its core principles are relevant to risk management transactions associated with new issues in the fixed income markets, and identify potential conduct risks created by these transactions.</p> <p>The FMSB sets out expected behaviours that are designed to improve the practice and awareness regarding risk management activity that is conducted in and around the new issuance of bonds. It highlights expected best practice and conduct for potential conflicts of interest in the selection and formation of reference rates.</p> <p>The consultation on the draft standard closes on 20 December 2017, and the FMSB expects to publish the final document early in 2018.</p> <p><b>EU and US agree venue recognition approach</b></p> <p>The EC published <u>The United States Commodity Futures Trading Commission and the EC: A Common Approach on Certain Derivatives Trading Venues</u> on 13 October 2017. It proposes an approach around mutual recognition of EU and US trading venues. This will help firms</p>				

operating in the EU and US to meet obligations to trade certain derivative transactions on-venue under EU trading obligation and US trade execution requirements.

The EC set out that it intends to propose an equivalence decision to recognise CFTC- authorised US swap execution facilities and designated contract markets as eligible venues for the purposes of the MiFIR trading obligation. Such venues will be deemed equivalent if they meet MiFID II and MAR requirements.

Separately, the EC notes the CFTC will support exemption of EU MTFs and OTFs from requirements to register with the CFTC as swap execution facilities (SEFs). This will depend on MTFs and OTFs meeting requirements in Commodities Exchange Act Section 5h (g). This will mean exempt EU venues operating in the EU are eligible venues for purposes of complying with the CFTC trade execution requirement.

### *ECB opines on EMIR reforms*

The ECB gave its views on proposed EMIR revisions in an *opinion on a proposal for a regulation of the EP and of the Council amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivatives contracts not cleared by a CCP, the registration and supervision of trade repositories and the*

*requirements for TRs* published on 11 October 2017. It focuses on:

- envisaged exemptions of central bank transactions
- reporting obligation proposals for non-financial and intragroup transactions
- proposals to ensure quality of trade repository data
- **firms' compliance with risk-management, intragroup exemptions and capital requirements**
- CCP transparency requirements
- classification of securitisation special purpose entities as financial counterparties
- changes to methodology for calculating **counterparties' positions in OTC contracts**
- **the ECB's advisory role regarding draft delegated and implementing acts.**

The ECB provides alternative draft text for each point above for the EP and Council to consider further.

## *Accounting*

### *Accounting*

#### *FRC urges financial statement improvements*

The FRC published a letter sent to audit committee chairs and finance directors, dated 10 October 2017 and entitled,

*Summary of key developments for 2017/18 annual reports*. It highlights new accounting standards and also identifies key areas for improvement.

The new accounting standards it refers to are: IFRS 9 – Financial instruments, IFRS 15 Revenue from contracts with customers and for early adopters IFRS 16 – Leases. For these, the FRC says that in the last set of financial statements before the implementation date, it expects to see detailed quantitative disclosure regarding the effects of the new standards. It adds: **'We expect companies to have made a step change in the quality of their disclosures this year, particularly in respect of IFRS 15 and IFRS 9.'**

The FRC points out that investors rely on clear disclosure concerning critical judgements and estimates to understand **the impact of management's accounting** policy decisions. But it notes that boilerplate and generic disclosures should be avoided. **The FRC says that 'information value can be improved by providing more granular information about a smaller set of judgements and estimates that had a significant impact on results and explaining why certain assets were subject to a significant risk of material change'.**

It also indicates that the strategic report continues to be one of the areas which is most frequently subject to challenge through its monitoring activity. Matters for improvement include viability statements

and performance reporting as well as new aspects of non-financial reporting and the impact of Brexit. Other issues the FRC addresses include disclosures concerning pension arrangements, dividends, cash flows, accounting policies and business combinations.

### *ESMA identifies financial statement priorities*

ESMA issued a public statement *European common enforcement priorities for 2017 IFRS financial statements* on 27 October 2017. Alongside this it also published *Results of the fact-finding exercise on disclosure of the impact of the new accounting standards in the 2016 annual and 2017 interim IFRS financial statements*.

In contrast to the FRC's findings, ESMA raises specific considerations for banks. These include the application of IFRS 9, and disclosures of related critical judgements. In addition, ESMA highlights the transitional arrangements to mitigate the effects of IFRS 9 on prudential ratios and the related pillar 3 disclosure of the impact that EU legislators are currently considering. It also includes considerations for the measurement and disclosure relating to non-performing loans.

### *FRC defers consideration of IFRS 17*

The FRC issued *FRED 69 FRS 101 Reduced Disclosure Framework – 2017/18 cycle* on 30 October 2017. It proposes no amendments to FRS 101 as a result of its

latest annual review and that detailed consideration of IFRS 17 Insurance Contracts will be deferred until a clearer picture of the progress of its endorsement is known. The consultation period ends on 2 February 2018.

## IFRS 9

### IASB amends IFRS 9 and IAS 28

The IASB published [\*narrow-scope amendments to IFRS 9 and IAS 28\*](#) on 12 October 2017. The amendments are effective from 1 January 2019, with early application permitted.

It updates IFRS 9 – Financial Instruments for prepayment features with negative compensation and clarifies *IAS 28 – Investments in Associates and Joint Ventures* that companies should use IFRS 9 to account for long-term interests in an associate or joint venture, to which the equity method is not applied. The IASB also includes an example to illustrate how companies apply the requirements in IFRS 9 and IAS 28 to long-term interests in an associate or joint venture. The consultation ends on 11 December 2017.

## Our publications

### IFRS News

The [\*October edition\*](#) of IFRS news includes:

- Behind the Scenes at the Interpretations Committee
- IFRS 16 Leases – How to Guide

- Demystifying IFRS 9 – Financial Instruments for Corporates
- IFRS 15 – Revenue from Contracts with Customers
- Cannon Street Press
- IFRIC Rejections – IAS 39 – Financial Instruments.

## Reporting

### FRC calls for further reporting improvements

The FRC published a [\*Summary of key developments for 2017/18 annual reports\*](#) on 10 October 2017. It discusses changes to reporting requirements for 2017/18 including the implementation of new accounting standards, IFRS 9, IFRS 15 and IFRS 16 and the implementation of the EU Directive on non-financial and diversity information. It also highlights areas where it would like to see improved disclosures for viability statements, dividends, critical judgements and estimates and defined benefit pensions.

The FRC also published its [\*Annual Review of Corporate Reporting 2016/17\*](#) and [\*Corporate Reporting Review Technical findings 2016/17 on 23 October 2017\*](#). It finds the standard of corporate reporting, particularly by the largest listed companies, remains generally good and strategic reports have improved somewhat. The FRC **discusses the areas where it's seeking improvements to the clarity and**

completeness of explanations companies provide.

## Also this month

### BoE

The BoE published a [\*speech\*](#) by Sam Woods, Deputy Governor of the PRA, on geofinance on 4 October 2017. He spoke about embracing geofinance to help in the structural reform of major UK banks, and striking the right balance on geofinance.

### EBA

The EBA published an [\*overview of Competent Authorities implementation and transposition of the CRD IV package\*](#) on 30 October 2017. It provides an overview of the implementation of CRR across the EU and other information such as the use of options and discretions by competent authorities. It is relevant for CRR institutions in the EU as well as the competent authorities.

### ECON

The ECON issued its [\*Procedure file Action plan on financial services\*](#) on 26 October 2017. It is launching a plan to give EU consumers greater choice and better access to financial services and to move closer to a technology-enabled single market.

### ESMA

- ESMA published its first [\*Q&A on MiFID II and MiFIR post-trading topics\*](#) on 10 October 2017. The sole topic provides

clarification on straight through processing.

- ESMA published updated [\*Q&As on MiFID II and MiFIR commodity derivatives topics\*](#) on 4 October 2017. The update provides clarifications on ancillary activities and position management controls.
- ESMA published [\*EU derivatives markets – a first-time overview\*](#) on 19 October 2017. ESMA provides an overview of EU derivatives markets using data received from trade repositories it supervises under EMIR. It sets out information on sizes of different derivative markets and measures of concentration within these markets.
- ESMA published its [\*FAQs on MiFID II – Interim Transparency Calculations\*](#) on 18 October 2017. It collates FAQs on transitional transparency calculations for non-equity instruments for the purposes of RTS 2 of MiFID II. ESMA outlines general information on its transitional calculations, data availability and file content and structure.
- ESMA updated its [\*List of third-country central counterparties recognised to offer services and activities in the Union\*](#) on 9 October 2017. It added Indian Clearing Corporation Limited, National Securities Clearing Corporation Limited and MCX-SX Clearing Corporation to its

list of third-country CCPs that can offer clearing services within the EU.

- ESMA launched phase two of its Financial Instrument Reference Database (FIRDS) and published Financial Instruments Reference Data System (FIRDS) Instructions on access and download of full and delta reference data files on 16 October 2017. It provides market participants with an opportunity to identify instruments subject to MAR and MiFID II reference data reporting requirements.

