Being better informed

FS regulatory, accounting and audit bulletin

PwC FS Risk and Regulation Centre of Excellence

January 2019

In this month's edition:

- Banking: FCA proposes overdraft fees reform
- Insurance: PRA issues final rules on treatment of equity release mortgages
- Resolution: Resolvability assessment framework proposals
- Analysis: What's on the regulatory agenda for 2019?

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Executive summary

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

The close of 2018 brought a flurry of regulatory developments, as regulators rushed to meet their end of year deadlines. In this month's edition, we report on developments from the end of the year, including important updates on operational resilience, overdraft fees and the UK resolution regime for banks. We also consider what's on the horizon for firms in 2019 in our feature article. Across insurance, banking and asset management, we assess what's set to dominate the regulatory agenda over the next 12 months, and what firms should be focusing on to stay ahead of the curve.

Looking back at December, operational resilience continues to be high on regulators' agendas, with the FCA publishing findings from its cyber review of wholesale banks and asset managers. The regulator raised concerns about the limited technical cyber expertise of board members and the second line of defence, and the ability of both to provide effective oversight and challenge. It also encouraged firms to incorporate cyber risks into their broader conduct risk approaches. Further, the EBA consulted on draft guidelines on ICT and security risk management, in recognition of financial services firms' increasing reliance on ICT.

Elsewhere, the FCA continued its high-cost credit work, publishing proposals for significant reforms in the overdraft market to reduce harm caused by high fees and repeat use. It proposes a ban on fixed fees for overdraft use, and on firms charging higher prices for unarranged overdrafts than for arranged overdrafts. In addition, the regulator wants firms to develop a strategy to identify and monitor customers who may be suffering financial difficulties. Firms should begin to assess whether their pricing models are compliant with the proposed rules, and how any changes to their model would impact operating revenue. The FCA intends for final rules to come into force in December 2019.

Alongside the proposals, the FCA issued the findings of its review of retail banking business models. While this contains no immediate actions for firms, banks should review the findings to understand how market changes linked to technology and consumer behaviour could impact their strategy and profitability over the coming years.

In the prudential space, the BoE and PRA consulted on their resolvability assessment framework package, designed to ensure banks are accountable for their own resolvability. The package is the major final piece in the UK's resolution regime for banks. It consists of a consultation paper from the BoE, setting out new minimum requirements that firms must meet to be considered resolvable, and a PRA consultation on proposed rules for banks to assess their preparations for resolution. Firms in scope of the BoE's proposals should consider how these might impact their future planning for operational continuity in resolution and their approach to the SM&CR, while PRA in-scope firms will need to submit a report of their assessment to the PRA every two years from September 2020.

Meanwhile, the Basel Committee proposed changes to the disclosure requirements for the leverage ratio to address window dressing. Window dressing behaviour involves temporary reductions of transaction volumes in key financial markets around reference dates, resulting in the reporting and public disclosure of elevated leverage ratios. At the EU level, the proposed changes are likely to find their way into EBA level 2 texts implementing CRR II. In the UK, the PRA already requires firms subject to the leverage ratio to meet standards in line with the proposals, but it may increase its supervisory focus on the issue.

In the insurance sector, the PRA issued final rules on insurers' treatment of equity release mortgages (ERMs) under Solvency II. It consulted on a package of proposals earlier in the year designed to ensure firms are not overstating the MA benefit for

ERMs. While it's taking forward the main principles of the proposals, the PRA has made a number of changes which impacted firms should consider. These include amendments in response to feedback that the approach could make insurers' balance sheets more sensitive to interest rates.

All in all, there looks to be much for firms to focus on in the regulatory agenda for 2019. We hope you enjoy catching up on December's developments and reading about what's on the horizon for the next 12 months in this edition.

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What's on the regulatory agenda for 2019?

After another year of major regulatory developments, the regulatory change agenda looks set to slow somewhat in 2019, with the focus primarily on implementation and preparation for the next wave of developments. A number of themes such as competition and pricing fairness will remain high on the domestic agenda, while firms must also prepare for incoming rules such as the extension of the SM&CR, changes to Solvency II and the new EU prudential regime for investment firms.

Alongside these sector-specific initiatives, 2019 is set to bring a number of regulatory challenges impacting all regulated firms. The most significant is operational resilience, which UK regulators gave unprecedented attention during 2018. In June, the FPC announced plans to introduce operational resilience stress testing for some firms; this was swiftly followed by a BoE, PRA and FCA joint discussion paper proposing an overhaul of firms' approach to operational resilience. They suggest firms focus on their critical business services, identify their impact tolerances, and apply this approach across their third parties.

We expect the regulators to follow this with a consultation paper in Q1 or Q2 2019, which will impact all regulated firms. Businesses would be well advised to review their current governance arrangements and management information around operational resilience, move towards a business services approach to resilience, consider their impact tolerances, and review their third party risk management frameworks. Firms can also expect to see further details of the FPC's stress testing plans in early 2019, with roll out later in the year. This will initially be run as a pilot, involving only a small number of firms, and testing their ability to continue to make payments in a cyber event scenario.

Sustainability and climate change issues also grew in stature last year, a trend that's set to continue in 2019, with implications across all sectors. Most immediately in the UK, early this year the PRA is expected to finalise a previously consulted on supervisory statement on how insurers and banks should manage climate risks. Insurers and banks are likely to be required to ensure that governance, risk management systems and capital provisions all take account of climate risks. Towards the end of last year, the BoE indicated that it may include how banks respond to climate-related risks in exploratory scenario stress tests, potentially as early as this year.

Alongside the PRA, the FCA turned its attention to climate change and green finance in a discussion paper issued in October 2018. Although any policy change does not seem imminent, we can expect the conduct regulator to develop its views on important issues including whether climate-related financial disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) should become mandatory. Investors and non-profit groups are already putting pressure on firms on TCFD, so firms should put a plan in place.

In the EU, the EC continues to make progress on its Sustainable Finance Action Plan. Towards the end of 2018 it issued draft rules for amending MiFID II and IDD to include environmental, social and governance (ESG) issues. This year the ESAs will play an important role in fleshing out the technical detail that will underpin changes, most notably on the harmonised taxonomy for ESG.

All of these developments sit against the backdrop of a year of change in leadership and agenda at the EU level, and of course the uncertainty and challenges associated with Brexit. The European Parliamentary elections will be held in May 2019, and EU leaders are expected to select a new EC President the following month. As a result, the EU will seek to close as many of the outstanding financial services files as possible in the first three months of the year, especially those on the banking package, the ESAs review, CCP supervision and prudential rules for investment firms.

So how will the regulatory landscape impact firms across banking, asset management and insurance over the next 12 months?

Retail banking: all change please

Tom Boydell
Manager

While 2018 brought many significant regulatory developments for the retail banking market, in 2019 firms will focus on working through the strategic implications of those developments. In the past year, a regulatory focus on vulnerable customers and price discrimination has led to a number of interventionist proposals. 2018 also saw the development of Open Banking solutions, a FCA review of retail banking business models, the continued growth of FinTech and the challenges of operational resilience. As a result, 2019 is primed for a significant change to the way in which retail banking business models compete for, serve and retain customers.

Open Banking will be at the forefront in 2019 as innovative business models revolutionise the way consumers access bank accounts and make payments. Increased functionality, ease of comparison and cost savings may kick-start a battle for customer relationships, meaning incumbents will need to evolve in the digital world to remain competitive. The challenge of cyber and operational resilience will also persist as a consequence of this increased digitalisation. Maintaining adequate defences and eliminating outages is key to retaining consumer trust in an increasingly competitive environment.

In addition to this increased competition, retail banks must start to consider and prepare for a potential squeeze on some products' profit margins in 2020. The FCA's proposal for a Basic Savings Rate has the potential to result in higher funding costs and a limit to overdraft charges may reduce income from personal current accounts (final rules for both are likely to be published in June 2019). The way in which banks serve and retain their customers could also be affected by findings from the FCA's motor finance review (expected in Q1 2019) and the CMA super complaint regarding the treatment of long-standing customers. Banks might need to fundamentally change their consumer strategy in order to maintain profit margins.

Other key developments to be mindful of in 2019 include FCA guidance on the identification and treatment of vulnerable customers (due in Q1 2019), the economic impact of Brexit and the August PPI deadline.

Wholesale banking: LIBOR transition set to intensify

Daniela Bunea
Senior Associate

Firms operating in wholesale markets will increasingly focus on moving from LIBOR to alternative benchmarks (SONIA in the UK) this year, as well as incoming initiatives such as EMIR Refit. Meanwhile the FCA will continue to scrutinise firms' implementation of existing legislation such as MiFID II over the next 12 months.

To facilitate the transition from LIBOR, over the course of 2019 the RFRWG plans to develop operational capability for SONIA instruments, produce and make available for use term SONIA rates, and agree and implement sterling fallback language. In this context, firms should intensify their efforts to understand and quantify their exposure to LIBOR, and engage with the transition to actively reduce reliance on LIBOR.

Similarly, EU and third-country benchmark administrators that wish their EU-supervised customers to continue using their benchmarks beyond 1 January 2020 (subject to any changes to the transition end-date) must apply for BMR approval to their relevant NCAs by Q3 2019.

Another EU area of focus for some firms is EMIR Refit, which is expected to be finalised in Q1-Q2 2019 and enter into force shortly after. For smaller firms this will mean simpler and more proportionate requirements.

Firms involved in the securitisation market must conclude implementation of the EU Securitisation Regulation, applicable from 17 January 2019. A number of challenges remain around the new disclosure regime, including how the necessary disclosures will be made whilst new reporting systems are being built in line with the templates prescribed by the RTS.

Turning to the domestic agenda, the FCA's 2018/19 business plan suggests it will continue its focus on initial public offerings (IPOs) and other forms of capital-raisings. The regulator plans to review how firms have implemented the new UK IPO regime aimed at improving investors' access to a higher quality range of information, as well as the new MiFID II requirements intended to improve pricing and allocations on equity and debt primary markets transactions. The FCA is likely to continue testing firms' implementation of MiFID II rules more widely. In addition to the primary markets regime, the FCA will particularly focus on the new requirements on research unbundling, best execution, transaction reporting and market structure.

Banking capital and liquidity: a year of implementation

David Brewin
Senior Manager

2019 is set to be a year of implementation and preparation for further changes beyond that. In the UK, ring fencing banks' retail operations away from their wholesale ones comes into effect from January 2019, as do EU changes to the securitisation framework including related CRR amendments. Whilst the PRA introduced its new Pillar 2 liquidity regime in early 2018, its effect really starts to bite in 2019 as banks complete annual reviews of their ILAAPs. This includes a cashflow mismatch risk framework that gives rise to new prudential reporting from 1 July 2019, replacing existing reporting – albeit with a six-month overlap. There are also EU refinements to the LCR to prepare for, that apply from April 2020. Finally, revised EBA guidelines on IRRBB apply from June 2019.

To complete the post-crisis gone concern framework, the BoE and the PRA issued for consultation their resolvability assessment framework in December 2018 - the final major element of the UK's resolution regime. This overlaps with existing operational continuity and valuation capability provisions that apply from January 2019 and 2021 respectively. They want applicable banks to submit self-assessments of their resolvability from September 2020, with the largest banks making related public disclosures from May 2021.

The EU 2016 banking reform package, launching CRD V and CRR II as well as amending BRRD and SRM regulation, is close to finalisation and expected to emerge in spring 2019. This is wide ranging, implements parts of the so-called Basel IV reforms, and in particular includes a binding leverage ratio and NSFR. The BRRD and SRM regulation changes enhance the bank resolution framework, incorporating changes to MREL, including TLAC alignment. Most of these changes are expected to apply from 2021.

The EC has also started to prepare for the transposition of the 'final' elements of Basel IV reforms published in December 2017, preparing to respond to the EC's call for advice by mid-2019. On the Basel timetable, these changes are not due to apply until 2022. But EC legislative proposals may not emerge until 2020. In the meantime, while the Basel Committee has just finalised FRTB as we go to print, any revisions to the approach to sovereign exposures remain in the 'long grass'.

Asset and wealth management: focus on transparency and systemic risk

Lucas Penfold
Manager

Authorised fund managers (AFMs) have a busy year ahead implementing remedies from the FCA's asset management market study, including the challenging assessment and annual reporting of value offered to investors. AFM chairs must prepare themselves for their new prescribed responsibility for overseeing the assessment, a role which takes effect as part of the wider SM&CR extension to asset management in December 2019.

The FCA's final rules from the market study will be the use of benchmarks and presentation of fund objectives, expected in Q1 2019. In practice this will require some significant changes to fund documentation, which firms should consider as part of their approach to the value assessment.

