

Being better informed

FS regulatory bulletin

FS Regulatory Insights

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In this month's edition:

- Investment firms: FCA consults on new prudential regime
- Climate risk: BoE provides further stress test details
- Analysis: What's on the regulatory agenda for 2021?



Executive summary

**Hannah Swain**

Director, FS Regulatory Insights

swain.hannah@pwc.com



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

Happy New Year and welcome back after a hopefully restful break. In this edition, we report on last month’s regulatory developments, as well as taking an in-depth look at regulators’ priorities for the year ahead, and what they mean for firms.

Starting with December’s developments, the FCA released a consultation on the Investment Firm Prudential Regime, which is due to come into force on 1 January 2022. The consultation covers some more complex elements of the new regime, including some of the Pillar 1 K-factor requirements, own funds rules, prudential consolidation and the group capital test. It also proposes a range of transitional provisions for firms facing the largest capital increases. The regulator plans to release two further consultations on the regime later this year. For more information see our [At a glance](#) publication.

In the wealth management sector, the FCA published its evaluation of the RDR and FAMR. It explores the successes and failures of the initiatives, and looks at how retail investment markets could be improved for consumers. While some of the themes will be familiar, there are new aspects, such as the FCA’s desire to increase the mass market’s exposure to investments, away from cash. Another key change is a focus on ‘one-off’ advice, which could be more cost effective for consumers but might prove challenging for firms. The FCA plans to use this review as a contributor to its

wider call for input on the consumer investment market (issued in September 2020) over the first half of 2021, which could lead to substantial longer-term changes for the retail investment market. Read our [At a glance](#) briefing for further details.

Turning to prudential updates, the PRA wrote letters to the CEOs of UK deposit takers and of international banks to set out its supervisory priorities for the coming year. On financial resilience, the regulator says it will continue to monitor its regime to ensure it does not act in a procyclical way, ensuring that firms can draw down on capital and liquidity buffers where necessary. Operational risk and resilience will continue to be a focus for the regulator; the PRA plans to undertake work to challenge firms on their risk and control environments, and will closely monitor credit risk for UK deposit takers.

The PRA also set out its supervisory priorities for the insurance sector. In a Dear CEO letter, the regulator says it expects boards to satisfy themselves that firms remain resilient to a range of adverse credit scenarios, given the economic backdrop. In addition, the PRA flags its intention to develop recovery and resolution planning requirements for insurers in 2021, and says the next insurance stress test exercise will be carried out in 2022.

Our latest [Risk and Regulation Rundown](#) podcast episode is likely to be of interest to insurers, too. We cover how the climate

change agenda is impacting insurers, what the UK’s review of Solvency II means for firms, and how competing regulatory priorities fit together.

Also on the topic of climate risk, the BoE provided further details of its approach to the Climate Biennial Exploratory Scenario stress test, which will be launched in June 2021 for the largest banks and insurers. Following feedback, the BoE has altered aspects of its proposed approach to the exercise, in an attempt to ease the burden on firms. For more information on what this means for firms, see our [At a glance](#) briefing.

Finally, in our feature article (on p. 4) we set out the key themes we believe will dominate the regulatory agenda during 2021 – and detail the steps firms need to take to meet regulators’ expectations.

We hope you enjoy reading all of this month’s articles.

Hannah Swain

Director, FS Regulatory Insights

M: +44 (0) 7803 590553

E: swain.hannah@pwc.com

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The regulatory themes set to dominate 2021

Last year brought significant challenges for firms, with the impact of COVID-19 and preparations for the end of the Brexit transition period taking up significant resources. Regulators delayed a large number of initiatives in response to the pandemic, and as we enter 2021, many of those issues will return to the fore. In some cases, the regulators will seek to make up for lost time, meaning their agenda is likely to be even busier than usual this year.

In this article, we explore the key regulatory themes we believe will dominate the regulatory agenda over the next 12 months – And the steps firms need to take to meet regulators' expectations.