## FCA

- FCA Chief Executive Andrew Bailey gave a speech on challenges associated with consumer credit, long-term savings and the ageing population on 4 October 2017. He announced that the FCA plans to publish its pension strategy later this year, setting out its assessment of the major regulatory issues in the sector.
- The FCA published MiFID II position limits for commodity derivatives contracts on 26 October 2017. These are the maximum positions a person can hold in the given commodity derivative and apply to contracts traded on trading venues and their economic equivalent. The limits apply from the MiFID II go-live date of 3 January 2018.
- The FCA consulted in CP13/35 Recovering the costs of the Office for Professional Body Anti-Money

Laundering Supervision: fees proposals on arrangements to fund supervisory activities required under the UK implementation of AMLD4. The consultation closes on 8 January 2018.

## FOS

The FOS issued a Consultation on amendments to rules for BMR, MiFID II and advising on investments on 10 October 2017. The consultation paper covers proposed changes to the voluntary jurisdiction of the FOS to reflect FCA changes to its dispute resolution rules which **establish the scope of FOS's compulsory jurisdiction**. Comments are due by 6 November 2017.

## FSB

The FSB issued a Progress report on implementation of July 2014 FSB recommendations on reforming major interest rate benchmarks on 10 October 2017. Administrators are updating their interbank offered rates (IBORs) methodologies, and slowly transiting to risk free reference rates due to the lack of transaction data available for the calculation of certain IBOR tenors.

## HMT

HMT issued MoU on resolution planning and financial crisis management on 16 October 2017. The MoU establishes a framework for coordinating financial crisis management between HMT and the BoE.

## PRA

- The PRA published PRA CP18/17 FCA CP17/34 Occasional Consultation Paper on 3 October 2017. The consultation includes amendments to various sections of the PRA and FCA rulebook and supervisory statements, which apply to both PRA and FCA supervised firms. The consultation closes on different dates – 17 October 2017, 3 November 2017 and 9 January 2018 – for different amendments.
- The PRA published summary guidance for firms on the Application to classify a new instrument as CET1: Article 26(3) on 24 October 2017. It draws together existing forms and guidance.
- Banks, building societies, credit unions, and PRA designated investment firms should expect some changes to a number of SM&CR forms, following a PRA policy statement PS24/17 Strengthening accountability in banking: changes to SMR forms on 3 October 2017. These forms came into effect on 12 November 2017.
- The PRA in its monthly update reminded firms of the options to submit their queries on FINREP on 27 October 2017. For any UK specific reporting queries, firms can refer to the UK-specific reporting clarifications for FINREP financial statements templates. This update is relevant for all PRA supervised firms in the UK.

## UK Government

- The Home Office published S.I. 2017 No. 1028 (C. 94) Proceeds of Crime Prevention and Suppression of Terrorism, the Criminal Finances Act 2017 (Commencement No. 3) Regulations 2017 made on 25 October 2017. This brings into force provisions, taking effect on 31 October 2017, about the sharing of information.
- The House of Lords Select Committee on the Constitution published the Data Protection Bill on 26 October 2017. The Bill replaces the Data Protection Act 1998 and aims to meet the need for enhanced data protection in the digital age. It seeks to apply data processing rules to all areas of personal data processing, including those not covered by the GDPR.



# Banking and capital markets

In this section:

<b>Regulation</b>	<b>17</b>
Capital and liquidity	17
Competition	19
Conduct	19
Consumer credit	19
Finance	20
Financial stability	20
Payments	20
Recovery and resolution	21
Stress testing	22
Supervision	22
<b>Accounting</b>	<b>22</b>
IFRS 9	22
<b>Also this month</b>	<b>23</b>

*A brief round up of other regulatory developments*



**Anne Simpson**  
Banking lead regulatory  
partner  
020 7804 2093  
anne.e.simpson@pwc.com



**Hortense Huez**  
Prudential regulation, Basel III,  
Liquidity and funding  
020 7213 3869  
hortense.huez@pwc.com

## Regulation

### Capital and liquidity Changing the UK leverage ratio calculation

The PRA published policy statement *PS21/17 UK leverage ratio: treatment of claims on central banks* on 3 October 2017. It applies to all PRA-regulated banks and building societies with retail deposits equal to or greater than £50bn on an individual or a consolidated basis. This follows the FPC's and the PRA's June 2017 *consultations* and the FPC's adoption of its *recommendation* to the PRA on 20 September 2017.

It makes changes in line with its consultation to exclude from the exposure measure of the leverage ratio calculation, assets constituting claims on central banks where they are matched by deposits denominated in the same currency and are of identical or longer maturity. The PRA invited firms to apply for a *temporary rule modification* to effect this in August 2016. It also increases the minimum leverage ratio from 3% to 3.25%.

In addition, the PRA updates its reporting and disclosure requirements to reflect these changes. The changes come into effect immediately and so apply to reporting and disclosure requirements from end-December 2017 onwards.

### PRA updates group risk policy

The PRA published consultation papers *CP19/17: Groups policy and double leverage* and *CP20/17: Changes to the PRA's large exposures framework* on 4 October 2017. It updates its group risk policy on the distribution of financial resources in banking groups and the calibration of requirements for individual group entities.

**The PRA's proposals require firms to assess** and mitigate the risks to group resilience stemming from double leverage and the differences between consolidated capital requirements and the aggregate requirements for individual group entities. It also includes measures to address the risk posed by the inappropriate allocation of resources amongst group entities. The PRA intends that firms address these matters in their ICAAP and ILAAP.

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. The LE intragroup permission proposals include a wider PRA judgement based on whether group entities are strongly incentivised to support each other. The PRA also intends that LE exposures created by the issue of internal MREL resources are exempt from the LE limit.



Other existing consultations affecting the **PRA's groups policy framework include:** pillar 2 liquidity ([CP13/17](#)) regarding intragroup liquidity risk, setting individual firm pillar 2A capital requirements ([CP12/17](#)) and [Internal MREL](#).

The PRA intends to implement the policy changes fully from 1 January 2019. But it expects firms to incorporate the changes in their 2018 ICAAP and ILAAP submissions ahead of full implementation where practical. The consultations close on 4 January 2018.

### *More flexibility for derivatives' NSFR requirement*

The Basel Committee announced in a [press release](#) on 6 October 2017 an amendment concerning NSFR. The current rules assign a 20% required stable funding factor for derivative liabilities. It has decided that at national discretion, jurisdictions may lower this factor with a floor of 5%.

The Basel Committee is also considering whether it needs to make further revisions to the treatment of derivative liabilities and if so intends to consult on any proposed changes.

### *Basel Committee close to completing reforms*

William Coen, Secretary General of the Basel Committee on Banking Supervision, says the Committee is close to finalising its long-awaited reforms to capital standards. [Speaking](#) on 13 October 2017, Coen compared reaching agreement on key

aspects of the reforms – notably an output floor for risk weights – to running a marathon.

Coen believes agreement will be reached soon, although cautions that the Basel Committee's ultimate decision making body, made up of central bank governors and heads of supervision, will have to reach a final agreement. Looking ahead to the **next stage of the Basel Committee's work**, Coen highlights the following priorities: implementation, assessing the impact of reforms and improving supervisory practices.

### *Clarifying the liquidity of currency reserves*

The PRA published an [update](#) to its CRD IV webpage on the treatment of foreign currency reserves in the LCR on 31 October 2017. A recent [EBA Q&A](#) highlights a technical issue regarding the treatment of foreign currency reserves as level one assets for the LCR calculation. The PRA clarifies that this issue does not alter its view of a **firm's ability to withdraw its central bank reserves during stress situations**. It also states that this issue does not affect its **assessment of a firm's liquidity position**.

In addition, the PRA draws attention to the agreement it has concluded with the BoE concerning sterling reserves and to the ECB **statement that represents the PRA's understanding of the treatment of euro reserves**. It also indicates it is in discussion with certain other central banks to obtain

formal confirmation regarding **withdrawability of firms' reserves at those central banks**.

### *ECB sets non-performing loan expectations*

The ECB published for consultation an [addendum to the ECB guidance to banks on non-performing loans: Prudential provisioning backstop for non-performing exposures \(NPEs\)](#) on 4 October 2017. This follows the [March 2017 consultation](#) on the main body of this guidance. It is relevant for all banks directly supervised by the ECB.

The ECB specifies its quantitative supervisory expectations for minimum levels of prudential provisions for NPEs. It intends that this applies to new NPEs arising from 1 January 2018. It views these measures as a backstop aimed at the prudent treatment of NPEs, avoiding the excessive build-up of **'non-covered aged NPEs' on banks' balance sheets in the future**. The guidance is not intended to substitute or supersede applicable accounting or other regulatory requirements.

The ECB observes that many banks have made progress addressing their existing stock of NPEs, although some banks still need to improve. It aims to present further policies to address these NPEs by the end of Q1 2018. The consultation closes on 8 December 2017.

### *CRD V moves forward*

The EP [agreed](#) a number of important aspects of the CRD V package on 26 October. MEPs reached an agreement on a new class of subordinated debt in banks' insolvency hierarchy which would be eligible to meet the internationally agreed TLAC standard for G-SIBs. MEPs also agreed that due to the adverse impact on capital ratios of the new IFRS 9 standard, banks will be given a five-year transitional period to adapt to the new standards. Negotiations continue on the rest of the CRD V package.