Competition will continue to be a key aspect of the FCA's work on asset and wealth management. Last year, the regulator announced provisional remedies to help investors and advisers compare and switch platforms, with a final report due in Q1 2019. The FCA has also signalled the possibility of a market study into financial advice during 2019, which is likely to have implications for wealth managers.

Firms should anticipate a continued regulatory focus on systemic risk. In the UK, fund managers will need to prepare themselves for final FCA rules intended to reduce the risk of poor outcomes for investors in open-ended funds that invest largely in illiquid assets. Those final rules are expected in Q2 2019, following a consultation launched last year. In response to the ESRB's recommendations last year, there is also likely to be an EU-wide focus on systemic risks in funds, with upcoming EC and ESMA proposals on fund stress testing and macro-prudential leverage limits. Finally, IOSCO's proposed framework to help regulators assess fund leverage may be an indication of greater supervisory scrutiny by the FCA in this area.

We expect a number of other important regulatory initiatives to progress in 2019, including the FCA's work on patient capital, the implementation of the Shareholder Rights Directive II, and the EU's agenda on sustainable finance. All of these have important implications for the asset management sector and its role in supporting longer-term sustainable investments.

Investment firms: New prudential regime looms

Mete Feridun
Manager

Investment firms are also facing a new EU prudential regime, which is expected to be finalised in the first half of this year. The Investment Firm Regulation and Directive are set to introduce a more proportionate and fit-for-purpose regime, representing a significant revision to the existing prudential framework for some investment firms set out in CRD IV and CRR and in MiFID II and MiFIR.

The new prudential regime applies to all MiFID II firms and introduces tailored rules in a number of areas including capital and liquidity, reporting and disclosure, governance and remuneration, and consolidated supervision. But the most radical change is the categorisation of investment firms into three classes, with larger investment firms that pose systemic risks to be regulated like banks and smaller firms subject to more proportionate rules.

The EP and the Council finalised their positions by January 2019. While various pinch points and areas of disagreement remain, the final trilogue discussions are expected to be finalised ahead of EP elections in May 2019. Once the proposed framework is formally adopted by the Council and EP, it will come into force within 18 months. This means firms will have to implement the new regime by late 2020 or early 2021. However, there will be a transition period of three years during which the capital requirements will be limited to twice a firm's current capital requirements.

While the regime will simplify and streamline the prudential rules and bring benefits for smaller firms, this is a complex proposal which comes with a number of areas of controversy. These range from the categorisation of firms to the new 'K-factor' approach to calculating capital requirements. We therefore expect negotiations to intensify in early 2019, and firms should be mindful of, and start preparing for, the changes ahead.

Insurance: Further change and uncertainty ahead

Tania Lee
Senior Manager

2019 looks set to be a year of uncertainty and continued change for the insurance sector. As well as the uncertainties associated with Brexit, there are a number of regulatory developments competing for insurers' attention.

Insurers need to closely follow developments on the Solvency II regime at both the UK and EU levels. The PRA's project to improve its implementation of Solvency II resulted in several changes for the 2018 year end, but it is yet to tackle acknowledged problems with the risk margin and is considering ways to simplify the recalculation of TMTPs. The EC's 2018 review of the Delegated Regulations on the SCR is approaching finalisation and the majority of the proposed changes are expected to apply from 2019. The EC is also planning to address further issues related to the Directive in 2020.

The FCA is expected to review implementation of major regulatory changes which came into force last year, such as the extension of the SM&CR to all UK insurers, and the IDD (the FCA will focus in particular on the directive's rules on product design and oversight).

Firms should also look out for the FCA's guidance on the identification and treatment of vulnerable consumers, the interim findings from its wholesale insurance brokers review (early 2019) and the interim results of its market study into the pricing of home and motor insurance (summer 2019).

At a global level, the IAIS has developed all the key aspects of its common framework for internationally active insurance groups. It plans to complete the capital standard in late 2019, for use in confidential reporting to group supervisors and discussion in supervisory colleges for a five-year monitoring period from 1 January 2020.

From an accountancy viewpoint, insurers should monitor developments on IFRS 17 - Insurance Contracts and update their implementation plans accordingly. The IASB has deferred the mandatory effective date of IFRS 17 by one year to 1 January 2022. During 2019 it plans to investigate widespread stakeholder concerns further.

All in all, while the pace of new regulatory developments looks set to slow this year, there remains plenty for firms to focus on, including embedding recent rules, working through the strategic implications of developments, and starting the groundwork for the next wave of changes. Engaging with both political and regulatory developments remains as crucial as ever to staying competitive.

Cross sector announcements

In this section:

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Regulation

Advice

FCA warns firms on pension transfer advice

The FCA revealed *Key findings on our recent work on pension transfer advice* on 6 December 2018. Following *work* completed in 2017 on defined benefit (DB) pension transfers, the FCA collected information from an additional 45 firms this year, and conducted further assessment work on 18 of these. The regulator says it is 'disappointed' to find that less than 50% of the advice it reviewed was suitable, in spite of its previous feedback to the sector.

Its concerns include senior management failing to identify and mitigate the risks associated with DB transfer business, and risk management tools which do not keep pace with the growth of firms' pension transfer business.

The FCA expects firms to take prompt action on its findings and check that their business model and advice processes do not exhibit similar failings. It says firms should review their risk management approach and controls to ensure they effectively mitigate potential harm to customers. The regulator has recently requested data from every firm with permission to advise on DB pension transfers, and plans further work in 2019 which it says will involve every firm active in this market. It warns that firms which fail to review or amend their business models in light of its concerns can expect serious consequences.

Brexit

FCA updates Brexit guidance

The FCA updated its guidance on *Preparing your firm for Brexit* on 13 December 2018. The new areas of focus are:

- contract continuity – the FCA reminds firms which do business in the EEA under passporting that they need to consider how they will continue to service customers with existing contracts after Brexit
- execution of firms' contingency plans – the FCA stresses that firms should consider their clients' best interests when executing their plans
- data sharing – firms should be considering whether they transfer personal data between the UK and EEA, and the FCA expects firms to consider what contingency plans may be necessary
- customer communications – the FCA wants firms to consider what communications to customers will be necessary to explain how Brexit might affect them.

Firms preparing for Brexit should ensure their plans take into account these issues, as well as previous guidance published by the FCA.

Latest Brexit amendment SIs published

December 2018 saw the publication of further draft statutory instruments (SIs) by HMT which will bring EU regulations into UK law by March 2019 if there is no Brexit transitional period. The aim of the draft SIs is to provide continuity in financial services regulation in the event of a no-deal Brexit, while correcting aspects of EU law that will not work in a UK context - for example, where an EU authority currently has a role in the regulations.

Key among these SIs is the *Financial Services Contracts Regulations* which establish the Financial Services Contracts Regime (FSCR). This will allow EEA firms operating in the UK via a passport to continue activities in the UK for a limited period after Brexit, if there is no withdrawal agreement. This will support the orderly wind down of UK regulated activities of firms that do not enter the Temporary Permissions Regime. The FSCR will run for five years, but for longer term insurance contracts the effective period will be 15 years.

HMT also published EU exit SIs for *Benchmark regulations*, *Financial conglomerates and other financial groups*, *Investment funds and managers*, *Securitisation regulations* and *Financial services distance selling regulations*.

A full list of EU exit SIs can be found at the *Government website* along with general approach papers that will be developed into SIs prior to March 2019.

UK CCPs/CSDs granted temporary equivalence

Two Commission Implementing Decisions (dated 19 December 2018) were published in the Official Journal on 20 December 2018. They reflect the EC's decisions to grant temporary equivalence to the UK regulatory framework for *CCPs* and *CSDs* under EMIR and CSDR.

Subject to ESMA recognition, these Decisions would ensure that UK CCPs and CSDs can continue to provide clearing and other services in the EU after 29 March 2019.

Both Decisions entered into force on 21 December 2018 and would be applicable from 29 March 2019 in case of a no-deal Brexit. The Decision for CCPs would expire on 30 March 2020, while the Decision for CSDs would expire on 30 March 2021.

At the same time ESMA issued a *public statement* on 19 December 2018. It stated that it aims to recognise UK CCPs well ahead of Brexit day, subject to the fulfilment of the recognition conditions under EMIR. ESMA also mentioned that it has already engaged with UK CCPs to solicit their applications. For UK CSDs, ESMA plans to follow a similar recognition process to allow them to serve Irish securities and to avoid any negative impact on the Irish securities market.

Next, the BoE needs to apply to ESMA for recognition of UK CCPs, and the two institutions need to sign a MoU over exchange of supervisory information.

In addition to this, on 19 December 2018 the EC *confirmed* temporary 12-month waivers from the clearing obligation and margining requirements to facilitate the novation of bilateral contracts between UK and EU-27 entities.

Transitioning CRAs through Brexit

The FCA published further Brexit guidance on its *website* on 13 December 2018 for CRAs operating in the UK. ESMA currently recognises and supervises CRAs in the UK. But post-Brexit HMT indicates that this role will transfer to the FCA. In the event the UK leaves the EU without a deal, HMT is legislating to create two mechanisms to allow CRAs to continue to operate in the UK after 29 March 2019. The FCA outlines details of a conversion regime that allows CRAs established in the UK before exit day to convert their ESMA registration into registration with the FCA. CRAs certified with ESMA will also be able to extend their certification to the UK.

In addition, the FCA details a registration regime that offers temporary registration to CRAs that apply to the FCA before exit day, provided they are a UK legal entity and are part of the same group as a CRA with an existing ESMA registration. This will allow time for the FCA to assess these applications. This regime is distinct from the FCA's *temporary permission regime* for inbound passporting EEA firms and funds.

The FCA indicates that CRAs wanting to utilise the conversion regime should submit their notification by 'early March' but with further guidance to follow when the CRA Brexit legislation comes into force. Likewise, CRAs that elect for the temporary registration route should submit their application before 29 March 2019, but again with further direction to follow. Finally, the FCA states that it intends to assess applications to register as a new UK CRA (i.e. where not eligible for the above regimes) in accordance with the usual procedures under the applicable CRA regulation.

EC adopts Brexit-related EMIR Delegated Regulations

The EC adopted three Brexit-related Delegated Regulations under EMIR on 19 December 2018. These are the following:

- a *Delegated Regulation* amended the RTS on the clearing obligation to extend the dates of deferred application of the obligation for certain intragroup OTC derivatives transactions
- another *Delegated Regulation* amended three RTS on the clearing obligation for certain classes of interest rate swaps and credit derivatives

- the other *Delegated Regulation* amended the RTS on risk mitigation techniques for uncleared OTC derivative contracts.

Their purpose is to allow EU firms to replace their UK counterparties with EU counterparties during a 12-month period after Brexit day, without triggering the clearing obligation or the EMIR rules for uncleared trades.

Once the EP and the Council endorse the Regulations, they would apply from 29 March 2019 only in the case of a no-deal Brexit.

Competition

CMA responds to loyalty pricing concerns

The CMA responded to the Citizens Advice super-complaint that firms penalise existing customers through higher charges, in *Tackling the loyalty penalty* on 19 December 2018. The CMA looked at the five markets highlighted by the complaint (cash savings, mortgages, household insurance, mobile phone contracts and broadband) and concluded 'urgent action' is required to prevent loyal or vulnerable customers being taken advantage of.

It makes a series of recommendations to Government and regulators to tackle the issues. The CMA recognises the FCA's ongoing work in cash savings, insurance and mortgages. As part of the FCA's general insurance pricing practices market study, the CMA recommends the FCA considers rules to restrict the practice of 'price walking' (gradually increasing prices over time) and how intermediaries can continue to benefit the home insurance market. In the mortgage market, the CMA suggests the FCA looks further at potential measures to help mortgage customers who could switch to a better deal but do not.

Conduct

New guidance for FCA's unfair contracts library

The FCA added guidance through *FG18/7: fairness in variation terms in contracts* on 19 December 2018. The guidance covers provisions within the Consumer Rights Act (2015) (CRA), and reflects the FCA's understanding of UK and EU case law in respect of unilateral contract variation terms. The FCA's is raising awareness of the factors firms should be considering when drafting and reviewing unilateral variation terms.

The FCA highlights that terms should not unbalance the rights of a party and general transparency must persist. In addition, the FCA provides a non-exhaustive list of other factors relevant to determining whether a variation term is fair:

- the firm's reason for including a variation term
- the scope of the variation term
- whether the term can work in the consumer's favour, or always against them
- whether a customer has understood the reasons for a variation and the potential consequences
- adequate notice
- the freedom to terminate the contract
- whether the interests of the consumer and firm are fairly balanced overall.

The FCA further stresses that case law demonstrates that other factors could be taken into account, such as how a product has been advertised, promotional material and pre-contractual information, to determine fairness.

Although the FCA is not proposing any future work on unilateral variation terms, its view of good practice is for firms to frequently review all consumer contracts for fairness and for CRA compliance. Firms should review their own contracts, especially variation terms, in light of this guidance and thoroughly understand the factors taken into consideration from the relevant case law.