Future regulatory framework – charting a course outside the EU



Conor MacManus

The UK begins 2021 outside of the EU's regulatory framework for the first time in decades, and with the UK-EU relationship on financial services still very much up in the air. The Free Trade Agreement with the EU has limited provisions on financial services, and instead both sides will seek agreement on a MoU by March and try to find a way forward on equivalence determinations. The UK is likely to seek further progress on equivalence decisions from the EU, but a price of full regulatory

alignment with the bloc is one the UK authorities are unlikely to accept. Important pieces of regulation such as the IFPR and CRR II are being developed by the UK regulators, and others such as Solvency II and MiFID are being reviewed. The UK authorities have already indicated they plan to depart from the EU's approach in a number of areas, and the extent to which they diverge will be an interesting theme for 2021.

What is certain is that there will be some changes to the way in which regulation is developed in the UK, reflecting the fact that the EU policy making process will no longer apply in the UK. HMT is currently consulting on the UK's post-Brexit regulatory framework. It proposes delegating the rule-making powers which previously sat at the EU level to the UK regulators, but with an important role for HMT and Parliament in setting the regulators' broader objectives which they must have regard to when developing policy.

Of course HMT and the regulators have a busy agenda beyond Brexit and in the case of the FCA are also undertaking an ambitious reorganisation of how they operate. Responding to COVID-19 will continue to be a priority, both in terms of immediate impacts on the sector, and in shaping longer-term thinking on the regulatory implications of the pandemic. The regulators are also acutely aware that the sector is changing rapidly (perhaps even more rapidly due to COVID-19) and that regulation and supervision need to keep pace with these

changes. As a result, we expect to see an ongoing focus on the regulatory response to innovations such as AI and machine learning, and on the implications of BigTech's growing move into financial services.

LIBOR transition – crunch time



Laura Talvitie

The end of 2020 saw a significant milestone for LIBOR transition. LIBOR's administrator IBA issued a consultation on its intention to cease the publication of most LIBOR currencies and tenors after 31 December 2021. While the publication of certain tenors of USD LIBOR is expected to continue until 30 June 2023, the US and UK authorities have been clear that new use of these rates must stop at the end of 2021.

Pending the conclusion of IBA's consultation, LIBOR will – for the first time – have a definitive expiration date. There could be an announcement on the cessation of all LIBOR currencies and tenors soon after IBA's consultation closes on 25 January 2021. This would also trigger a fixing of the spread adjustment for all LIBOR currencies and tenors.

The next 12 months will be a crucial period for LIBOR transition and firms need to act now. In January, the RFRWG issued its 2021 priorities and latest roadmap for LIBOR transition,

setting out the key expectations for the sterling market:

- Q1 – cease initiation of new LIBOR-linked business, expiring after 2021; identify legacy contracts for active conversion; adhere to ISDA IBOR Fallbacks Protocol (effective from 25 January) or make alternative plans
- Q2 – cease initiation of new LIBOR-linked non-linear derivatives, expiring after 2021
- Q3 – complete active conversion of all legacy LIBOR contracts, expiring after 2021; if not viable, ensure robust fallbacks are adopted where possible.
- Q4 – be fully prepared for the end of GBP LIBOR.

The regulators have also stressed that firms should not treat the prospect of the FCA's 'tough legacy powers' as an excuse to limit their transition efforts.

The FCA and other regulators already expect market participants to have set up their LIBOR transition programmes, with programme oversight and accountability at board level, and senior management overseeing day-to-day activities. They also expect defined programme roadmaps, including milestones and key decision points, and are increasingly likely to request evidence of these in 2021.

The move from LIBOR to RFRs requires firms to assess their existing LIBOR exposures and new product strategies as well as to upgrade models, systems and processes. They will

need to assess, modify and renegotiate potentially thousands of contracts and undertake significant client communication and outreach efforts. LIBOR transition goes beyond a simple regulatory change and firms should acknowledge the organisation-wide impacts on them, their clients, counterparties, vendors, lenders and suppliers.