### *Strengthening the EU Pillar 2 framework*

The EBA published three consultation papers concerning Pillar 2 on 31 October 2017: [Draft guidelines on the revised common procedures and methodologies for the SREP and supervisory stress testing](#), [Draft guidelines on the management of interest rate risk arising from non-trading book activities \(IRRBB\)](#) and [Draft guidelines on institutions' stress testing](#). This is line with its [April 2017 Pillar 2 roadmap](#).

**The EBA's revisions to the SREP framework** include enhancing the requirements for supervisory stress testing and explaining how stress testing outcomes will be used in setting Pillar 2 capital guidance (P2G). P2G is the supervisory tool for setting capital expectations over and above that required by Pillar 1 and existing components of Pillar 2, including the combined buffer. There are

Executive summary	IDD deadline looms	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
<p>also amendments to the assessment of internal governance to align the framework with the <a href="#"><i>EBA's revised guidelines</i></a> on this issue.</p> <p>The IRRBB changes reflect the Basel Committee's <a href="#"><i>April 2016 IRRBB standard</i></a> clarifying internal governance and supervisory outlier test requirements during the first phase of the EU implementation of this standard. The EBA intends these revisions to act as a bridge to the full implementation of IRRBB requirements reflected in CRD V/CRR II, the banking package of reforms launched in November 2016. The stress testing guidelines amendments include the incorporation of changed industry practices and recovery planning.</p> <p>The EBA intends for these revised guidelines to apply from 1 January 2019 for the 2019 SREP cycle. The consultations close on 31 January 2018.</p> <p><a href="#"><i>Levelling the Pillar 2A capital playing field</i></a></p> <p>The PRA published its policy statement <a href="#"><i>PS22/17 - Refining the PRA's Pillar 2A capital framework</i></a> on 3 October 2017. This follows its February 2017 consultation <a href="#"><i>CP 3/17</i></a>. It aims to reduce the disparity in capital requirements between the standardised approach (SA) to credit risk, mainly used by smaller banks and building societies, and the IRB approach. The changes include:</p>	<ul style="list-style-type: none"><li>• adjustments to the Pillar 2A approach for firms using the SA approach for credit risk</li><li>• revisions to the IRB benchmark used for assessing credit risk</li><li>• additional SREP considerations it intends to factor in for SA firms using IFRS.</li></ul> <p>In response to feedback, the PRA makes several minor changes to its proposals including a correction to the IRB benchmark risk weight (excluding expected losses) for personal loans and a clarification concerning the treatment of commercial real estate exposures. Implementation of this policy statement involves changes to its: statement of policy <a href="#"><i>The PRA's methodologies for setting pillar 2 capital</i></a>, supervisory statement <a href="#"><i>SS31/15 - the ICAAP and the SREP</i></a>, supervisory statement <a href="#"><i>SS32/15 - Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082</i></a> together with the Pillar 2 reporting component of the PRA rulebook. The refined Pillar 2A framework comes into force on 1 January 2018.</p> <p><a href="#"><i>Competition</i></a></p> <p><a href="#"><i>EC investigates anti-competitive bank activities</i></a></p> <p>The EC confirmed in a factsheet <a href="#"><i>Antitrust: Commission confirms unannounced inspections concerning access to bank account information by competing services</i></a> on 6 October 2017 that its officials have</p>	<p>conducted a series of unannounced inspections to investigate alleged anti-competitive practices.</p> <p>The visits to companies and/or their trade associations carried out on 3 October 2017 took place following concerns that non-bank owned providers of financial services were <b>being prevented from accessing customers' bank accounts</b> despite the customer giving permission.</p> <p>The EC stresses that the inspections are precautionary and do not signal or prejudice any rule breaches.</p> <p><a href="#"><i>Conduct</i></a></p> <p><a href="#"><i>FCA updates on retail bank review</i></a></p> <p>The FCA provided further details on its <b>review of retail banks' business models, in <a href="#"><i>Strategic Review of Retail Banking Business Models: Purpose and Scope</i></a></b> on 25 October 2017. It explains how it uses business model analysis in conduct and competition regulation, the nature of some of the changes affecting the banking market, and the implications of these changes. For example, the FCA explains that the macro-economic uncertainty created by Brexit, and the impact of a weak economy on <b>consumers' ability to service debt, could materially affect banks' business models.</b></p> <p>The FCA says it will consider the following issues in the review:</p> <ul style="list-style-type: none"><li>• the role and economics of personal current accounts (PCAs) and cross-selling</li></ul>	<ul style="list-style-type: none"><li>• the competitive <b>advantage of large 'back books'</b></li><li>• credit expansion and sub-prime lending</li><li>• the effect of technological change, greater intermediation and the future of branches in retail banking</li><li>• competition advantages and disadvantages of alternative business models</li><li>• distributional issues for PCAs.</li></ul> <p>In addition, the FCA explains how it will collect information from firms for the purposes of the review. It intends to initially <b>collect 'readily available' management</b> information, such as strategic plans and pricing policies. The FCA plans to use this information to establish a base line understanding of the business models within retail banking, and to identify areas for further investigation, which might require more detailed information. In the second phase of the review the FCA will seek to answer the areas of focus identified above, plus any additional areas identified in phase one, in a data-driven and evidence-based way. It still plans to publish an update on its work in Q2 2018.</p> <p><a href="#"><i>Consumer credit</i></a></p> <p><a href="#"><i>FCA provides credit income reporting guidance</i></a></p> <p>The FCA published <a href="#"><i>guidance</i></a> for firms on reporting income from their consumer credit activities on 25 October 2017. Using</p>				

series of example scenarios, the FCA sets **out what firms should and shouldn't report** when submitting data using forms CCR002 and CCR007. The information is used to **calculate firms' fees for the following year**, so careful reporting is required. The FCA provides additional guidance for completion of *CCR007 in CCR007 Consumer Credit data: Key data FAQs*, published alongside the guidance.

## Finance

### Reviewing SFT regulation

On 19 October 2017, the EC published a *report* on whether any gaps exist between EU regulation of securities financing transactions and FSB recommendations, and considered whether any additional regulation is warranted as a result.

It concludes that no additional regulation is necessary, despite the presence of substantive discrepancies between the scope of the FSB's recommendations and what's covered by SFTR and other EU regulations. For example, the FSB calls for specific re-hypothecation disclosure while SFTR only requires that general risks are disclosed and counterparty consent is achieved. Likewise, the FSB recommends that cash-collateral reinvestment rules be imposed on all non-bank financial institutions while the EU issued voluntary guidance to UCITS funds (but not managers of alternative funds).

Commentators have speculated that SFTR could be expanded to move beyond its current focus on transaction reporting. But

the report's conclusions seem to indicate that additional SFT regulation isn't on the horizon.

### Financial stability FPC discusses consumer credit and IFRS 9

The BoE published its *Record of the 20 September 2017 FPC Meeting* on 3 October 2017. The FPC maintains the UK CCB rate at 0.5% but reiterates a likely increase to 1% at its next meeting in November 2017.

The FPC sets out its views on the appropriate loss rate on consumer credit in **the Bank's 2017 annual stress test of major UK banks**. It judges that the UK banking system would incur consumer credit losses of £30bn in the first three years of the severe stress test scenario – equivalent to 20% of UK consumer loans. It expects firms to begin to factor these levels of stressed losses into their lending and capital plans. The FPC indicates that it expects regulatory capital buffers for individual firms to be set following the full test results.

It also agreed to ensure that the interaction of IFRS 9 accounting with its annual stress test does not in practice result in an increase in capital requirements. It encourages firms **to use 'any internationally agreed transitional arrangements.....provided the arrangements are broadly similar to those currently being considered'**.

Finally, the FPC confirms its recommendation to the PRA for amending

the leverage ratio rules relating to the treatment of claims on central banks. This **follows the BoE's and PRA's June 2017 consultations**. The amendment allows the exclusion of claims on central banks, subject to conditions, but with a compensating increase in the minimum leverage ratio requirement from 3% to 3.25%.

## Payments

### EC adopts supplementary interchange fee regulations

The EC adopted *Commission Delegated Regulation (EU) No .../.. supplementing Regulation (EU) 2015/751 of the EP and the Council on interchange fees for card-based payment transactions with regard to RTS establishing the requirements to be complied with by payment card schemes and processing entities to ensure the application of independence requirements in terms of accounting, organisation and decision-making process* on 5 October 2017.

**The EC rejected the EBA's proposals in the** draft regulations which allowed for the sharing of staff between the entities and the participation of staff in all employee share plans and benefits arrangements on the basis that the proposals did not comply with the regulations and created conflicts of interest.

A further EBA proposal which set a numerical limit to any overlapping directorships a person may hold on the management bodies of the two entities was amended by replacing the numerical limit

with set conditions. The regulation takes effect 20 days after appearing in the Official Journal.

### FCA accepts online payments applications

On 13 October 2017, the FCA's updated webpages allowed firms to *apply* via the **FCA's Connect system for authorisation or registration** to provide payment services. From 13 January 2018, authorised and small payment institutions and electronic money institutions (EMIs) – those with average monthly transactions of less than **€3m** – must be authorised or registered with the FCA to provide payment and e-money services.