Culture

FCA probes link between diversity and misconduct

In a *speech* on 19 December 2018, FCA Executive Director of Strategy and Competition Christopher Woolard spoke of the importance of diversity and inclusion in financial services. He said the way in which a firm approaches these issues tells the regulator a lot about the firm's culture. Woolard explained that the way a firm handles non-financial misconduct, such as allegations of sexual misconduct, is potentially relevant to the FCA's assessment of that firm, in the same way a firm's handling of issues such as insider dealing is. He added that in the last 12 months, the FCA has seen a significant uptick in whistleblowing reports of non-financial misconduct. The FCA plans to carry out work to explore the relationship between diversity and firm behaviour, including misconduct, to understand if there is a link between the two.

Finance

Supervising the new EU securitisation regime

The Securitisation Regulations 2018 (SI 2018/1288) were published on 4 December 2018. This supports the introduction of the directly applicable new *EU securitisation regime regulation - (EU) 2017/2402* (EU regime). It creates the necessary supervisory and enforcement powers in the UK required by the EU regime.

Under this legislation, the PRA is the competent authority for PRA authorised persons with respect to general requirements including due diligence, risk retention, disclosure and credit granting. The FCA becomes the competent authority for the supervision of these general requirements for originators, original lenders and securitisation special purpose entities (SSPEs) established in the UK but not authorised by the PRA. The FCA is also the competent authority for compliance with other aspects of the EU regime including:

- sellers of a securitisation position
- restrictions on establishing SSPEs in third countries
- the simple, transparent and standardised (STS) securitisation criteria
- the authorisation of third party vendors, which market participants can use to check compliance with STS criteria.

This UK regulation took effect, alongside the EU regime, on 1 January 2019.

Implementing the EU securitisation regime

The FCA published *PS 18/25 - implementation of the EU securitisation regulation and the amendment to CRR (including DEPP and EG changes)* on 19 December 2019. It amends the FCA Handbook to align it with the directly applicable EU Securitisation Regulation and the related UK statutory instrument *SI 2018/1288* that both took effect from 1 January 2019. There are no significant differences from the proposals it made in consultation papers *CP 18/22* and *CP 18/30*. The FCA makes these changes alongside those made by the PRA through policy statement *PS 29/18* in November 2019.

The PRA and FCA also issued a joint statement on the *reporting of private securitisations* (issuances not undertaken in compliance with the Prospectus Directive) on 20 December 2019. They direct firms to provide summary information as specified in their template but that a full set of information should remain available 'on request'. This applies to all applicable UK established originators, sponsors and securitisation special purpose entities from 15 January 2019.

EC endorses SFTR Level 2 rules

The EC endorsed four Commission Delegated Regulations (CDRs) and two Commission Implementing Regulations (CIRs) under SFTR related to TRs on 13 December 2018. These comprise:

- a CDR on *access to details of SFTs held in TRs* (with an *annex*)
- a CDR specifying the *details of the application for registration and extension of registration as a TR*
- a CDR amending a CDR under EMIR related to *access to data held in TRs*
- a CDR amending a CDR under EMIR specifying the *details of the application for registration as a TR*
- a CIR on the (with *annexes*) which also amends a CIR under EMIR on the use of reporting codes in the reporting of derivative contracts
- a CIR on the *procedures and forms for exchange of information on sanctions, measures and investigations* under SFTR (with *annexes*).

The next step is for the EP and Council to adopt these regulations.

Providing additional benefits for STS securitisations

The ESAs published *final draft RTS amending Regulation (EU) 2016/2251 on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP under EMIR in the context of simple, transparent and standardised (STS) securitisations* and a final report on *Amendments to the EMIR clearing obligation under the Securitisation Regulation* on 18 December 2018. These amend existing EMIR-related RTS to accommodate derivatives used in connection with STS securitisations that arise under the new securitisation framework and align their treatment with derivatives associated with covered bonds, thereby ensuring a level playing field.

Under these amendments, STS securitisation-related derivatives can benefit from EMIR provisions allowing no exchange of initial margin and only the collection of variation margin. Similarly, STS securitisation-related derivatives can utilise the EMIR exemption from the clearing obligation, the requirement to clear trades through EMIR authorised or recognised CCPs. These are permitted provided the STS securitisations meet specific conditions equivalent to those already required for covered bonds. These draft RTS now await endorsement by the EC.

Market infrastructure

ISDA's clearing requests to EU authorities

ISDA sent two letters to ESMA and the EC in relation to the EMIR backloading obligation and the clearing exemption for intragroup transactions, on 6 December 2018.

ISDA *urged* ESMA to publish a statement to NCAs recommending they do not prioritise supervisory action against firms that haven't reported all details of historical derivatives transactions by 12 February 2019. This is in case EMIR Refit, which removes the backloading obligations, doesn't come into effect by that date. The association also *asked* the EC to endorse ESMA's proposed extension to 21 December 2020 of the deferred dates of application of the clearing obligation to intragroup transactions between EU and non-EU counterparties.

Draft guidelines on CSDR settlement fails

ESMA launched for consultation two draft guidelines under CSDR on 20 December 2018.

The draft *Guidelines on standardised procedures and messaging protocols used between investment firms and their professional clients* aim to help the early settlement of a transaction on the intended settlement date and reduce the number of settlement fails. ESMA argues that investment firms should ensure they have all the necessary settlement details on the business day on which the transaction takes place. If they don't have all the details, then they should obtain the missing information from their clients, which should include standardised data useful for the settlement process. These guidelines apply to MiFID II investment firms and professional clients, and to NCAs.

The draft *Guidelines on settlement fails reporting* deal with the scope of data that CSDs should report, the types of transitions and operations that should or should not be included, and exchange of information between ESMA and NCAs. These guidelines apply to CSDs and NCAs.

The deadline for comments is **20 February 2019**. ESMA aims to finalise both guidelines by July 2019.

Euro benchmark transition advances

The working group on euro RFRs issued a *report* on the transition from EONIA to ESTER and launched a second *public consultation* on ESTER-based term structure methodologies, on 20 December 2018.

According to the group, a fixed EONIA-ESTER spread would allow for a temporary but gradual transition to ESTER without value transfer across market participants. Hence, the group recommends to the administrator of EONIA to modify the current EONIA methodology accordingly. It also encourages market participants to take steps to gradually replace EONIA with ESTER in all their trades.

An ESTER-based term structure would serve as a fallback to Euribor-linked contracts. Thus, the group seeks feedback on the need for term rates for different products and the forward-looking methodologies to obtain such term rates.

The deadline for feedback to the report and consultation is **1 February 2019**.

Operational resilience

FCA review reveals cyber security concerns

The FCA published findings from its *cyber multi-firm review* of wholesale banks and asset managers on 10 December 2018, as a further stage of discovery work following the *Technology and Cyber Resilience Questionnaire.* The FCA observed that board members, senior management and the second line of defence had limited technical cyber expertise. This affected the ability of each to provide effective oversight and challenge on cybersecurity matters.

The FCA encourages board and management committee members to ask themselves whether they have sufficient understanding of cyber risks and the impact tolerances of their business to provide effective challenge. Firms should also start to embed a security culture which ensures cyber is treated as a firm-wide issue, not just an IT one. The FCA will monitor firms' engagement with these findings. Firms should expect a consultation paper on operational resilience in Q1/Q2 2019 following the joint regulator discussion paper issued in July 2018.

For more details see our *At a glance* publication.

EBA consults on ICT risk guidelines

The EBA launched a consultation on its draft *Guidelines on ICT and security risk management* on 14 December 2018. The guidelines establish requirements for credit institutions, investment firms and payment service providers (PSPs) on the mitigation and management of their information and communication technology (ICT) risks. It aims to ensure a consistent and robust approach across the Single Market.

The guidelines recognise the increasing reliance on ICT for all financial institutions, the ever growing threat of cyber attacks and other service outages, and the harm these can cause to all stakeholders. The EBA sets out the expected requirements firms will need to satisfy to identify, mitigate and manage ICT risks. Firms will need to demonstrate compliance in the following key areas:

- Governance - firms should have an established ICT strategy and risk control framework, with a compliance function based on the three lines of defence model. Third party suppliers should also be subject to full ICT risk management processes and oversight through the use of contracts and service level agreements.
- Risk assessment - business functions, information assets and processes should be identified, recorded and assessed for potential ICT risks which can then be mitigated.
- Information security - an information security policy should be in place, combined with regular testing and staff training. There should also be an independent information security function.
- ICT operations management - firms should ensure that any changes to ICT systems are assessed, tested, approved and implemented in a controlled manner with sufficient oversight, monitoring and testing.
- Business continuity plans should be adopted, with regular testing and reviews. Crisis communication programmes should also be in place.
- Payment Services Users (PSU) - payment service providers should provide PSUs with assistance and

guidance to enhance their understanding of security risks.

The consultation closes on **13 March 2019**, and firms should review the guidelines and consider how compliant their current ICT risk approaches are.

Retail products

FCA proposes permanent measures for binary options and CFDs

The FCA published *CP18/37: Product intervention measures for binary options and CP18/38: Restricting contract for difference (CFD) products sold to retail clients and a discussion of other retail derivative products* on 7 December 2018.

The regulator is concerned about the harm to retail investors that is being caused by the design and distribution of some complex derivative products, notably CFDs and binary options. These concerns are long-standing despite focused supervisory work over several years aimed at improving firms' conduct.

The package of measures includes a permanent ban on the sale and distribution of binary options to retail investors, based on evidence of aggressive and misleading marketing of these products, their complexity, and the level of losses these investors experience when trading.

It also includes a series of permanent restrictions on the sale and distribution of CFDs and similar products (e.g. so-called turbo certificates) to retail clients. Among the proposals are leverage limits of between 30:1 and 2:1 by collecting minimum margin as a percentage of the overall exposure that the CFD provides, and a requirement to close out a customer's position when their funds fall to 50% of the margin needed to maintain their open positions on their CFD account.

The FCA is also seeking feedback on whether other complex derivative products, such as futures or similar OTC products, may pose comparable risks of harm to retail consumers and could benefit from similar rules to those being proposed for CFDs.

These proposals are broadly aligned with ESMA's EU-wide temporary intervention measures related to CFDs and binary options, but would apply on a permanent basis.

For more details see our *At a glance* publication.

Supervision

FCA confirms new rules for CMCs

The FCA confirmed new rules and fees that will apply to claims management companies (CMCs) when it takes over responsibility for regulating them from April 2019. In *PS18/23: Claims management: how we will regulate CMCs,* issued on 17 December 2018, the FCA sets out requirements for firms to be transparent about their estimated fees upfront, and to notify customers of free statutory ombudsman or compensation schemes. In addition, all firms need to record and retain customer phone calls for a year after their final contact with a customer.

CMCs can apply for temporary permission to operate from January 2019. This will allow them to continue to operate until they are fully authorised by the FCA between April and July 2019.

Sustainable finance

ESMA package on sustainable finance

ESMA published a series of consultations on 19 December 2018 in an effort to support the EC's agenda on sustainable finance.

The first consultation is on *Integrating sustainability risks into MiFID II*. ESMA proposed an amendment to the MIFID general organisational requirements to make clear that firms would be expected to incorporate environmental, social and governance (ESG) considerations within their processes, systems and controls. It also proposed changes to the conflicts of interest provisions so that firms have in place appropriate arrangements to ensure that the inclusion of ESG considerations in their activities does not conflict with the interests of the client.

Also included in the consultation are proposed amendments to the product governance rules, clarifying that both the manufacturer and distributor should take into account ESG considerations while identifying the target markets for the financial instruments they manufacture or distribute.

ESMA's second consultation is on *Integrating sustainability factors and risks into the UCITS Directive and AIFMD*. For both the UCITS and AIFMD frameworks, ESMA proposes changes in relation to general organisational requirements, conflicts of interest, resources, senior management responsibilities, due diligence and risk management.

Finally, in a third consultation on *Disclosure requirements applicable to credit ratings*, ESMA proposes guidance aimed at improving the quality and consistency of information that is provided alongside the issuance of a credit rating in a publicly available press release. It also puts forward guidance to improve the transparency of credit rating press releases concerning the extent to which sustainability factors have been considered as part of a credit rating.

Accounting

Auditors

Revising auditing standards: expected credit losses

The FRC published *International Standard on Auditing (UK) 540 (revised) - auditing accounting estimates and related disclosures* and issued for consultation, *Exposure draft: Practice Note 19 (revised) -*

the audit of banks and building societies in the UK on 12 December 2018.