The re-authorisation and re-registration process for some existing PSPs and EMIs is open too. PSPs providing the newly regulated services of payment initiation services or account information services can submit applications to the FCA. The widened scope of PSD2 means that more firms may be caught by the regulations and may need to be authorised or registered. An FCA PSD2 navigator video, also available via the webpage, helps firms understand how the new regulation affects their business.

In addition, the FCA has updated its Perimeter Guidance to help firms understand if their activities fall within scope of the PSRs. The updated PERG guidance is available by setting the date on the Handbook to 13 January 2018. PSPs and

*EMIs* that wish to cancel or vary permissions should also use the Connect system. Those wishing to passport services within the EEA may apply to do so from 13 December 2017. PSD2 takes effect in the UK from 13 January 2018.

### *EPC updates payments guidance*

The EPC *launched* a public consultation on the revised *Mobile Contactless SEPA Card Payments Implementation Interoperability Guidelines* on 26 October 2017. The EPC intends the guidelines to be a reference for all stakeholders working on mobile contactless payments in Europe.

Updated to reflect new technologies and regulations, the guidelines have been extended to include new technical solutions such as cloud-based Host Card Emulation solutions (a software architecture that emulates a contactless card on the mobile device), embedded Universal Integrated Circuit Cards, strong customer authentication and new concepts such as ‘tokenisation’ and ‘payment card manager’. The guidelines are also now aligned with recent standardisation work by stakeholders such as the European Cards Stakeholders Group.

The EPC invites comments on the updated guidance by 26 January 2018.

### *Home-host cooperation for PSD2*

The EBA published a consultation on *draft RTS on cooperation between competent authorities in the home and host Member*

*States in the supervision of payment institutions operating on a cross-border basis under Art. 29(6) of PSD2* on 27 October 2017. The RTS also apply to e-money institutions.

The EBA sets out procedures for home and host authorities to follow in making requests for cooperation and exchange of information and responding to such requests. These include designating single points of contact and languages for communications as well as the use of standardised forms and timelines.

The EBA also includes reporting requirements for institutions with agents or branches in a host Member State which has elected to require periodic reports on activities carried out in that Member State.

The reporting templates require details of services provided, usage data, refunds, complaints and fraud, countries from which and to which money is sent, operational and security incidents and any proposed new services. The EBA anticipates that host authorities will use the reports to gain a better understanding of their local payments markets and to monitor compliance with local requirements.

The consultation closes on 5 January 2018.

## *Recovery and resolution* *Updating approach to UK banks' resolution*

The BoE published an updated version of *The BoE's approach to resolution* on 2 October 2017. The document, also known as the ‘Purple Book’, replaces an *October 2014 version*.

The BoE aims to give banks, their shareholders, debt investors and the public a clear idea of how resolution works in the UK. It explains the key features of the UK resolution regime and how the BoE (as the **UK's resolution authority**) is likely to implement a resolution. A key message in the update is that there must be transparency about the resolvability of UK **banks to ensure an end to ‘too big to fail’**. As a first step, the BoE published details of the MREs for major UK banks and building societies in *May 2017*. It now expects to publish summaries of the resolution plans for those firms from 2019.

The BoE also wants to release details of its view of the effectiveness of these resolution plans and what further steps banks need to take. It intends this openness to incentivise firms to prioritise removing barriers to their resolvability. The Purple Book contains three annexes addressing specific barriers to resolution.

### *Developing UK internal MREL policy*

The BoE issued a consultation paper on *Internal MREL – the BoE's approach to setting a MREL within groups, and further*

*issues* on 2 October 2017. It proposes updating its November 2016 *MREL Statement of Policy* to address internal **MREL in line with the FSB's Guiding Principles on the Internal TLAC of G-SIBs** issued in July 2017.

The BoE intends that its internal MREL policy covers both UK-headquartered banking groups and UK subsidiaries of overseas banking groups. It plans to set internal MREL above capital requirements for material subsidiaries within these groups. Material subsidiaries are those that represent at least 5% of the **group's RWAs**. The BoE expects that internal MREL for a material subsidiary to be scaled in the range of 75-90% of the full amount of external MREL that would apply if the subsidiary were a UK resolution entity. To qualify as internal MREL, firms must issue instruments meeting the same criteria as those for external MREL. The BoE plans to inform firms of their internal MREL annually.

The consultation also includes proposals for:

- critical service providers to maintain loss-absorbing capacity for operational continuity purposes equivalent to at least 25% of the annual operating costs of providing services in addition to any internal MREL
- the setting of external MREL for multiple point of entry groups.



The BoE proposes the same transition period for meeting internal MREL as for external MREL. This means interim internal MREL is to apply to material subsidiaries of G-SIBs from 1 January 2019 and from 1 January 2020 for other firms. End-state internal MREL applies to all firms from 1 January 2022. The consultation closes on 2 January 2018.

### Revising information requirements for resolution plans

The EBA published consultation paper, *Draft ITS on the provision of information for the purpose of resolution plans under Article 11(3) of BRRD* on 11 October 2017. It proposes refining the existing templates and information requirements of *Regulation 2016/1066 in light of resolution authorities' (RAs) experience in preparing resolution plans*. The EBA provides a minimum set of reporting obligations for firms. But the proposals do not prevent RAs requiring additional information they may need. It also recognises the right of RAs to set simplified reporting obligations for firms whose failure would have a limited impact on financial stability.

The EBA expects the revised framework to be operational in 2019 when RAs collect information as of 31 December 2018. It plans a public hearing on this issue on 9 November 2017. The consultation closes on 11 December 2017.

## Stress testing

### Stress testing interest rate risk

The ECB published the results of its *Sensitivity analysis of interest rate risk in the banking book (IRRBB) – stress test 2017* on 9 October 2017. It reports that higher interest rates would lead to higher net interest income for most ECB directly supervised banks. But it would also lead to lower economic value of equity. The ECB notes that stable costs of retail deposits are a significant assumption underpinning this outcome and identifies that banks rely heavily on behavioural models to measure and manage their IRRBB. But the ECB finds that most models are calibrated solely in a declining interest rate environment potentially leading to high model risk if interest rates were to increase.

The stress tests also illustrate how banks use interest rate derivatives for hedging risk and reaching a target interest rate profile **and how they adopt a range of 'positioning' towards future interest rate movements**. The ECB intends that its supervisory teams use these results in SREPs and also follow-up with individual banks on specific issues identified.

## Supervision

### Prioritising completion of the Banking Union

The EC published a *Communication* on 11 October 2017 calling for the completion of the Banking Union by 2018. It recommends new rules to limit bank exposure to non-

performing loans (NPLs) and adopting a staged approach to the introduction of the EDIS.

The EC proposes that initially EDIS should provide liquidity to national deposit guarantee schemes, while these schemes continue to cover losses. Under the second stage, the EDIS coverage of losses should increase but this is conditional on reductions in the level of NPLs. It suggests a package of remedies for NPLs, including legislative measures to further develop secondary markets and enhancing the ability of creditors to recover value from secured loans.

In addition, the EC discusses enhancing the fiscal back-stop to the SRM by altering the terms of the European Stability Mechanism to ensure a reliable credit line when bail-in measures by private investors proves insufficient.

### EBA sets out 2018 priorities

The EBA published its *2018 work programme* on 5 October 2017. It identifies its priorities for the year which include:

- monitoring and evaluating the impact of Brexit
- contributing to CRR/CRD and BRRD developments, and reviewing the **consequences of the Basel Committee's** revision of the trading book
- implementing its data infrastructure and data analysis project to enhance the

EBA's role as a data hub for its stakeholders

- considering the regulatory response to FinTech
- fostering proportionality in relation to policy developments while monitoring **the consistent application of its 'Single Rulebook' and its impact on firms**
- **contributing to the EC's action plan** to tackle non-performing loans in the EU.

The EBA details its 2018 work programme by reference to 38 activities with specified planned outputs. It structures its programme around seven strategic areas covering the period 2018-2021.

## Accounting

### IFRS 9

#### Engaging non-executive directors in IFRS 9

The PRA published *Getting ready for IFRS 9 – a note for non-executive directors (NEDs)* on 27 October 2017. The PRA stresses the importance of NEDs engaging in the implementation of IFRS 9 and in having the support they need to challenge management effectively. It outlines **questions NEDs should raise at directors' meetings** including those relating to regulatory capital, together with references to essential reading.

The PRA also indicates that it expects to request written reports from auditors on the



implementation of IFRS 9. It warns audit committees of the need to get involved in setting the level of assurance that the auditors provide at key reporting dates between now and the full set of IFRS 9 financial statements.

Finally, the PRA identifies the priority for 2018 and beyond is to identify and replace tactical solutions adopted to implement expected credit loss (ECL) requirements on time where they may be unduly approximate, or may not hold in less benign conditions. It looks to audit committees to monitor this to ensure that at all times the ECL methodologies remain fit for purpose. The PRA comments that it expects firms to continue to work on their ECL methodologies for some years to come.

## Also this month

### Basel Committee

The Basel Committee published its Thirteenth progress report on adoption of Basel regulatory framework on 18 October 2017. It assesses all member jurisdictions as compliant or largely compliant concerning implementation of risk-based capital rules and the LCR. The Basel Committee is now turning its attention to assessing implementation of the NSFR and the revised large exposures framework.

### EBA

- The EBA published the guidelines compliance table on 9 October 2017. It

lists the competent authorities that comply or intend to comply with the **EBA's guidelines on the management of interest rate risk in the non-trading book**. This publication is relevant to all banks in the EU and all PRA supervised firms in the UK.

- The EBA published an Executive summary of the Annual Report 2016 on 23 October 2017. This follows the publication of the full version of its Annual Report in June 2017.
- The EBA published the final timeline for the 2018 EU-wide stress test on 30 October 2017. It aims to launch the exercise in early 2018 and publish the results by 2 November 2018. It is working with competent authorities to finalise the methodology and template for banks participating in the stress test.
- The EBA published final guidelines on procedures for complaints of alleged infringements of PSD2 on 13 October 2017. It made only minor changes following consultation. The Guidelines will apply from 13 January 2018.

### EC

- The EC published COMMISSION DELEGATED REGULATION (EU) 2017/1799 of 12 June 2017 supplementing MiFIR as regards the exemption of certain third country central banks in their performance of monetary, foreign exchange and

financial stability policies from pre- and post-trade transparency requirements in the Official Journal on 7 October 2017. The delegated regulation updates the list of central banks exempt from MiFIR Articles 8, 10, 18 and 21.

- The EC issued a Public consultation on broadening law enforcement access to centralised bank account registries on **17 October 2017. It's proposing new EU legislation** to broaden the access to centralised bank and payment account registries to a number of public authorities, to disrupt the activities of organised crime groups. The consultation closes on 9 January 2018.
- The EC adopted Regulation on supplementing CRR with regard to RTS for the materiality threshold for credit obligations past due on 19 October **2017. This follows the EBA's final report** on this RTS in September 2016. NCAs are set to have discretion over the date of application of these requirements. But in its final report the EBA signalled it expects implementation of the RTS by the end of 2020 at the latest.
- The EC welcomed agreement reached on elements of the 2016 EU Banking Reform package, in a press release on 25 October 2017. The EP, Council and EC agreed on elements of the BRRD, CRR and CRD proposed in November 2016. The EC says the agreement will be followed by further technical talks to

finalise the text by the beginning of 2018.

### ECB

The ECB published Decision (EU) [2017/XXX] of the European Central Bank amending Decision ECB/2007/7 on the legal framework and terms and conditions of Target2-ECB on 10 October 2017.

### EPC

The EPC published updated rulebooks for all SEPA payment schemes on 18 October 2017. Most take effect on 19 November 2017 but the updated SEPA Instant Credit Transfer rulebook applies from 21 November 2017. The EPC notes that the updates reflect minor regulatory changes and have no operational impact.

### FCA

The FCA announced on 12 October 2017 that publication of its mortgages market study interim report has been delayed. It now plans to issue the report in spring 2018, instead of summer 2017, with the final report due in Q4 2018.

### IADI

The International Association of Deposit Insurers (IADI) published a draft research paper, Resolution issues for financial cooperatives – overview of distinctive features and current resolution tools on 17 October 2017. IADI plans a second paper that aims to enhance the resolution tools applicable to these entities. The

consultation on the first paper closes on 17 November 2017.

### *Wolfsberg Group*

The Wolfsberg Group published its revised Payment Transparency Standards on 15 October 2017. It proposes new standards to clarify expectations on originators, intermediaries and beneficiaries and address on behalf of payments, money or value transfer services and the use of LEIs. But full adoption will require changes to payment infrastructures and investment from the payments industry.

# Asset management

In this section:

<i>Regulation</i>	25
Costs and charges	25
Investment funds	25
Remuneration	26
<i>Also this month</i>	26



**Amanda Rowland**

Asset Management  
Regulatory Lead

020 7212 8860

amanda.rowland@pwc.com



**Andrew Strange**

FS Regulatory Centre  
of Excellence

020 7804 6669

andrew.p.strange@pwc.com

## Regulation

### Costs and charges

#### *EU focuses on active management*

ESMA published *The impact of charges on mutual fund returns* on 19 October 2017. Its findings confirm that many of the conclusions reached by the FCA in its Asset Management Market Study have wider EU applicability. At the very least, ESMA indicates that the EU is as sensitive as the UK to the higher costs and charges incurred by investors of retail products or actively managed services.

In light of the new ESA mandate to review costs and charges, as well as the EC's wider exploration of expanding the scope of EU oversight and regulation of investment funds under CMU, the report's conclusions could support EU regulatory solutions similar to what the FCA has proposed in the UK.

#### *ESAs monitor asset management costs*

The EC issued a *mandate* to the ESAs on 19 October 2017, to issue recurrent reports on the cost and past performance of the main categories of retail investment, insurance and pension products. Such reports will support its aims under CMU of improving

the assessment of the net return of retail investment products and the impact of diverse fees and charges.

While the EC hopes these reports will enhance competitive pressure and improve pricing discipline, there are clear regulatory implications. Recent regulations such as PRIIPs and MiFID II have increased pre-contractual disclosure but the ESAs will continue to investigate whether such disclosure adequately drives investor decisions or adequately aligns costs across Member States.

The EC appears concerned that certain investment strategies or products are imposing unwarranted costs. As a result, the reports could inspire regulation similar to the approach taken by the FCA regarding its Asset Management Market Study. Dramatically divergent approaches between Member States could support the argument for increased harmonisation of asset management regulation across the EU.

### Investment funds

#### *Finalising new venture capital rules*

The Council adopted *updated regulations* to the EuVECA and European Social Entrepreneurship Funds investment fund framework on 9 October 2017. This follows

the EP's formal approval in September 2017 of an agreement it had previously reached with the Council in May 2017. The Regulation will be published in the Official Journal and will enter into force 20 days after publication. The regulation will start to apply three months after its entry into force.

The new rules will allow larger fund managers to manage these vehicles, expand the scope of eligible investments and increase the opportunities for these funds to make follow-up investments in underlying companies.

### *Remuneration*

#### *Clarifying AIFM remuneration disclosure requirements*

ESMA clarifies that AIFMs should disclose remuneration information of the staff of third country delegates in *updates to its AIFMD and UCITS Q&A* published on 5 October 2017. At a minimum, they should include the total amount of remuneration for the financial year, split into fixed and variable remuneration, paid by the AIFM to the delegate's identified staff.

More generally, ESMA confirms that AIFMD remuneration disclosure needs to be made in the annual report itself and not through a link to a separate document. It also provides more detail regarding how SFTR disclosure should be presented in asset managers' periodic statements. Firms

must present certain information as a year-end snapshot, but other SFTR disclosure should be presented as an aggregate over the reporting period.

### *Also this month*

#### *FCA*

The FCA has *urged* the public to shop companies that contact them offering potentially fraudulent investment opportunities. In a press release published on 25 October 2017, the regulator advised consumers to seek independent advice before pursuing investment offers.

# Insurance

In this section:

<b>Regulation</b>	<b>27</b>
Brexit	27
Disclosure and distribution	27
Reporting	28
Retail products	28
Solvency II	28
Supervision	30
<b>Accounting</b>	<b>30</b>
Our publications	30

<b>Also this month</b>	<b>30</b>
------------------------	-----------

*A brief round up of other regulatory developments*



**Jim Bichard**  
UK Solvency II Leader  
020 7804 3792  
jim.bichard@pwc.com



**Mike Vickery**  
FS Regulatory Centre of  
Excellence  
0117 923 4222  
mike.p.vickery@pwc.com

## Regulation

### Brexit

#### *Chancellor responds to TC concerns*

The TC published *Correspondence from the Chancellor of the Exchequer* concerning the impact of the UK's withdrawal from the EU on insurance contracts that run beyond the **point of the UK's exit on 11 October 2017**.

In his response to *Nicky Morgan's letter* of 14 September 2017, Chancellor Philip Hammond emphasises that the BoE, FCA and PRA are working closely with regulated firms – including insurance and pensions companies – and financial market infrastructures, to ensure they have comprehensive plans in place for the full range of possible outcomes. He also underlines that it is in both the UK and the **EU's interest** to avoid outcomes that impose unnecessary costs and disruption on individuals and businesses.

### Disclosure and distribution

#### *EIOPA publishes execution-only sales guidelines*

EIOPA published its *Final Report on Guidelines under the IDD on Insurance-based investment products that incorporate a structure which makes it*

*difficult for the customer to understand the risks involved* on 11 October 2017. It sets out final guidelines for **'execution-only' sales** of insurance-based investment products (IBIPs) with an impact assessment and feedback from the February 2017 consultation (*CP-17-007*). **'Execution-only'** sales include telephone and online sales where the insurance distributor neither provides advice nor verifies the **customer's** knowledge of the product and the risks involved.

Because IBIPs that include features difficult for the customer to understand will not be **eligible for sale via 'execution-only' under the IDD**, the guidelines include criteria to identify these features. For example, they address the nature of the charges paid by the customer and the ability for the customer to surrender the product before maturity.