The revised auditing standard includes covering the audit of expected credit losses (ECLs) in banks and reflects the increased importance and complexity of estimates in financial statements. The FRC says the revised auditing standard 'requires better risk assessment and greater work effort on the part of auditors who will also need to apply a higher benchmark in assessing the adequacy of disclosures'. The revision of Practice Note 19 incorporates new guidance to help apply this revised auditing standard, including the audit of ECLs, hedge accounting and effective interest rate accounting. It also involves updating the legislative and regulatory content of the practice note for the changes that have occurred since its last revision in 2011.

The auditing standard takes effect for audits of financial statements for periods beginning on or after 15 December 2019, but the FRC permits early adoption. The consultation on the exposure draft closes on **8 March 2019**.

Our publications

Understanding Brexit's accounting implications

The UK is due to leave the EU on 29 March 2019. As the UK continues to negotiate its exit, UK businesses should be considering how this new political landscape will impact their organisations. Irrespective of the outcome of the negotiations, whether that be with or without a deal, there will likely be significant changes for many UK firms. But Brexit might also impact overseas entities doing business with the UK, as well as groups with substantial UK operations.

In our view, by now management should have identified and assessed the Brexit-related risks that apply to their business and should be considering the impact on accounting and reporting.

Our *In Depth* publication considers accounting implications of Brexit for December 2018 period ends.

December year-end accounting reminders

Our December accounting reminders (*IFRS and UK GAAP* and *IFRS*) outline the reporting requirements as at 31 December 2018.

They cover standards that apply at the year-end, standards published but effective at later dates (requiring disclosure) and a summary of the latest topical issues. Our Global Chief Accountant, Henry Daubeney, and a panel of IFRS technical accounting partners also discuss the IFRS year-end reminders in a *webcast*. They look at the new standards, the definition of a business, Brexit and regulator focus areas.

The Wates corporate governance principles for large private companies

The FRC issued *The Wates corporate governance principles for large private companies* and *feedback statement* on 10 December 2018. We expect many private companies (especially those with limited and/or informal corporate governance arrangements) will refer to these when reporting on corporate governance arrangements, which is mandatory for periods beginning on or after 1 January 2019. See our *In brief* publication for further details.

Hyper-inflationary economies

Our *In brief - Hyperinflationary economies at 31 December 2018* presents the countries that are hyper-inflationary at 31 December 2018, and those that are not expected to be hyper-inflationary at that date but that should be kept under review in 2019.

IFRS news

Our *IFRS news - December 2018* includes:

- Must know
  - Disclosure of the expected impact of IFRS 16
  - Accounting considerations for Venezuelan entities (update as of November 2018)
- Word on the Wharf?

Illustrative financial statements for 2018

IFRS for the UK illustrative financial statements for 2018 year ends provides an illustrative annual report for a UK listed group for the year ended 31 December 2018. These model accounts illustrate the required disclosure and presentation for UK groups and UK companies reporting under IFRS. The format of these illustrative financial statements has been completely revised to reflect some of the best practices in financial reporting emerging globally.

The financial statements include disclosures to reflect the first time adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. An appendix illustrating new leasing disclosures that will be applicable when an entity has adopted IFRS 16 'Leases' as a lessee is also included.

UK GAAP (FRS 101) illustrative financial statements for 2018 year ends shows the disclosures and format that might be expected for a company preparing its financial statements under FRS 101, 'Reduced Disclosure Framework' and the Companies Act. Areas in which presentation has changed significantly since 2017 are highlighted. Key changes include disclosures illustrating the impact of first time adoption of IFRS 9 and 15 as applicable to companies reporting under FRS 101.

Also this month

BoE

The BoE published further *changes* to the PRA Rulebook and Binding Technical Standards (BTS) and Resolution BTS on 20 December 2018 as part of the existing consultation *CP32/18* 'UK withdrawal from the EU: Further changes to: PRA Rulebook and Binding Technical Standards, and Resolution Binding Technical Standards'. The consultation closes on **21 January 2019**.

CMA

The CMA identified protecting vulnerable consumers and promoting competition in online markets among its planned priorities for 2019/20, in its *Annual Plan consultation* on 3 December 2018. The authority notes that its plan is more uncertain this year as a no-deal Brexit scenario would force it to take on a great deal of new work and so considerably narrow its ability to carry out other work such as market studies. The consultation closes on **13 January 2019** and the CMA plans to publish its final plan in March 2019.

Council

- The Council adopted a new *action plan* on AML and terrorist financing on 4 December 2018. The plan addresses eight main objectives including mapping key money-laundering risks and enhancing the convergence and co-operation of cross-border prudential and AML supervisors. In addition, the Council expects improved knowledge sharing and more efficient use of existing powers by the relevant national agencies.
- The Council finalised its *compromise text* on the EC proposal amending BMR on low carbon benchmarks and positive carbon impact benchmarks on 14 December 2018. It is worth noting the suggested extension of the transitional period beyond 1 January 2020 during which an existing critical benchmark can be published and used without their administrator having applied for authorisation. Once the EP agrees its negotiating position, the institutional dialogue will take place.
- On 19 December 2018, the Council agreed its *position* on the EU proposals to introduce a new category of financial benchmark. The EC originally published its *proposal* in May 2018 as part of a package of measures linked to its action plan on financing sustainable growth, and is aimed at giving more information on the carbon footprint of an investment portfolio. Negotiations between the Council and EP are now ready to begin.
- The Council announced its approval of the proposed Cybersecurity Act in its *outcome of proceedings*, published on 20 December 2018. The Act will introduce a voluntary cybersecurity certificate scheme for products and services, along with a renewed and strengthened mandate for the European Agency for Network and Information Security.

EBA

- The EBA published its final guidelines on the 'Simple, Transparent and Standardised' (STS) criteria for *asset-backed commercial paper (ABCP)* and *non-ABCP* securitisations on 12 December 2018. The guidelines aim to provide a single point of consistent interpretation of the STS criteria on a cross-sectoral basis in the EU.
- On 17 December 2018, the EBA *reminded* financial institutions to maintain their efforts in effective contingency planning and to increase their efforts in communicating to customers. The EBA urges institutions to take its opinion from June 2018 into account and to proceed with advising customers on the specific implications stemming from the UK withdrawal from the EU.

EC

- The EC opened an *evaluation of the Distance Marketing of Financial Services Directive*, a Directive which aims to harmonise consumer protection throughout the Single Market, on 7 December 2018. The EC's evaluation period will determine whether the measures are still relevant, align with existing EU legislation and are cost effective. Interested parties could submit feedback until 4 January 2019.
- The *Commission Implementing Regulation 2018/1889* on the extension of the transitional periods related to own funds requirements for exposures to CCPs was published in the Official Journal on 5 December 2018. The Regulation extends the 15-month transitional periods under CRR and EMIR from 15 December 2018 to 15 June 2019. This means that, until June 2019, EU firms can continue to treat their exposures to EU or third-country CCPs not yet authorised/recognised as qualified CCPs as exposures to qualified CCPs.
- On 10 December 2018, the EC reached political agreement on the *Cybersecurity Act*, which will now require formal approval by the EP and Council. The Act introduces a permanent mandate for the EU Cybersecurity Agency, and will also introduce a single cybersecurity certificate for products and services valid across the EU. In addition, the EC agreed to strengthen measures to combat fraud and counterfeiting of non-cash payments.
- The EC published a *Commission Delegated Regulation* on RTS regarding the specification of a single electronic reporting format on 17 December 2018. The Regulation supplements *Directive 2004/109/EC* of the EP and the Council by setting out a number of provisions on financial reporting.
- The EC published its *compromise text* on the EU regulation on disclosures relating to sustainable investments and sustainability risks on 17 December

2018. The EC originally published its *proposal* in May 2018 as part of a package of measures linked to its action plan on financing sustainable growth. The text will now form the basis of negotiations with the EP.

ECB

The ECB published its *cyber resilience oversight expectations* on 3 December 2018. The ECB's expectations are based on the global cyber resilience guidance created by IOSCO in 2016. The ECB provides detailed steps on how firms can operationalise the guidance, and how supervisors should assess institutions against their responsibilities.

ESMA

- ESMA updated its public register with the latest double volume cap (DVC) data under MiFID II on 7 December 2018. This includes DVC data for the period of 1 November 2017 to 31 October 2018, together with updates to historic data which had already been published. The data suggests there have been 45 breaches in equities at the 8% cap, applicable to all trading venues, and nine breaches in equities at the 4% cap that applies to individual trading venues.
- On 14 December 2018, ESMA published its *final report* setting out amendments to the RTS 11, which relates to the tick size regime under MiFID II. The amendments to the RTS will give new powers to NCAs of EU trading venues on which third-country shares are traded. Those NCAs would be able to decide on an adjusted average daily number of transactions on a case-by-case basis, to take into account the liquidity available on third country venues in the calibration of tick sizes.
- ESMA updated the *BMR FAQs* on 18 December 2018. It confirms that the methodology of a benchmark can include factors that are not input data. ESMA argues these factors should not measure the underlying market or economic reality that the benchmark intends to measure, but should instead be elements that improve the reliability of the benchmark and how representative it is.
- ESMA updated its *Questions and Answers* on the CRAs Regulation on 18 December 2018. The updates provide clarification on ESMA's view as to what constitutes an error in the methodologies used by CRAs under Article 8(7) of the Regulation.
- ESMA published a *statement* on 19 December 2018, reminding investment firms and credit institutions providing investment services of their obligations to provide clients with information on the implications of Brexit on existing and new contracts, and the impact of Brexit-related measures that a firm has taken or planned. These obligations derive from a number of MiFID II provisions, including Article 24 on information to clients, and Article 44 on providing information that is fair, clear and not misleading.
- On 21 December 2018, ESMA published its revised *guidelines* on the application of MiFID II in relation to definitions of commodity derivatives defined in C6 and C7 of the MiFID II annex. These simply update the guidelines originally produced for MiFID I to reflect the introduction of MiFID II, and remain unchanged in substance.
- ESMA issued *Guidelines on non-significant benchmarks* under BMR on 20 December 2018. The guidelines contain less stringent requirements in relation to the oversight function, input data, transparency of methodology, and governance and control requirements for supervised contributors. Next, NCAs must notify ESMA of whether they comply or intend to comply with the guidelines.
- On 18 December 2018, ESMA renewed its *temporary restriction* on the marketing, distribution or sale of Contracts for Difference to retail investors, and its *temporary retail ban* on binary options. These temporary measures are in accordance with Article 40 of MiFID II and will be imposed for a further three months effective from 1 February 2019. ESMA believes these measures are necessary to mitigate investor protection risks arising from retail participation in these products.

FCA

- The FCA consulted on minor changes to its Handbook, in *CP18/39: Quarterly Consultation No 23* on 12 December 2018. These include proposed amendments to its firm details reporting form in the supervision manual. The consultation closes on **6 February 2019**.
- The FCA published an updated version of *FG18/5: Guidance on financial crime systems and controls* on 13 December 2018. It has added an extra chapter on insider dealing and market manipulation, outlining its observations of good and bad practice in this area. The regulator also published a *Summary of feedback received* to its earlier consultation on the guidance.
- The FCA summarised changes to its Handbook made by its board between 15 November and 13 December 2018, in *Handbook Notice No 61* on 14 December 2018.
- The FCA published a final framework for evaluating its interventions, *Ex post impact evaluation framework*, on 20 December 2018. It had previously consulted on the framework, which sets out how the FCA will assess the impact

of its interventions on consumers, firms and markets.

FRC

- The FRC launched a post implementation review, *Providing assurance on client assets to the FCA - call for feedback* on 6 December 2018. Its feedback request includes asking whether client asset audits should be brought within the FRC's audit inspection and monitoring approach. Currently the FRC does not have the powers to test the underlying quality of work undertaken in respect of client asset audits. The consultation closes on **4 March 2019**.
- The FRC published its *Audit quality thematic review - other information in the annual report* on 6 December 2018. It reports that 'there were too many instances where insufficient work was performed to support the statements made by auditors' in respect of the 'front end' of company annual reports. The FRC intends to 'review the requirements on auditors in this area…to see what changes are necessary to help improve the work carried out'.

ISDA

- ISDA published the *ISDA 2018 Benchmarks Supplement Protocol* on 10 December 2018. It aims to help market participants to incorporate the 2018 ISDA Benchmarks Supplement into their derivatives contracts, to account for the potential change or cessation of a benchmark and specify the fallbacks that would apply in those cases. The protocol is accompanied by a *questionnaire*.
- ISDA published *FAQs on the procedures for excluding non-EU NFCs under CRR* on 13 December 2018. It provides guidance on the verification procedures that firms should undertake to ensure that non-EU NFCs are below the EMIR related derivative clearing thresholds - as referred to in *CRR RTS - (EU) 2018/728*. Non-EU NFCs that remain below these clearing thresholds benefit from the exclusion of their derivative positions from the credit value adjustment capital requirement calculation of firms subject to CRR.
- ISDA published *Anonymised Narrative Summary of Responses to the ISDA Consultation on Term Fixings and Spread Adjustment Methodologies* on 20 December 2018. The report summarises the results of consultation on new benchmark fallbacks for derivatives contracts that reference certain IBORs that would apply if an IBOR is discontinued. Based on feedback, ISDA will proceed with developing fallbacks to be included in its standard definitions based on the compounded setting in arrears rate and the historical mean/median approach to the spread adjustment for all the benchmarks covered by the consultation.

PRA

- The PRA published *PS 30/18 Regulatory Reporting: responses to CP16/18* on 5 December 2019. It makes a number of minor amendments including changes arising from reporting by RFBs, the substitution of the PRA prudent valuation return for a COREP equivalent, and other adjustments to align with EBA-related reporting. Most of the changes took effect from 1 January 2019.
- The PRA published *PS 33/18: responses to chapter 2 CP24/18 - occasional consultation paper* on 20 December 2019. It makes a minor amendment to its *branch return* template to indicate the accounting standards used by submitting EEA and third country banks. The change took effect on 1 January 2019.

RFRWG

The RFRWG issued the paper *New and legacy loan transactions referencing sterling LIBOR* on 21 December 2018. The paper is addressed mainly to those loan market participants with sterling loans linked to LIBOR maturing after end-2021, to help them better prepare and plan forward for the likely cessation of LIBOR. The RFRWG recommends firms that continue to reference new or existing loan contracts to sterling LIBOR to take certain measures before market conventions and infrastructure for alternative rates are developed.

Banking and capital markets

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Regulation

Capital and liquidity

Basel Committee focuses on leverage window dressing

The Basel Committee published on 13 December 2018 a *Consultative document: Revisions to leverage ratio disclosure requirements* to address leverage ratio window dressing. This follows a *statement* published on 18 October 2018. Window dressing behaviour involves temporary reductions of transaction volumes in key financial markets around reference dates, resulting in the reporting and public disclosure of elevated leverage ratios. The Committee proposes introducing exposure amounts calculated based on an average of daily values over the quarter for each of the following exposures:

- adjusted gross securities financing transaction assets recognised for accounting purposes (as calculated per paragraph 51 (i) leverage ratio standard)
- replacement cost of derivative exposures
- central bank reserves that are included in on-balance sheet exposures.

The Committee welcomes views on the impacts of the possible revisions. It's particularly interested in assessments of whether the proposed disclosure of the average values of central bank reserves could have an impact on banks' willingness to utilise central bank liquidity facilities or whether such disclosure might inappropriately reveal the use of such facilities. The consultation closes on **13 March 2019**. These revisions should be implemented no later than January 2022.

For more details see our *At a glance* publication.

Finishing off Pillar 3 disclosure revisions

The Basel Committee published *Pillar 3 disclosure requirements - updated framework* on 11 December 2018. These requirements, together with the *March 2017 phase two* and *January 2015 phase one* updates, complete the revision of the Pillar 3 framework. This third phase reflects the changes arising from *December 2017 Basel III post-crisis regulatory reforms* and relate to the following areas:

- credit risk (including the prudential treatment of problem assets), operational risk, the leverage ratio and credit valuation adjustment risk
- the comparison of RWAs calculated under internal models with the equivalent standardised approach
- overview of risk management, RWAs and key prudential metrics.

This update also includes new disclosures on asset encumbrance and where required by supervisory authorities, capital distribution constraints. The post-crisis reforms related disclosure requirements take effect from 1 January 2022. The asset encumbrance, capital distribution constraints and prudential treatment of problem assets take effect from the end of 2020 – an extension of one year compared with the Committee's *February 2018 proposals*.

Competition

FCA reveals retail banking review findings

The FCA published a *Final report* of its review of retail banking business models on 18 December 2018. To complete the review the FCA utilised a large amount of customer account data, alongside discussions with firms, to provide an analysis of business models within the retail banking market. The review looks at the funding and margin differences between retail banking models and discusses the relative advantages of each. It also considers the potential impact of regulatory and technological changes on those business models.

The FCA's headline findings are:

- personal current accounts (PCAs) are an important source of competitive advantage for major banks
- major banks benefit from higher lending yields and relatively low capital requirements compared to smaller retail banks and building societies
- these competitive imbalances have resulted in consumers receiving lower interest on credit balances, and pricing models that do not reward loyal customers
- branch closures are resulting in consumers having to travel further to reach services or even complete exclusion
- innovation could deliver better value for customers and enhance services
- technological and regulatory change will fundamentally alter the retail banking market in the future.

The understanding gained through this review will be used to shape the FCA's current and future work, most notably to support its proposed intervention in the overdraft market. It is also being used to inform the FCA's view of emerging scenarios in retail banking and what these may mean for consumers and firms.

As a result of the findings the FCA is planning future work in three areas: the value chain in new payments business models, SME financing and continued monitoring of retail banking business models. It has also identified three areas for future collaboration with other regulators and Government: access to financial services, system resilience and prevention of financial crime, and the appropriate use of consumer data.

It is clear the traditional retail banking model is experiencing a period of significant change and heightened threat. If incumbents wish to remain competitive they must evolve their business models, infrastructure and services.

Payments

FCA finalises PSD2 standards and guidance

The FCA published *PS18/24: Approach to technical standards and EBA guidelines under PSD2* on 19 December 2018, which finalises new rules that banks and other account providers must follow to ensure secure and effective communication between third party providers (TPPs) and strong customer authentication, and makes changes to its *Payment services and electronic money guidance*.

The finalised rules mean:

- account providers must make technical specifications regarding their interfaces and testing facilities available to TPPs by 14 March 2019
- all PSPs must comply with standards for strong customer authentication from 14 September 2019
- firms seeking exemption from the contingency mechanism requirements are encouraged to submit requests by 14 June 2019 to give enough time for alterations should it be refused
- PSPs must record fraud statistics from the 1 January 2019 - forms and guidance have been provided
- credit unions and PSPs must report data on authorised push-payment fraud from 1 July 2019.

Firms should take time to understand the new rules, reporting forms and guidance to ensure their own practices are adjusted accordingly.

Recovery and resolution

Completing the UK resolution regime

The BoE and PRA published an *Introduction to the Resolvability Assessment Framework* together with two consultations, *The Bank of England's approach to assessing resolvability* and the PRA's consultation paper, *CP31/18: Resolution assessment and public disclosure by firms* on 18 December 2018. The package is the final major piece in the UK's resolution regime for banks and is designed to ensure that banks are accountable for their own resolvability.

In its approach document the BoE sets out three outcomes for firms to achieve resolvability. They must:

- have adequate financial resources in the context of resolution
- be able to continue to do business through resolution and restructuring

- be able to coordinate and communicate effectively within the firm and with the authorities and markets so that resolution and subsequent restructuring are orderly.

The BoE also proposes a draft statement of policy on removing further barriers to resolvability that focuses on funding in resolution, continuity of access to FMIs, post-stabilisation restructuring and management, governance and communications in resolution. This applies to banks and building societies with a resolution strategy of bail-in or partial transfer and material UK subsidiaries of overseas-based banking groups.

In contrast, the PRA limits its resolution assessment and public disclosure requirements in CP31/18 to UK banks and building societies with retail deposits greater than or equal to £50bn, on an individual or consolidated basis, at the date of their most recent annual accounts. The proposed rules and draft supervisory statement require firms to assess their preparations for resolution, submit a report of their assessment to the PRA and publish a summary of their report. The PRA intends that firms submit an assessment every two years from September 2020 and publish summaries every two years from May 2021. Both consultations close on **5 April 2019**.

For further details see our *At a glance* publication.

EU banking reform package: nearly finalised?

The Council announced in a *press release* on 4 December 2018 that it had endorsed an agreement with the EP on 'key measures… aimed at reducing risks in the EU banking sector'. The EP issued a corresponding *press release* on the same day. This brings the *November 2016 banking reform package* of legislative proposals amending CRD IV, CRR, BRRD and the SRM close to finalisation. The Council outlines that these measures address three objectives of the *June 2016 completing the Banking Union roadmap*:

- strengthening prudential requirements, including introducing a binding leverage ratio, a binding net stable funding ratio and more risk sensitive rules for trading in securities and derivatives
- enhancing the framework for bank resolution, in particular the necessary level and quality of MREL to ensure an effective and orderly bail-in process
- enabling resolution authorities to suspend a bank's payments/contractual obligations for a period when under resolution (termed the 'moratorium tool') to help stabilise it.

It also highlights the measures aimed at improving banks' lending capacity and expanding their role in the capital markets. These include:

- reducing the costs of issuing/holding certain financial instruments such as high quality securitisation instruments and covered bonds
- enhancing the capacity to lend to SMEs and to fund infrastructure projects
- reducing the administrative burden on smaller and less complex banks, in particular in relation to reporting and disclosure.

The Council acknowledges that 'work on the remaining issues will continue both at a technical and political level, in view of finalising negotiations on the banking package by the end of the year' - i.e. in 2018. The Council and the EP both still need to officially adopt the regulations, prior to them appearing in the Official Journal. For its part, the EP indicates that 'the vote should take place early next year' - i.e. in 2019.

Reporting

New mortgage reporting requirements

The FCA and PRA jointly consulted in *CP30/18: changes to mortgage reporting requirements* on 13 December 2018. The regulators propose changes affecting three regulatory returns:

- product sales data: performance reports (PSD007)
- products sales data: sales reports (PSD001)
- mortgage lending and administration return (MLAR).

For PSD007, under the proposals, mortgage administrators will have to submit performance data on mortgages owned by entities which are not authorised for mortgage lending i.e. back-book investors. The data captured by the PSD007 report will remain unchanged. The FCA and PRA also propose for mortgage lenders to include internal product transfers within their PSD001 sales reports. Whilst the majority of the current PSD001 report will be retained, minor changes to wording and guidance will be made to reflect the nature of internal transfers i.e. the introduction of an 'internal product transfer' option under mortgage type. The FCA's mortgage market study has shown that around 42% of mortgage sales are internal transfers, but the FCA does not currently have sight of these sales. Capturing this data will allow the FCA to understand whether these sales are advised, the amount of fees charged and to monitor sales strategies.

The final proposal seeks to introduce a new reporting form, MLA-G1, for second-charge mortgage administrators. This will create a single form to capture data on the number and value of second charge loans they administer. Although firms already report this data in an aggregated format, alongside first charge data, this should give clarity to which data items need reporting.

The FCA and PRA invite views from firms affected by the proposed changes until the consultation closes on **22 March 2019.**

Retail products

FCA remains focused on long-term mortgage arrears

The FCA published *TR18/5: Management of long-term mortgage arrears and forbearance* on 6 December 2018, which reviewed firms' management of customers with mortgage arrears of more than 12 months. The FCA observed firms are generally treating customers in long-term financial difficulty well, but was disappointed to identify a number of issues that have been the subject of previous guidance.

The regulator found a number of poor practices which included poor record keeping, inconsistent treatment of vulnerable customers, reactive engagement practices (as opposed to proactive), and a lack of alternative repayment options. In addition, the FCA found isolated cases of harm where customers could not recover from their arrears due to high interest rates.

Firms should review outcomes to determine whether repayment arrangements are suitable and that vulnerabilities have been identified correctly. Periodic reviews of customers' circumstances are also encouraged by the FCA to ensure solutions remain appropriate. Firms which do not consider individual circumstances or provide a range of alternative solutions for repayment must review their practices immediately as they may be breaching the MCOB rules. The FCA has signalled it will take action against firms where poor practices persist.

For more details see our *At a glance* publication.

FCA proposes fundamental changes to overdrafts

The FCA published proposals for significant reforms in the overdraft market in *CP18/42: Overdrafts consultation and policy statement* on 18 December 2018. The FCA has identified that a number of financially vulnerable customers are suffering harm in the overdraft market from high unarranged overdraft charges, and wants to bring increased clarity to complex pricing structures for all customers. A ban on fixed fees for overdraft use has been proposed, with an exception for refused payment fees which are allowed under the Payment Service Regulations 2017. This will help to improve customers' understanding of costs. The FCA wishes to simplify overdrafts for consumers more generally by introducing a single interest rate per account (no tiered rates), and by displaying these costs in a standardised way which must include an APR. Proposed rules also convey the FCA's desire for firms to do more for customers who suffer harm from repeat use of an overdraft. In addition, the policy statement finalises competition rules that should facilitate greater customer engagement.

Starting to assess which elements of current pricing models are compliant with the proposed rules and which elements are not is an important first step for firms. Where adjustments are required, firms should understand how changes to the pricing model will impact operating revenue. Firms also need to develop a strategy for identifying and managing customers in financial difficulty. The FCA has proposed these measures to help reduce the repeat use of overdrafts, so a firm's strategy should share the same goal.