Where the associated risks of an IBIP are difficult to understand, the disclosure rules for PRIIPs require a comprehension alert to be included in the KID. EIOPA plans to publish details of its approach to this issue in the future.

Once the guidelines have been translated into all official languages of the EU, national



supervisors will have two months to confirm to EIOPA whether they comply, intend to comply or do not comply with these **guidelines for the purpose of ‘execution-only’ sales.**

### *FCA warns of further renewal reviews*

The FCA published its concerns regarding transparency at renewal, in *Firms falling short of renewal expectations* on 18 October 2017. It follows the FCA’s review of how general insurance firms have implemented *PS16/21 – Increasing transparency and engagement at renewal in general insurance markets* which came into effect in April 2017. The FCA identifies the following issues:

- firms providing incorrect premium information
- firms failing to present the premiums and shopping around message clearly, accurately and in a way which draws the reader’s attention
- not implementing the rule changes for all products and customers
- failing to properly identify a ‘renewal’ as defined by the rules

The FCA intends to continue to monitor compliance to ensure the effective implementation of the rules, with a view to taking appropriate action where this is not

the case. It expects firms to review their current processes and documentation (both direct to consumer and online) to ensure they are compliant and have captured all necessary renewals. It also remind firms to **ensure that the last year’s premium and additional shopping around messages are presented as key information in a clear, prominent position.**

### *Reporting*

#### *PRA publishes Solvency II reporting findings*

The PRA published *an Insurance data release* on 18 October 2017. It highlights the **results of its analysis of firms’ Solvency II** submissions for Day 1 and QRTs for Q4 2016. This release looks at the results for two main cohorts: life insurers and general insurers. The metrics are themed around capital, assets and technical provisions (including risk margin). The comment period ends on 31 December 2017.

The PRA also published *Solvency II: Solvency and Financial Condition Report (SFCR) roundtables* on 18 October 2017. It sets out feedback from its roundtable discussions with insurers, investors, credit analysts and equity analysts to discuss the 2016 SFCRs and views on how to improve SFCR disclosures. In future, investors and analysts especially wanted to see increased

disclosure of the sensitivity analysis and analysis of movements in SCR coverage.

### *Retail products*

#### *Government publishes Ogden rate Command Paper*

The Government published a *Command Paper* on 31 October 2017 inviting comments from Parliament on the draft legislation on The Personal Injury Discount Rate. Subject to considering these comments the Government intends to introduce legislation into Parliament to enact these proposed changes to the law as soon as parliamentary time permits. Once enacted the changes will be brought into force on a date to be specified by the Lord Chancellor.

### *Solvency II*

#### *EIOPA submits advice on standard formula*

EIOPA submitted its *first set of Advice to the EC on the review of specific items in the Solvency II Delegated Regulation* with a covering *letter* on 30 October 2017. It recommends ways of simplifying and improving Solvency II capital requirements calculations while retaining a proportionate and technically robust, risk-sensitive and consistent supervisory regime for the insurance sector. It focuses on the SCR standard formula and includes proposals for new simplified calculations, reducing

reliance on external credit ratings, exposures guaranteed by and exposures to regional governments and local authorities, risk-mitigation techniques, undertaking specific parameters, and look-through for investment-related undertakings.

Simultaneously, EIOPA published its *Final report* on the advice following consultation (*CP-17-004*). It summarises its response to feedback from the consultation and includes an impact assessment.

Following a further consultation EIOPA is planning to submit a second set of advice to the EC by February 2018. It intends to **address the remaining items of the EC’s** calls for technical advice, such as policy proposals on loss-absorbing capacity of deferred taxes to increase supervisory convergence, risk margin, catastrophe risks, non-life and life underwriting risks, non-proportional reinsurance covers, unrated debt and unlisted equity and own funds.

### *TC reports on Solvency II Inquiry*

The TC published its *Report on the Solvency II Directive and its impact on the UK Insurance Industry* on 25 October 2017 following the *EU Insurance Regulation inquiry*.

The report is based on submissions to the previous *EU Insurance Regulation inquiry closed on 3 May 2017 for the general*

election including an additional submission from Legal & General ([SLV0001](#)) received in March 2017 (published 14 September 2017) **and the PRA's response** ([SLV0002](#)) to its request for further written evidence on 11 October 2017. This update considers issues surrounding the risk margin requirement and the differences between Solvency II and IFRS 17 reporting.

The TC highlights problems with Solvency II and the PRA's implementation. It recommends the PRA and insurance industry review ways to communicate more closely in addition to formal consultations. It expects them to work closely together to develop solutions:

- to improve the risk margin calibration
- to introduce forbearance at the national level to deal with procyclicality
- to allow more flexibility and a principles-based approach for the MA and Volatility Adjustment
- for the treatment of illiquid assets
- to reduce the data required from firms to a proportionate level necessary for prudential safety
- for contract boundary rules reflecting economic substance rather than legal form

- for simplifying the TMTP calculation and approval process
- for opportunities to align UK regulation post Brexit with IFRS17
- to remove limitations in the standard formula
- to improve internal models by maximising the proportionality allowed in the Directive for the approval of internal models and simplifying the approval process for changes to models
- for firms whose contracts will lose the legal validity after Brexit.

The EC expects the PRA to produce a progress report by 31 March 2018. The TC is also concerned that the PRA overly focuses on solvency to the detriment of competition. It recommends HMT considers promoting **the PRA's secondary competition objective** to a primary objective.

Please see our [At A Glance](#) publication for more information.

### *PRA starts process to improve Solvency II*

The PRA issued a news release [PRA launches series of improvements to the implementation of Solvency II](#) alongside [CP21/17 Solvency II: Matching adjustment](#) on 25 October 2017. The consultation is the first in a short series

aimed at reforming the implementation of Solvency II. It proposes improvements to the application of the MA. The MA allows firms to adjust the relevant risk-free interest rate term structure for the calculation of a best estimate of a portfolio of eligible insurance obligations. The draft supervisory statement included in the consultation paper combines updated guidance with existing directors' letters. It includes new guidance on:

- asset eligibility – demonstrating cash flow fixity
- **criteria for assessing 'sufficient compensation'**
- restructuring asset cash flows using special purpose vehicles
- trading in the MA portfolio
- consequences of breaches of MA requirements
- changes to MA portfolio approval.

The consultation ends on 31 January 2018.

The PRA plans further consultations on the minor model change process (December 2017) and reducing the reporting burden, **including reducing the PRA's** National Specific Templates and revising its approach to granting quarterly reporting waivers (January 2018).

The PRA is also reviewing other potential improvements to Solvency II, including simplifying the TMTP recalculation process and gathering evidence from firms to review the proportionality of its external audit policy for the solvency and financial condition report, particularly for smaller firms.

### *PRA completes sensitivity reporting rules*

The PRA published [PS25/17 'Solvency II: Data collection of market risk sensitivities'](#) and the associated final Supervisory Statement, [SS7/17](#), on 18 October 2017. It **sets out the PRA's requirements** regarding the reporting of sensitivities of solvency position to various changes in market conditions by firms with material exposure to market risk. It is relevant to insurers most exposed to market risks, primarily Category 1 and 2 firms in the life sector, and any other insurer with material market risk exposures.

Overall, the PRA has not made any material changes to its proposals in the consultation ([CP 7/17](#)). But it has amended the draft Supervisory Statement to clarify:

- which firms are within scope
- the timeline of data submission (including the regularity of data requests)

- the date of the first formal data submission.

The PRA has also published an Excel template and instructions for firms to use to report on their market risk sensitivities (see [Solvency II insurance firms regulatory reporting webpage](#)).

The PRA expects firms to submit the information four weeks after the formal submission of solo quarterly QRTs for end June and end December, or following a significant change in the risk profile of the **company, or upon the PRA's request due to** extraordinary market conditions. For example, the PRA expects firms to consider the need for a resubmission following a merger, acquisition or a recalculation of the TMTP. The first submission of sensitivity results should be at the effective date of 31 December 2017 and the deadline for submission is 18 March 2018 i.e. the solo QRT reporting deadline plus four weeks.

Firms that have taken the option to provide combined group information are still expected to submit four weeks after the formal submission of solo quarterly QRTs for end June and end December.

Please see our [At A Glance publication](#) for more information.

## Supervision

### *HMT lays ILS regulations before Parliament*

On 12 October 2017, HMT published [The Risk Transformation Regulations 2017 \(October 2017 version\)](#) and [The Risk Transformation \(Tax\) Regulations 2017 \(October 2017 version\)](#). At the same time, HMT formally laid these regulations before Parliament for its approval. These regulations are expected to implement the **UK's new regulatory and tax framework for** Insurance Linked Securities (ILS). ILS enable insurers to transfer large and complex risks to capital market investors.

Initially these Regulations were expected to come into force on 31 October 2017. But following delays, the latest versions state they will come into force three days after the day on which they are made.