For further details see our *At a glance* publication.

Also this month

Basel Committee

The Basel Committee published its report *Cyber resilience: a range of practices*, on 4 December 2018. The Committee shares observations and key findings on cyber resilience practices from a number of banks and supervisory bodies. Firms should review the report to understand the findings, current challenges and initiatives in light of their own business.

BoE

The BoE published a *self-assessment of its Real-Time Gross Settlement (RTGS) and CHAPS services* on 24 December 2018. The BoE has observed all of the applicable Principles for FMIs within its operations and continues to embark on its RTGS renewal programme.

Council

- Andrea Enria, outgoing Chair of the EBA, has been appointed head of the supervisory board of the ECB, the Council *announced* on 6 December 2018. Enria took up the role on 1 January 2019 and will hold the position for five years, replacing Daniele Nouy.
- The Council published its *agreed position on reinforcing AML supervision for banks* on 19 December 2018. The Council agrees that the EBA should be given additional tasks and responsibilities which include performing risk assessments on NCAs, developing common standards and collecting more data on AML weaknesses.
- The EP and the Council reached a *political agreement* on a Commission proposal that will make cross-border payments in euros cheaper across the EU on 19 December 2018. Aligning the costs of cross-border payments in euros between euro and non-euro countries, the agreement will increase the transparency of charges related to currency conversion services across the EU.

EBA

- The EBA published its *Final Report on Guidelines on the conditions to benefit* *from an exemption from the contingency mechanism under Article 33(6) of Regulation (EU) 2018/389* - the PSD2 RTS dealing with strong customer authentication - on 4 December 2018. Changes include clarifications of the involvement of third party providers in the exemption process and the duty of account servicing PSPs to publish data on their dedicated interfaces.

- The EBA issued a *revised list* of validation rules on its ITS on 11 December 2018. The changes cover supervisory reporting rules which have been deactivated either due to incorrectness or for triggering IT problems. The EBA advises NCAs that data submitted in accordance with these ITS should not be formally validated against the set of deactivated rules.
- The EBA published its annual *Risk assessment of the european banking system* accompanied by its *EU-wide transparency exercise results* on 14 December 2018. It observes improvements in EU banks' resilience. But the EBA notes that profitability remains low and has not yet reached sustainable levels. It also identifies rising operational risk and funding-related challenges.
- The EBA confirmed its decision to undertake its next EU-wide stress test in 2020 in a *press release* released on 17 December 2018. This is in line with the EBA board of supervisors' decision in 2015 to aim for biennial stress tests in the future. The EBA also notes that it intends to continue to perform its *transparency exercise* annually.
- The EBA launched a *consultation* to amend the EC's Implementing Regulation on benchmarking of internal models on 18 December 2018. The proposed changes aim at simplifying the portfolio's structure for the credit risk part of the benchmarking exercise that the EBA plans to carry out in 2020. The consultation closes on **31 January 2019**.
- The EBA published its final report relating to *Guidelines on disclosures of non-performing and forborne exposures* on 17 December 2018. These guidelines are part of a wider set of initiatives to tackle existing and potential non-performing exposures in the EU. These initiatives include its *Guidelines on management of non-performing and forborne exposures* published in October 2018. The disclosure guidelines take effect from 31 December 2019.
- The EBA released its *qualitative questionnaire on December 2017 Basel III standards for institutions* and related *ECAI questionnaire* on 4 December 2018. It aims to gather additional information, not covered by its existing *quantitative data* gathering, on the final element of the *post-crisis reforms*. The EBA intends to use the data to address the EC's *call for advice* on this issue. The deadline for completing the questionnaires was 11 January 2019.
- The EBA published its *Opinion on the use of eIDAS certificates under PSD2 (EBA-Op-2018-7)* on 11 December 2018. It aims to clarify the use of certificates issued under Regulation (EU) 910/2014 on electronic identification and trust services for electronic transactions (eIDAS) and the roles to be attributed to PSPs under eIDAS certificates. It also identifies steps for NCAs to take in relation to revoking eIDAS certificates.
- The EBA issued a report, *First observations on the impact and implementation of IFRS 9 by EU institutions* on 20 December 2019. It observes that the average fully-loaded day one effect of IFRS 9 on CET 1 capital of the sample of 54 banks was a decrease of 51 basis points, broadly in line with its earlier impact assessments. The average add-back to CET1 capital of banks in the sample applying the available transitional relief was 118 basis points.
- The EBA updated its *guidelines* on reporting requirements for fraud data under Article 96(6) of PSD2 on 20 December 2018. The updates reflect editorial changes to the regulatory reporting requirements of payment service providers on statistical data related to payment transactions. The guidelines took effect on 1 January 2019.

EPC

The EPC published a number of SEPA guidelines on 17 December 2018. The guidelines set out rules for the implementation of *customer-to-bank, interbank, e-mandate service* and *business-to-business* standards based on the 2019 SEPA rulebooks, which take effect on 17 November 2019.

European Cards Stakeholders Group

The European Cards Stakeholders Group *consulted* on the SEPA Cards Standardisation Volume and Tokenisation Considerations for SEPA Card Payments on 17 December 2018. It aims to achieve cards standardisation, interoperability, and security as well as rules for the adoption and implementation of tokenisation in the SEPA region. The consultation closes on **29 March 2019.**

FCA

- The FCA proposed new rules for 'buy now, pay later' offers in *CP18/43: High-cost credit review*, published on 18 December 2018. The main proposal is to stop backdated interest being charged on repaid amounts, alongside adequate explanations, prompts and advertising measures. The FCA aims for rules to be made final in June 2019.

- The FCA published *PS18/22: authorised push payment (APP) fraud*, on 14 December 2018, introducing new rules for the handling of APP complaints which come into force on 31 January 2019. Complainants are now entitled to complain to the PSP that received the fraudulent payment, in addition to the PSP that sent the money. The FOS's remit has also been expanded to allow for these complaints to be FOS eligible.
- The FCA published *Evaluation paper 18/3: reducing barriers to entry into the UK banking sector*, on 20 December 2018, which evaluates the success past measures have had on easing entry for new banks. The FCA concludes that whilst the authorisation process has become more efficient and the rate of entry into the banking sector is higher than before measures were taken, there is still little evidence of a change in concentration of the market. Current work, such as open banking, may help to improve this.
- On 19 December 2018 the FCA published a *Consultation* on its implementation of the RTS for strong customer authentication and common and secure open standards of communication, should there be no Brexit deal. Some of the provisions of the RTS come into force after 29 March 2019, meaning a UK implementation of these rules is required. The consultation closes on **19 February 2019**.

PRA

- The PRA published an updated version of the *PRA110 reporting template and instructions: Q&As* on 14 December 2019. The updated Q&As include a new section on contingencies in response to a number of additional questions from firms regarding the template and reporting instructions. The PRA plans to continue to publish Q&As periodically.
- The PRA updated its *Statement of Policy* (SoP) which sets out its approach to the implementation of the Systemic Risk Buffer (SRB) on 13 December 2018. Among a number of changes, the SoP introduces a requirement that SRB institutions hold an additional leverage ratio buffer in line with the *Supervisory Statement* 45/1 'The UK leverage ratio framework'.

PSR

The PSR published a *MoU on Cooperation between NCAs to monitor compliance with Article 7(1)(a) of the Interchange Fee Regulation and the related RTS (EU) 2018/72* on its website on 6 December 2018. The MoU provides a framework for NCAs to cooperate in monitoring compliance by payment card schemes that operate on a cross-border basis and their processing entities.

UK Government

The Government published the *Financial Services (Banking Reform) Act 2013 (Commencement No. 12) Order 2018 (SI 2018/1306)* on 5 December 2018. It brought into force on 1 January 2019 the provisions of FSBRA relating to the ring-fencing regime that were not already in force.

Asset management

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Regulation

Capital and liquidity

FCA looks to facilitate patient capital investments

The FCA published *CP18/40: Consultation on proposed amendment of COBS 21.3 permitted links rules* and *DP18/10: Patient Capital and Authorised Funds* on 12 December 2018.

The regulator proposed enhancements to the role that unit-linked funds can play in facilitating patient capital, a term used to describe various alternative assets intended to deliver long-term investment returns such as infrastructure, real estate and venture capital. The package of changes includes new guidance to clarify its expectations on various rules perceived as a barrier to long-term investment. The FCA also intends to revise rules to broaden the investment range in patient capital and set a new limit that would require overall investments in illiquid assets in a linked fund to be a maximum of 50% of total assets.

Separately, the FCA has opened a discussion to explore whether the existing regulatory regime for authorised fund managers creates any impediments to investments in patient capital and, if so, what improvements could be made. The regulator is also requesting feedback on whether there is demand for a new bespoke authorised retail fund which can invest all its capital into patient capital assets.

For more details see our *At a glance* publication.

Competition

Shake-up of investment consultancy and fiduciary management

The CMA published its *final report* setting out reforms to the investment consultancy and fiduciary management sectors on 12 December 2018. This follows its investigation into competition within these sectors at the request of the FCA in the context of its asset management market study. The *interim findings* from the investigation were published in September 2018.

The CMA found that many pension schemes select the same fiduciary management provider that they use for investment consultancy, and there is a lack of transparency for consumers on the fees charged by and historic performance of fiduciary management providers. In relation to the investment consultancy market, the CMA found low levels of engagement by some pension schemes in choosing and monitoring their provider, and that it is not straightforward for pension schemes to access information about the quality of their provider. The CMA considers that these features constrain demand-side competition between providers.

The remedies aim to promote greater trustee engagement and provide trustees with more information on fees and performance of fiduciary managers and investment consultants. The CMA has made several recommendations, including for HMT to broaden the FCA's regulatory scope to include the activities of investment consultants. It hopes this will ensure greater oversight of this sector in the future.

The FCA *signalled* its support for the CMA's measures and its commitment to working with relevant authorities to implement the package of reforms.

Retail products

More cross-border funds disclosure but fewer KIDs

ECON adopted *draft reports* on the cross-border distribution of investment funds on 4 December 2018, following the publication of the EC's original proposal in March 2018 and the subsequent Council position.

The adopted changes relate to marketing, including a detailed account of risks, a summary of investors' rights, and additional information about national collective redress in case of litigation. MEPs also agreed to changes clarifying that pre-marketing in a new country used to gauge investor interest before marketing activities begin should not lead to sales in investment units.

Finally, ECON agreed that the UCITS exemption from the PRIIPs regulation should be extended by a further two years to 31 December 2021, and the review of the regulation should be extended by one year to 31 December 2019.

Sustainable finance

ESMA package on sustainable finance

ESMA published a series of consultations on 19 December 2018 in an effort to support the EC's agenda on sustainable finance.

The first consultation is on *Integrating sustainability risks into MiFID II*. ESMA proposed an amendment to the MIFID general organisational requirements to make clear that firms would be expected to incorporate environmental, social and governance (ESG) considerations within their processes, systems and controls. It also proposed changes to the conflicts of interest provisions so that firms have in place appropriate arrangements to ensure that the inclusion of ESG considerations in their activities does not conflict with the interests of the client.

Also included in the consultation are proposed amendments to the product governance rules, clarifying that both the manufacturer and distributor should take into account ESG considerations while identifying the target markets for the financial instruments they manufacture or distribute.

ESMA's second consultation is on *Integrating sustainability factors and risks into the UCITS Directive and AIFMD*. For both the UCITS and AIFMD frameworks, ESMA proposes changes in relation to general organisational requirements, conflicts of interest, resources, senior management responsibilities, due diligence and risk management.

Finally, in a third consultation on *Disclosure requirements applicable to credit ratings*, ESMA proposes guidance aimed at improving the quality and consistency of information that is provided alongside the issuance of a credit rating in a publicly available press release. It also puts foward guidance to improve the transparency of credit rating press releases concerning the extent to which sustainability factors have been considered as part of a credit rating.

Insurance

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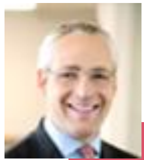

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Regulation

Disclosure and distribution

FCA highlights consumer outcome priorities

The FCA published *IDD: delivering clear, fair outcomes for consumers from the insurance sector* on 4 December 2018. In implementing the IDD, the FCA has introduced several changes to its rules, including requirements to:

- identify customers' insurance *demands and needs*, and ensure that products offered are consistent with them
- have in place *product oversight and governance* arrangements
- adhere to the *customer's best interests rule*.

The FCA reminds firms that having adapted their processes to meet the IDD requirements, they need to continue working towards improving outcomes for their customers.

In particular, firms need to address issues already raised by the FCA such as publishing the incorrect previous year's premium on renewal notices, or failing to display key information clearly. The FCA expects firms to focus on systems, controls and resources to meet requirements and ensure that accountability for responding to the changes and requirements is clearly allocated to appropriate individuals. The FCA also underlines the fact that it plans to take a keen interest in the way firms are applying the new rules.

Retail products

Ogden rate review - MoJ seeks evidence

The MoJ *announced* that the *Civil Liability Bill* received Royal Assent on 20 December 2018 and became an Act of Parliament (law). The Lord Chancellor is required to begin the first review of the Ogden discount rate within 90 days of Royal Assent (i.e. by 20 March 2019) and determine the new rate within 140 days of the start of the review (i.e. by 7 August 2019 at the latest).

The MoJ published *Setting the Personal Injury Discount Rate - A Call for Evidence* on 6 December 2018. It's seeking evidence to assist the Lord Chancellor in the first review of the personal injury discount rate. The MoJ requests up-to-date data and information on a range of topics relevant to the setting of the personal injury discount rate under the provisions of the Civil

Liability Act, including investments available to claimants, investment advice provided to claimants, investments made by claimants and model investment portfolios.

The comment period ends on **30 January 2019**.

Solvency II

EIOPA reviews capital add-ons

EIOPA published its *annual report on the use of capital add-ons (CAOs) during 2017* on 20 December 2018. It aims to contribute to a higher degree of supervisory convergence in the use of CAOs by NCAs and highlight concerns regarding the CAOs framework.

EIOPA reports that the majority of NCAs still have no formal policy for assessing the potential need for setting and reviewing CAOs in line with its previous *Report on the use of CAOs* and the number of CAOs set remains low. In 2016, four NCAs set 20 CAOs on solo undertakings. By 2017, this had increased slightly, with six NCAs imposing 23 CAOs. EIOPA states that NCAs give two reasons for this: firstly, insurance companies are in general well capitalised and hence the need for capital add-ons is overall limited, and secondly, Solvency II has only been in operation for two years, and NCAs need to acquire some experience first to be in a position to formalise such policies.

EIOPA highlights that CAOs seem to be a good and positive measure to adjust the SCR to the risks of the undertaking, when the application of other measures is not adequate. It intends to continue to monitor NCAs' use of CAOs and analyse whether more experience of the regime will encourage more efficient use of CAOs.

EIOPA eyes group supervision enhancements

On 19 December 2018, EIOPA published a *Report to the EC on Group Supervision and Capital Management with a Group of Insurance or Reinsurance Undertakings, and Freedom to Provide Services and Freedom of Establishment under Solvency II and covering letter*.

In response to the EC's *request* and *mandate* of 7 June 2018, EIOPA has produced this report on the benefit of enhancing group supervision and capital management within a group of insurers. It also considers some issues related to freedom to provide service and freedom of establishment.

EIOPA concludes that its tools to strengthen group supervision and supervision of cross-border issues aid convergence of NCAs' practices, but there are still gaps in the regulatory framework that lead to divergent supervisory practices. It also reports that effective supervision of insurance groups requires a harmonised approach in a number of areas, for example as regards early intervention, recovery and resolution, and the assessment of group own funds.

EIOPA reports on Solvency II measures

EIOPA submitted its annual *Report on long-term guarantees measures and measures on equity risk* to the EP, the Council and the EC on 18 December 2018. As in previous years, EIOPA concludes that Solvency II measures (the MA, volatility adjustment, transitional measures on the risk-free interest rates, TMTP, duration-based equity risk sub-module) are important to the financial position of EU insurers. It finds the average SCR ratio of undertakings using these measures is 231% and this would drop to 172% if the measures were not applied.

EIOPA also considers, for the first time, in this report the risk management aspects and detailed features and types of guarantees of products with long-term guarantees. It reports that national supervisors found there was room for improvement in regulatory reporting and also varying practices in this area.

In 2020, EIOPA is expected to submit an opinion to the EC on the application of these measures. It plans to base this on its findings from these annual reports.

ERMs - PRA fine tunes proposals

The PRA issued *PS31/18 Solvency II: Equity release mortgages (ERMs)*, an updated version of *SS3/17 Solvency II: MA - illiquid unrated assets and ERMs* and a *Dear CEO letter on Solvency II: ERMs* on 10 December 2018. It outlines feedback from the consultation process (*CP13/18* - see our *At a glance* for details) and makes a number of changes to its original proposals. In particular, the PRA is not taking forward its proposal to apply an equivalent of the Effective Value Test (EVT) to determine the illiquidity premium in the pre-Solvency II ICAS regime for the purposes of the TMTP.

The PRA intends to use the EVT as a diagnostic tool to ensure compliance with Solvency II requirements relating to the calculation of the MA benefit where liabilities are matched by restructured ERMs. In its updated SS3/17 the PRA formalises the minimum calibrations to value the No Negative Equity Guarantee (NNEG). It sets the minimum deferment rate to 0% from 31 December 2019, rising to 1% from 31 December 2021, as part of a phasing-in approach. In response to feedback that the new approach may make insurers' balance sheets more sensitive to interest rates, the PRA proposes that the minimum deferment rate should be updated periodically in line with movements in real interest rates, although it will always remain a positive rate.

The PRA plans a further consultation on the EVT in early 2019.

SCR review – EC receives feedback

The comment period in respect of the EC's draft *Delegated Regulation amending Delegated Regulation (EU) 2015/35 supplementing Solvency II* (published November 2018 - See our *At a glance* for details) closed on 7 December 2018. The EC published the responses it has received on its *website*.

ECON has asked the *EC (See the EC's letter of 27 November 2018* and *ECON's response of 6 December 2018)* to revisit its concerns about the risk margin, equity investments and the volatility adjustment, so that these priorities can be addressed in the 2018 review, rather than in the 2020 review.

Supervision

EIOPA calls for enhanced risk management

EIOPA published its *2018 Insurance stress test report* on 14 December 2018. It concludes that participating insurance groups appear vulnerable not only to low yields and longevity risks, but also to a sudden and abrupt reversal of risk premia, combined with an instantaneous shock to lapse rates and claims inflation. However, on aggregate, it believes the sector is adequately capitalised to absorb the prescribed shocks.

EIOPA expects participants to continue to improve their risk management capabilities in response to its findings. Meanwhile it plans to analyse its results further and elaborate on the responses to its cyber risk questionnaire.

EIOPA gives guidance on cross-border business

EIOPA published an *Opinion on non-life cross-border insurance business of a long-term nature and its supervision* on 21 December 2018. It gives guidance to insurers and national supervisors on its expectations for cross-border insurance business of a long-term nature. EIOPA emphasises that all parties involved need to be aware of the local specificities for cross-border insurance business. It outlines its expectations regarding technical provisions (including the best estimate calculation) and governance requirements (including key functions and the administrative, management or supervisory body). It also covers recommendations on the supervisory review process and the collaboration between home and host supervisor.

Accounting

IFRS 17

IASB continues IFRS 17 deliberations

Following the recent decision to postpone the effective date of IFRS 17 to 1 January 2022, the IASB continued to discuss IFRS 17 concerns and implementation challenges raised by stakeholders at its *December 2018 board meeting*. The IASB *agreed* a narrow-scope amendment for the presentation of insurance contracts on the balance sheet to be at the portfolio level rather than at the grouping level used for contract measurement purposes. The IASB also discussed 12 other implementation challenges which did not result in any proposed amendments. Our *In transition* publication summarises the meeting and describes the rationale for the decisions.

Also this month

EIOPA

- On 18 December 2018, EIOPA updated its representative portfolios to calculate volatility adjustments to the Solvency II risk-free interest rate term structures, for use from the end of March 2019. It expects insurers to use this information to prepare for the change.
- EIOPA published its *seventh report on consumer trends* for the insurance and pension sectors on 19 December 2018. It identifies a number of current trends requiring careful monitoring by supervisors. These include digitalisation, the continued growth of cross-selling practices, in particular with regard to add-on insurance products and business models based on high commissions and structural low claims.
- EIOPA published a *Call for input on the Solvency II reporting and disclosure review 2020* on 19 December 2018. It invites stakeholders to submit comments on issues relating to supervisory reporting and public disclosure by **21 February 2019**.
- EIOPA published its first *Evaluation of the Structure of Insurance Intermediaries Markets in Europe* and a *covering letter* on 13 December 2018. It reviews the structure of insurance intermediaries markets across Europe and areas where these differ, including local distribution channels, national definitions, registration practices and reporting frameworks. EIOPA plans to issue a further report under the IDD by February 2020 and identify ways to improve the quality and comparability of data.

- In December 2018, EIOPA published answers to questions on:
  - *(EU) No 2015-2450 templates for the submission of information to the supervisory authorities*
  - *(EU) 2015-35 supplementing Directive 2009-138*
  - *(EU) No 2015-2011 lists of regional governments local authorities exposures*
  - *Directive 2009-138-EC of 25 of November of 2009 of the EP (Solvency II)*
  - *guidelines on ORSA*
  - *other.*
- EIOPA publishes *Q&A on Regulation* to ensure consistent and effective application of EU regulation and to aid supervisory convergence.

FRC

The FRC issued a suite of staff factsheets on 13 December 2018, covering aspects of FRS 102, including the 2017 triennial review, as follows:

- *Fact Sheet 1 - FRS 102: Triennial Review 2017 Amendments*
- *Fact Sheet 2 - FRS 102: Triennial Review 2017 Transition*
- *Fact Sheet 3 - FRS 102: Illustrative Statement of Cash Flows*
- *Fact Sheet 4 - FRS 102: Financial Instruments*
- *Fact Sheet 5 - FRS 102: Property: Fair Value Measurement*
- *Fact Sheet 6 - FRS 102: Business Combinations.*

It intends to help users by highlighting certain requirements of FRS 102.

HMRC

HMRC published its *Draft Guidance - December 2018 - Life Assurance manual* on 13 December 2018. It explains the application of the legislation introduced in Finance Act 2012 effective from 1 January 2013. The comment period ends on **22 February 2019**.

IAIS

The IAIS published details of its *2018 Global Systemically Important Insurers (G-SII) Identification Process* and *Instructions for the 2018 Data Collection Exercise Conducted by BIS in collaboration with the IAIS* on 14 December 2018. It outlines the approach it used to monitor G-SIIs in 2018. The IAIS plans to continue this approach in 2019 while finalising its *Holistic Framework for Systemic Risk in the Insurance Sector* (consultation published in November 2018), due to take effect from 2020.

PRA

The SM&CR was *extended* to insurers from 10 December 2018. The PRA updated its *Application forms: Senior Managers Regime* and changed references from the SIMR and SIMF to SM&CR and SMF respectively. The FCA also updated its *website* to reflect the extension.

UK Government

The US and the UK *signed a Bilateral Agreement on Prudential Measures Regarding Insurance and Reinsurance* on 18 December 2018. This agreement applies the benefits of the current *Bilateral Agreement between the US and the EU* (the US-EU Covered Agreement) to the UK post Brexit. The UK Government now intends to begin its domestic ratification process including laying the agreement before Parliament.