## Accounting

### *Our publications*

#### *Using Solvency II to implement IFRS 17*

Our publication [Using Solvency II to implement IFRS 17](#) compares reporting under IFRS 17 – Insurance Contracts to the Solvency II requirements introduced on 1 January 2017 and highlights key areas where developments may be required. It

also examines the various technical and practical challenges and key similarities and differences between IFRS and Solvency II in the areas of contract liabilities, disclosure and presentation. It then briefly considers wider systems and infrastructure implications.

## Also this month

### EC

The EC published a [Study on consumers' decision making in insurance services: a behavioural economics perspective – Final report](#) and [Executive summary](#) on 27 October 2017. This study looks at **consumers' decision**-making when buying non-life insurance domestically and cross-border and ways to help consumers make better decisions.

### EIOPA

- EIOPA published its [Risk Dashboard for October 2017](#) on 26 October 2017. It finds risks for the insurance sector remain stable overall and some slight improvements in the solvency ratios of groups and life solo undertakings. But EIOPA remains concerned about the continuing low-yield environment and that market fundamentals might not properly reflect the underlying credit risk.

- In October 2017, EIOPA updated its [questions and answers](#) on:

- [Commission Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC](#)
- [\(EU\) No 2015-2452 with regard to the procedures, formats and templates of the solvency and financial condition report](#)
- [\(EU\) No 2015-2450 with regard to the templates for the submission of information to the supervisory authorities.](#)
- EIOPA published [updates on Internal Model Consistency Projects](#) on 25 October 2017. It reports progress on three recently implemented internal model consistency projects (market and credit risk benchmarking study, modelling of sovereign exposures and modelling of dynamic volatility adjustment) aimed at strengthening supervisory consistency and convergence across the EU.

## IAIS

The IAIS published tables of *Timelines and Status of ComFrame* and *Timelines and status of Insurance Core Principles (ICPs)* on 19 October 2017. These tables also include information on the integration of elements of the 2014 draft ComFrame among ICPs.

## Solicitors Regulation Authority

The Solicitors Regulation Authority published *Implementing the IDD Consultation* on 24 October 2017.

It **proposes draft rules for solicitors'** insurance distribution activities.

The comment period ends on 20 November 2017.

# Monthly calendar

## Open consultations

Closing date for responses	Paper	Institution
14/11/17	<u><a href="#">Fitness Check of supervisory reporting requirements</a></u>	EC
15/11/17	<u><a href="#">Consultation on post-trade in a Capital Market Union: dismantling barriers and strategy for the future</a></u>	EC
15/11/17	<u><a href="#">Proposal for a regulation: Second data package</a></u>	EC
17/11/17	<u><a href="#">Proposed policy on valuation capabilities to support resolvability</a></u>	BoE
17/11/17	<u><a href="#">Governance arrangements for the unique product identifier: key criteria and functions</a></u>	FSB
19/11/17	<u><a href="#">Review of the ESAs</a></u>	EC
19/11/17	<u><a href="#">Revision of the ESRB establishing regulation</a></u>	EC
21/11/17	<u><a href="#">Extension of the transitional periods on capital requirements for exposures to central counterparties</a></u>	EC
25/11/17	<u><a href="#">IDD Implementation – Consultation Paper 3</a></u>	FCA
30/11/17	<u><a href="#">Draft guidelines on non-significant benchmarks</a></u>	ESMA
30/11/17	<u><a href="#">Bulk transfers of defined contribution pensions without member consent: draft regulations</a></u>	DWP
6/12/17	<u><a href="#">Occupational pensions: improving disclosure of costs, charges and investments</a></u>	DWP
8/12/17	<u><a href="#">Consultation on the draft addendum to the ECB Guidance to banks on non-performing loans</a></u>	ECB
10/12/17	<u><a href="#">CP17/17: Regulated fees and levies: Adjustment to rates for 2017/18</a></u>	PRA
11/12/17	<u><a href="#">Proposal for a regulation: Cybersecurity package</a></u>	EC
11/12/17	<u><a href="#">Draft ITS on the provision of information for the purpose of resolution plans under Article 11(3) of Directive 2014/59/EU</a></u>	EBA



Closing date for responses	Paper	Institution
19/12/17	<u><i>Discussion Paper On the Significant Risk Transfer in Securitisation</i></u>	EBA
22/12/17	<u><i>Amending ITS on Supervisory Disclosure</i></u>	EBA
02/01/18	<u><i>Internal MREL – the BoE’s approach to setting a MREL within groups, and further issues</i></u>	BoE
04/01/18	<u><i>CP19/17: Groups policy and double leverage</i></u>	PRA
04/01/18	<u><b>CP20/17: Changes to the PRA’s large exposures framework</b></u>	PRA
05/01/18	<u><i>Draft RTS on cooperation between competent authorities in the home and host Member States in the supervision of payment institutions operating on a cross-border basis under Art. 29 (6) of PSD2</i></u>	EBA
09/01/18	<u><i>Occasional Consultation Paper – PRA CP18/17, FCA CP17/34</i></u>	PRA and FCA
30/01/18	<u><i>CP17/36: Reviewing the funding of the FSCS: feedback from CP16/42, final rules, and new proposals for consultation</i></u>	FCA
31/01/18	<u><i>CP21/17: Solvency II: Matching adjustment</i></u>	PRA
05/02/18	<u><i>CP17/37: Consultation Paper on Industry Codes of Conduct and Discussion Paper on FCA principle 5</i></u>	FCA
09/02/18	<u><i>CP22/17: Solvency II: Supervisory approval for the volatility adjustment</i></u>	PRA

## Forthcoming publications

Date	Topic	Type	Institution
<i>Accounting</i>			
TBD 2017	RTS on consolidation methods	Technical standards	EBA
TBD 2017	Developments in the market with regard to providing statutory audit services to public interest entities	Advice	EBA
<i>Asset management</i>			
TBD 2017	UCITS V Level 2 Regulation, SFTR and consequential changes to the Handbook – PS to CP16/14	Policy statement	FCA
<i>Conduct</i>			
November 2017	FCA response to MiFID II implementation consultation VI	Policy statement	FCA
December 2017	FAMR implementation part 2 – PS to CP17/28	Policy statement	FCA
TBD 2017	Consultation on new rules for firms running crowdfunding platforms	Consultation	FCA
TBD 2017	Remuneration benchmarking and high earners data under Articles 75(1) and (3) CRD IV	Report	EBA
TBD 2017	The collection exercise of approved higher maximum ratios for variable remuneration under Article 94(1)(g)(ii) CRD IV	Guidelines	EBA
Spring 2018	Mortgage market study interim report	Report	FCA
Q4 2018	Mortgage market study final report	Report	FCA
<i>Financial crime, security and market abuse</i>			
TBD 2017	RTS on central contract points under AMLD4	Technical standards	EBA

Date	Topic	Type	Institution
<i>Insurance</i>			
Autumn 2017	Policy statement to CP38/16 Solvency II: group supervision	Policy statement	PRA
Autumn 2017	FCA regulated fees and <b>levies: insurers' tariff data for 2018/19</b>	Consultation	FCA
December 2017	IDD implementation – PS to CP17/23	Policy statement	FCA
January 2018	IDD implementation – PS to CP17/33	Policy statement	FCA
<i>Market infrastructure</i>			
December 2017	Market infrastructure providers 2017/18 fee rates – PS to CP17/31	Policy statement	FCA
TBD 2017	The supervision of delegated credit institutions and central securities depositories authorised to provide banking type of ancillary services	Guidelines	EBA
<i>Pensions</i>			
TBD 2017	Secondary annuity market – PS to CP16/13	Policy statement	FCA
<i>Prudential</i>			
TBD 2017	Stress in correlation trading portfolios	Guidelines	EBA
TBD 2017	Integrity of the modelling process	Guidelines	EBA
TBD 2017	Incremental default and migration risk	Guidelines	EBA
TBD 2017	Stressed VaR	Guidelines	EBA
TBD 2017	Netting	Guidelines	EBA
TBD 2017	The Supervisory Formula Method on securitisation under Article 262(3) of CRR	Guidelines	EBA

Date	Topic	Type	Institution
<i>Securities and markets</i>			
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
<i>Supervision, governance and reporting</i>			
November 2017	FCA regulatory fees and levies: policy proposals for 2018/19	Consultation	FCA
Q3 2018	Reviewing the funding of the FSCS – PS to CP17/36	Policy statement	FCA

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

# Glossary

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



Executive summary	IDD deadline looms	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
CIS	Collective Investment Schemes			CRR	Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms		
CMA	Competition and Markets Authority			CSD	Central Securities Depository		
CMU	Capital markets union			CSDR	Central Securities Depositories Regulation (EU) 909/2014		
COBS	FCA conduct of business sourcebook			CSMAD	Criminal Sanctions Market Abuse Directive 2014/57/EU		
CoCos	Contingent convertible securities			CTF	Counter Terrorist Financing		
Co-legislators	Ordinary procedure for adopting EU law requires agreement between the Council and the European Parliament (who are the ‘co-legislators’)			DEPP	<b>The FCA’s Decision Procedure and Penalties Manual</b>		
COREP	Standardised European common reporting			DFBIS	Department for Business, Innovation and Skills		
Council	Generic term representing all ten configurations of the Council of the European Union			DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union		
CRA1	Regulation on Credit Rating Agencies (EC) No 1060/2009			DG MARKT	Internal Market and Services Directorate General of the European Commission		
CRA2	Regulation amending the Credit Rating Agencies Regulation (EU) No 513/2011			DGS	Deposit Guarantee Scheme		
CRA3	Proposal to amend the Credit Rating Agencies Regulation and directives related to credit rating agencies COM(2011) 746 final			DGSD	Deposit Guarantee Schemes Directive 2014/49/EU		
CRAs	Credit Rating Agencies			Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act (US)		
CRD	<b>‘Capital Requirements Directive’</b> : collectively refers to Directive 2006/48/EC and Directive 2006/49/EC			DPM	Data point model		
CRD II	Amending Directive 2009/111/EC			D-SIBs	Domestic Systemically Important Banks		
CRD III	Amending Directive 2010/76/EU			EBA	European Banking Authority		
CRD IV	Capital Requirements Directive 2013/36/EU			EC	European Commission		
				ECB	European Central Bank		
				ECJ	European Court of Justice		

ECOFIN	Economic and Financial Affairs Council (configuration of the Council of the European Union dealing with financial and fiscal and competition issues)	EuVECA	European Venture Capital Funds Regulation (EU) 345/2014
ECON	Economic and Monetary Affairs Committee of the European Parliament	FAMR	Financial Advice Market Review
EDIS	European Deposit Insurance Scheme	FASB	Financial Accounting Standards Board (US)
EEA	European Economic Area	FATCA	Foreign Account Tax Compliance Act (US)
EEC	European Economic Community	FATF	Financial Action Task Force
EIOPA	European Insurance and Occupations Pension Authority	FC	Financial counterparty under EMIR
ELTIF	European long-term investment fund	FCA	Financial Conduct Authority
EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EU) No 648/2012	FDIC	Federal Deposit Insurance Corporation (US)
EP	European Parliament	FiCOD	Financial Conglomerates Directive 2002/87/EC
EPC	European Payments Council	FiCOD1	Amending Directive 2011/89/EU of 16 November 2011
ESA	European Supervisory Authority (i.e. generic term for EBA, EIOPA and ESMA)	FMI	Financial Market Infrastructure
ESCB	European System of Central Banks	FMLC	Financial Markets Law Committee
ESEF	European Single Electronic Format	FOS	Financial Ombudsman Service
ESMA	European Securities and Markets Authority	FPC	Financial Policy Committee
ESRB	European Systemic Risk Board	FRC	Financial Reporting Council
EU	European Union	FSA	Financial Services Authority
EURIBOR	Euro Interbank Offered Rate	FSB	Financial Stability Board
Eurosystem	System of central banks in the euro area, including the ECB	FSBRA	Financial Services (Banking Reform) Act 2013
		FS Act 2012	Financial Services Act 2012
		FSCP	Financial Services Consumer Panel

FSCS	Financial Services Compensation Scheme
FSI	Financial Stability Institute (of the BIS)
FSMA	Financial Services and Markets Act 2000
FSOC	Financial Stability Oversight Council
FTT	Financial Transaction Tax
G30	Group of 30
GAAP	Generally Accepted Accounting Principles
G-SIBs	Global Systemically Important Banks
G-SIFIs	Global Systemically Important Financial Institutions
G-SIIs	Global Systemically Important Institutions
HCSTC	High Cost Short Term Credit
HMRC	<b>Her Majesty's Revenue and Customs</b>
HMT	<b>Her Majesty's Treasury</b>
IA	Investment Association
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICAAP	Internal Capital Adequacy Assessment Process
ICAS	Individual Capital Adequacy Standards
ICOBS	Insurance: Conduct of Business Sourcebook

IDD	The Insurance Distribution Directive (EU) 2016/97 – also known as IMD2
IFRS	International Financial Reporting Standards
ILAA	Internal Liquidity Adequacy Assessment
ILAAP	Internal Liquidity Adequacy Assessment Process
ILS	Insurance-Linked Securities
IMAP	Internal Model Approval Process
IMCO	The European Parliament's Committee on Internal Market and Consumer Protection
IMD	Insurance Mediation Directive 2002/92/EC
IMF	International Monetary Fund
IORP	Institutions for Occupational Retirement Provision Directive 2003/43/EC
IOSCO	International Organisations of Securities Commissions
IRB	Internal Ratings Based
ISDA	International Swaps and Derivatives Association
ITS	Implementing Technical Standards
JCESA	Joint Committee of the European Supervisory Authorities
JMLSG	Joint Money Laundering Steering Committee
JURI	Legal Affairs Committee of the European Parliament
KID	Key Information Document
KYC	Know your client
LCR	Liquidity coverage ratio

Executive summary	IDD deadline looms	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
LEI	Legal Entity Identifier			MPC	Monetary Policy Committee		
LIBOR	London Interbank Offered Rate			MREL	Minimum requirements for own funds and eligible liabilities		
MA	Matching Adjustment			MTF	Multilateral Trading Facility		
MAD	Market Abuse Directive 2003/6/EC			NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution		
MAR	Market Abuse Regulation (EU) 596/2014			NCA	National competent authority		
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 <b>on an institution's risk profile</b>			NDF	Non-Directive Firms – firms that do not fall within Solvency II		
MCD	Mortgage Credit Directive 2014/17/EU			NFC	Non-financial counterparty under EMIR		
MCOB	Mortgages and Home Finance: Conduct of Business sourcebook			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		
MCR	Minimum Capital Requirement			NSFR	Net Stable Funding Ratio		
Member States	Countries which are members of the European Union			NST	National specific template		
MiFID	Markets in Financial Instruments Directive 2004/39/EC			NURS	Non-UCITS Retail Scheme		
MiFID II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MiFIR			OECD	Organisation for Economic Cooperation and Development		
MiFIR	Markets in Financial Instruments Regulation (EU) No 600/2014			Official Journal	Official Journal of the European Union		
MLRO	Money Laundering Reporting Officer			OFSI	Office of Financial Sanctions Implementation		
MMF	Money Market Fund			OFT	Office of Fair Trading		
MMR	Mortgage Market Review			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)		
MoJ	Ministry of Justice			ORSA	Own Risk Solvency Assessment		
MoU	Memorandum of Understanding						

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



SMF	Senior Manager Function	UCITS	Undertakings for Collective Investments in Transferable Securities
SOCA	Serious Organised Crime Agency	UCITS V	UCITS V Directive 2014/91/EU
Solvency II	Directive 2009/138/EC	UKLA	UK Listing Authority
SONIA	Sterling Overnight Index Average	UTI	Unique Trade Identifier
SPV	Special purpose vehicle	XBRL	eXtensible Business Reporting Language
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		
TMTF	Transitional Measure on Technical Provisions		
TR	Trade Repository		
TPR	The Pensions Regulator		

# Contacts



*Laura Cox*  
020 7212 1579  
laura.cox@pwc.com



*Hortense Huez*  
020 7213 3869  
hortense.huez@pwc.com  
*Prudential regulation, Basel III,  
liquidity and funding*



*David Brewin*  
020 7212 5274  
david.r.brewin@pwc.com  
*Client assets and prudential  
regulation*



*Sharon-Marie Fernandsdo*  
020 7804 3062  
sharon-marie.fernando@pwc.com  
*Investment funds, insurance*



*Suddankumar Subbaroyan*  
020 7212 6003  
suddankumar.subbaroyan@pwc.com  
*Basel III, liquidity and funding*



*Andrew Strange*  
020 7804 6669  
andrew.p.strange@pwc.com  
*Retail distribution, SM&CR,  
upcoming regulatory change*



*Penny Bruce*  
020 7212 1629  
penny.a.bruce@pwc.com  
*Recovery & resolution, consumer  
credit, structural reform*



*Dominic Muller*  
020 7213 2905  
dominic.b.muller@pwc.com  
*Derivatives reform, asset  
management, US and cross border,  
structured products*



*Tessa Norman*  
020 7213 2508  
tessa.norman@pwc.com  
*Publications and retail distribution*



*Mike Vickery*  
0117 309 2403  
mike.p.vickery@pwc.com  
*Insurance, Solvency II*



*Luke Nelson*  
020 7213 4631  
luke.a.nelson@pwc.com  
*MiFID II, conduct risk and  
benchmark reform*



*Megan P Charles*  
020 7804 0904  
megan.p.charles@pwc.com  
*Consumer credit, payments,  
mortgages*



*Dan Foster*  
020 7212 2399  
dan.foster@pwc.com  
*MiFID II and wholesale  
regulatory supervision*



*Hannah Swain*  
020 7212 2433  
swain.hannah@pwc.com  
*Operational resilience and  
financial crime*



*Tania Lee*  
07976 687547  
tania.a.lee@pwc.com  
*Insurance, Solvency II*



*Cheryl Wallace*  
020 7212 6983  
cheryl.m.wallace@pwc.com  
*MiFID II, US & cross-border  
regulation and benchmarks*



*Conor MacManus*  
020 7213 8555  
Conor.macmanus@pwc.com  
*Prudential regulation*

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com).

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2017 PwC. All rights reserved. 'PwC' refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

171025-160042-TN-OS