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
15/01/19	CP23/18: Enhancing banks' and insurers' approaches to managing the financial risks from climate change	PRA
16/01/19	Leverage ratio treatment of client cleared derivatives	Basel Committee
17/01/19	CP18/35: Rent-to-own and alternatives to high-cost credit – feedback on CP18/12 and consultation on a price cap	FCA
21/01/19	CP32/18 UK withdrawal from the EU: Further changes to PRA Rulebook and Binding Technical Standards, and Resolution Binding Technical Standards	BoE
22/01/19	CP24/18 Occasional Consultation Paper	PRA
31/01/19	DP18/8: Climate change and green finance	FCA
31/01/19	CP 18/27: Consultation on illiquid assets and open-ended funds and feedback to Discussion Paper 17/1	FCA
31/01/19	DP18/9: Fair Pricing in Financial Services	FCA
06/02/19	CP18/39: Quarterly Consultation Paper No 23	FCA
07/02/19	CP18/38: Restricting contract for difference products sold to retail clients and a discussion of other retail derivative products	FCA
07/02/19	CP18/37: Product intervention measures for retail binary options	FCA
14/02/19	Draft guidelines on the reporting to competent authorities under article 37 of the MMF Regulation	ESMA
19/02/19	CP18/44: Brexit – RTS for Strong Customer Authentication and Common and Secure Open Standards of Communication	FCA
19/02/19	Integrating sustainability risks and factors in the UCITS Directive and AIFMD	ESMA
19/02/19	Integrating sustainability risks and factors in MiFID II	ESMA
20/02/19	Guidelines on Settlement Fails Reporting under Article 7(1) of CSDR	ESMA

Closing date for responses	Paper	Institution
20/02/19	*Guidelines on standardised procedures and messaging protocols used between investment firms and their professional clients under Article 6(2) of CSDR*	*ESMA*
28/02/19	*CP18/40: Consultation on proposed amendment of COBS 21.3 permitted links rules*	*FCA*
08/03/19	*Proposal to revise Practice Note 19. The Audit of Banks and Building Societies in the United Kingdom*	*FRC*
13/03/19	*Revisions to leverage ratio disclosure requirements*	*Basel Committee*
13/03/19	*EBA draft Guidelines on ICT and security risk management*	*EBA*
18/03/19	*CP18/42: High-Cost Credit Review: Overdrafts consultation paper and policy statement*	*FCA*
18/03/19	*CP18/43: High-Cost Credit Review: Feedback on CP18/12 with final rules and consultation on Buy Now Pay Later offers*	*FCA*
19/03/19	*Guidelines on Disclosure Requirements Applicable to Credit Ratings*	*ESMA*
22/03/19	*CP18/41, CP30/18: FCA and PRA changes to mortgage reporting requirements*	*FCA and PRA*
05/04/19	*The Bank of England's approach to assessing resolvability*	*BoE*

Forthcoming publications

Date	Topic	Type	Institution
Asset management			
Q1 2019	Asset management market study remedies	Policy statement	FCA
March 2019	Investment platforms market study remedies	Consultation and discussion paper	FCA
Banking			
January 2019	General standards and communication rules for the payment services and e-money sectors – PS to CP18/21	Policy statement	FCA
Q1 2019	Perimeter guidance on crypto assets	Guidance consultation	FCA
Q1 2019	Mortgage market study final report	Report	FCA
Q1 2019	Guidelines on outsourcing	Guidelines	EBA
Q1 2019	Guidelines on the management of non-performing and forborne exposures	Guidelines	EBA
Q2 2019	Review of the disclosure requirements for the LCR	Review	EBA
Q2 2019	Guidelines on banks' loan origination, internal governance and monitoring	Guidelines	EBA
Q3 2019	ITS on MREL disclosure and reporting	Consultation	EBA
Q3 2019	Guidelines on credit risk mitigation	Guidelines	EBA
Q4 2019	Draft ITS on Pillar 3 disclosures	Draft ITS	EBA
Consumer credit			
Q1 2019	Motor finance review	Final report	FCA
Q1 2019	Consumer Credit Act retained provisions review	Consultation paper	FCA
Q1 2019	Debt management sector review	Review findings	FCA
Q1 2019	Market study on credit information	Terms of reference	FCA

Date	Topic	Type	Institution
Insurance			
Q1 2019	Value in the distribution chain review	Review findings	FCA
Q1 2019	Wholesale insurance brokers market study	Interim report	FCA
Q1 2019	General insurance value measures reporting	Consultation paper	FCA
Pensions			
Q1 2019	Savings adequacy	Occasional paper	FCA
Securities and markets			
Q1 2019	Approach to market integrity	Report for consultation	FCA
Q2 2019	Money laundering in capital markets	Report	FCA
Supervision, governance and reporting			
March 2019	Regulatory fees and levies: policy proposals for 2019/20 – PS to CP18/34	Policy statement	FCA
April 2019	Regulated fees and levies: rates proposals 2019/20	Consultation paper	FCA
April 2019	FCA business plan 2019/20	Business plan	FCA

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

Glossary

ABI	Association of British Insurers
ABS	Asset Backed Security
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU
AML	Anti-Money Laundering
AMLD3	3rd Money Laundering Directive 2005/60/EC
AMLD4	4th Money Laundering Directive 2015/849/EU
AMLD5	5th Money Laundering Directive
AQR	Asset Quality Review
ASB	UK Accounting Standards Board
Banking Reform Act (2013)	Financial Services (Banking Reform) Act 2013
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework
Basel III	Basel III: International Regulatory Framework for Banks
Basel Committee	Basel Committee of Banking Supervision (of the BIS)
BBA	British Bankers' Association
BCR	Basic capital requirement (for insurers)
BIS	Bank for International Settlements
BoE	Bank of England
BMR	EU Benchmarks Regulation
BRRD	Bank Recovery and Resolution Directive 2014/59/EU
CASS	Client Assets sourcebook

CCA	Consumer Credit Act 1974 (as amended)
CCB	Countercyclical capital buffer
CCD	Consumer Credit Directive 2008/48/EC
CCPs	Central Counterparties
CDS	Credit Default Swaps
CET1	Common Equity Tier 1
CFTC	Commodities Futures Trading Commission (US)
CGFS	Committee on the Global Financial System (of the BIS)
CIS	Collective Investment Schemes
CMA	Competition and Markets Authority
CMU	Capital markets union
COBS	FCA conduct of business sourcebook
COCON	FCA code of conduct sourcebook
CoCos	Contingent convertible securities
ComFrame	The Common Framework
CONC	FCA consumer credit sourcebook
COREP	Standardised European common reporting
Council	Generic term representing all ten configurations of the Council of the European Union
CPMI	Committee on Payments and Market Infrastructures
CRA1	Regulation on Credit Rating Agencies (EC) No 1060/2009
CRA2	Regulation amending the Credit Rating Agencies Regulation (EU) No 513/2011
CRA3	Proposal to amend the Credit Rating Agencies Regulation and directives related to credit rating agencies COM(2011) 746 final

CRAs	Credit Rating Agencies
CRD	'Capital Requirements Directive': collectively refers to Directive 2006/48/EC and Directive 2006/49/EC
CRD II	Amending Directive 2009/111/EC
CRD III	Amending Directive 2010/76/EU
CRD IV	Capital Requirements Directive 2013/36/EU
CRD V	CRD IV-related EC November 2016 banking reform package amendments
CRR	Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms
CRR II	CRR-related EC November 2016 banking reform package amendments
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation (EU) 909/2014
CSMAD	Criminal Sanctions Market Abuse Directive 2014/57/EU
CTF	Counter Terrorist Financing
DEPP	The FCA's Decision Procedure and Penalties Manual
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union
DG MARKT	Internal Market and Services Directorate General of the European Commission
DGS	Deposit Guarantee Scheme
DGSD	Deposit Guarantee Schemes Directive 2014/49/EU
DLT	Distributed ledger technology
D-SIBs	Domestic Systemically Important Banks
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank

ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (configuration of the Council of the European Union dealing with financial and fiscal and competition issues)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Eligible counterparty
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EEC	European Economic Community
EIOPA	European Insurance and Occupations Pension Authority
ELTIF	European long-term investment fund
EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EU) No 648/2012
EP	European Parliament
EPC	European Payments Council
ESA	European Supervisory Authority (i.e. generic term for EBA, EIOPA and ESMA)
ESCB	European System of Central Banks
ESEF	European Single Electronic Format
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ESTER	Euro short-term rate
ETC	Exchange-traded commodity
ETN	Exchange-traded note
EU	European Union

EU Securitisation Regulation	Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific 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
EURIBOR	Euro Interbank Offered Rate
Eurosystem	System of central banks in the euro area, including the ECB
EuVECA	European Venture Capital Funds Regulation (EU) 345/2013
FAMR	Financial Advice Market Review
FATF	Financial Action Task Force
FC	Financial counterparty under EMIR
FCA	Financial Conduct Authority
Fiat currency	Currency whose value is underpinned by the strength of the issuing government, e.g. USD, GBP, euro and other major world currencies
FICC	Fixed income, currencies and commodities
FiCOD1	Amending Directive 2011/89/EU of 16 November 2011
FiCOD	Financial Conglomerates Directive 2002/87/EC
FMI	Financial Market Infrastructure
FMLC	Financial Markets Law Committee
FMSB	FICC Markets Standard Board
FOS	Financial Ombudsman Service
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FRTB	Basel Committee fundamental review of the trading book market risk capital requirements
FSA	Financial Services Authority

FSB	Financial Stability Board
FSBRA	Financial Services (Banking Reform) Act 2013
FS Act 2012	Financial Services Act 2012
FSCP	Financial Services Consumer Panel
FSCS	Financial Services Compensation Scheme
FSI	Financial Stability Institute (of the BIS)
FSMA	Financial Services and Markets Act 2000
FTT	Financial Transaction Tax
G30	Group of 30
GAAP	Generally Accepted Accounting Principles
GDPR	General Data Protection Regulation
G-SIBs	Global Systemically Important Banks
G-SIFIs	Global Systemically Important Financial Institutions
HCSTC	High Cost Short Term Credit
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
IA	Investment Association
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICAAP	Internal Capital Adequacy Assessment Process
ICAS	Individual Capital Adequacy Standards

ICO	Initial coin offering
ICOBS	Insurance: Conduct of Business Sourcebook
ICPs	Insurance Core Principles
IDD	The Insurance Distribution Directive (EU) 2016/97
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
IOSCO	International Organisations of Securities Commissions
IRB	Internal Ratings Based
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
ITS	Implementing Technical Standards
JCESA	Joint Committee of the European Supervisory Authorities
JMLSG	Joint Money Laundering Steering Committee
KID	Key Information Document
KYC	Know your client
LCR	Liquidity coverage ratio
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate

MA	Matching Adjustment
MAD	Market Abuse Directive 2003/6/EC
MAR	Market Abuse Regulation (EU) 596/2014
Material Risk Takers Regulation	Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the EP and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile
MCD	Mortgage Credit Directive 2014/17/EU
MCOB	Mortgages and Home Finance: Conduct of Business sourcebook
MCR	Minimum Capital Requirement
Member States	Countries which are members of the European Union
MiFID	Markets in Financial Instruments Directive 2004/39/EC
MiFID II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MiFIR
MiFIR	Markets in Financial Instruments Regulation (EU) No 600/2014
MLRO	Money Laundering Reporting Officer
MMF	Money Market Fund
MoJ	Ministry of Justice
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MREL	Minimum requirements for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution
NCA	National competent authority
NDF	Non-Directive Firms – firms that do not fall within Solvency II

NFC	Non-financial counterparty under EMIR
NIS Directive	Proposal for a directive of the EP and Council concerning measures to ensure a high common level of network and information security across the EU
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio
NST	National specific template
NURS	Non-UCITS Retail Scheme
OECD	Organisation for Economic Cooperation and Development
Official Journal	Official Journal of the European Union
OFT	Office of Fair Trading
Omnibus II	Second Directive amending existing legislation to reflect Lisbon Treaty and new supervisory infrastructure (2014/51/EU). Amends the Prospectus Directive (Directive 2003/71/EC) and Solvency II (Directive 2009/138/EC)
ORSA	Own Risk Solvency Assessment
O-SIIs	Other systemically important institutions
OTC	Over-The-Counter
OTF	Organised trading facility
PAD	Payment Accounts Directive 2014/92/EU
PIFs	Personal investment firms
PPI	Payment Protection Insurance
P2P	Peer to Peer
PERG	Perimeter Guidance Manual
PRA	Prudential Regulation Authority
Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis
PRIIPs	Packaged retail and insurance-based investment products

PSD2	The revised Payment Services Directive (EU) 2015/2366
PSP	Payment service provider
PSR	Payment Systems Regulator
QIS	Quantitative Impact Study
QRT	Quantitative Reporting Template
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)
RDR	Retail Distribution Review
REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011
RFB	Ring-fenced bank
RFQ	Request for quote
RFRs	Risk-free rates
RFRWG	The Risk-free Rate Working Group of the BoE
RONIA	Repurchase Overnight Index Average
RRPs	Recovery and Resolution Plans
RTS	Regulatory Technical Standards
RWA	Risk-weighted assets
SARON	Swiss Average Rate Overnight
SCR	Solvency Capital Requirement (under Solvency II)
SCV	Single customer view
SEC	Securities and Exchange Commission (US)
SEPA	Single Euro Payments Area
SFP	Structured finance product
SFT	Securities financing transaction
SFTR	Securities Financing Transactions Regulation (EU) 2015/2365

SFO	Serious Fraud Office
SI	Systematic internaliser
SIMF	Senior Insurer Manager Function
SIMR	Senior Insurer Managers Regime
SM&CR	Senior Managers and Certification Regime
SME	Small and Medium sized Enterprises
SMF	Senior Manager Function
SOCA	Serious Organised Crime Agency
SOFR	Secured Overnight Financing Rate
Solvency II	Directive 2009/138/EC
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
SSR	Short Selling Regulation (EU) 236/2012
SUP	FCA supervision manual
SYSC	The part of the FCA handbook titled senior management arrangements, systems and controls
T2S	TARGET2-Securities
TC	Treasury Committee
TLAC	Total Loss Absorbing Capacity
TMTP	Transitional Measure on Technical Provisions
TONA	Tokyo Overnight Average Rate
TPR	The Pensions Regulator

TR	Trade Repository
UCITS	Undertakings for Collective Investments in Transferable Securities
UCITS V	UCITS V Directive 2014/91/EU
UKLA	UK Listing Authority
UTI	Unique Trade Identifier
XBRL	eXtensible Business Reporting Language

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181217-121615-TN-OS