Climate risk and ESG – high profile build up to COP26



Luke Nelson

With the landmark UN COP26 climate talks due to take place in Glasgow in November, climate change and ESG will be at or near the top of the pile of regulatory priorities for 2021.

Significantly, the largest banks and insurers will undergo a comprehensive climate change

stress test in June. The BoE plans to assess firms' resilience across three climate scenarios and will begin to look at the vulnerability of the broader financial sector to climate risks. But it's not just the largest firms that will need to focus on climate risks this year. The PRA expects all the banks and insurers it regulates to fully embed approaches to managing climate-related risks by the end of 2021 (as set out in SS3/19). Firms are expected to undertake scenario analysis and stress testing and incorporate this into their ICAAP or ORSA.

The FCA will also be getting in on the act. Through a change to the Listing Rules, all premium listed companies will be required to disclose in line with TCFD from January 2022 for reporting periods beginning in January 2021. We're likely to see plans from the conduct regulator in the first quarter on requiring the largest asset managers and FCA-regulated pension providers to make climate-

related disclosures, with the aim of bringing in new rules by 2022.

But the FCA isn't just thinking about climate disclosures. It's also signalled that it will develop principles to help combat potential 'greenwashing' in the funds space – we're likely to see more detail on this in the coming months.

A key theme to watch out for as we move further into 2021 will be how the UK implements various elements of the EU's Sustainable Finance Action Plan; it's committed to at least matching the ambition of the package. The UK has not onshored the Sustainable Finance Disclosure Regulation, which comes into force after the end of the Brexit transition period, and at this stage it seems unlikely that the UK will implement this legislation in its current form. The UK Government has committed to implementing a version of the EU's Taxonomy Regulation, but

only after a UK Technical Advisory Group has given the tyres a good kicking. Firms will want to avoid having to contend with fragmented ESG regulatory regimes across the UK and EU, but the UK Government wants to focus on broader international convergence, rather than aligning with the EU alone. To that end, the FCA is taking a leading role in IOSCO's work on disclosures, and the UK has recently joined the International Platform on Sustainable Finance.

There will inevitably be a tremendous focus on climate change and the commitment to reach net zero emissions by 2050, especially in the run up to COP26. But given the events of last year, we're also likely to see an increased focus from regulators on the 'S' in ESG during 2021. The EU's sustainable finance advisory committee has already started to look at defining social standards and it's likely we'll see similar moves in the UK.

Asset and wealth management



Andrew Strange

- **ESG:** The FCA intends to finalise a set of 'sustainable investment' principles during Q1, covering data, product governance and ongoing reporting. Moreover, with the EU's Sustainable Finance Disclosure Regulation taking effect from March, UK-based firms will need to assess whether they remain in scope, particularly if they're marketing products into the EU. AWM firms will also need to prepare to report in line with the TCFD recommendations.
- **New investment firm prudential rules:** The FCA consulted on implementing the new UK IFPR in mid-December 2020, with two further consultations expected in 2021. Firms' implementation programmes should be underway, and they'll need to devote sufficient resources to this. Those with an EU presence will need to contend with two 'similar' regimes with differing implementation deadlines – June 2021 for the EU and January 2022 for the UK.
- **Review of the UK funds regime:** HMT and the FCA are due to launch a review of the UK funds framework in Q1. The review will cover tax and regulation and focus on boosting the international competitiveness of the UK asset management sector. This is likely to link to the recently established Productive Finance Working Group (HMT, FCA and BoE), which is looking at how to channel investment into long-term assets, and the establishment of a regulatory framework for the upcoming UK Long-Term Asset Fund.
- **Wealth management:** The FCA's long-anticipated evaluation of RDR/FAMR (published in December 2020) highlighted a number of themes which are likely to dominate the regulatory agenda for wealth managers in 2021 and beyond, including access to advice, suitability of service offerings and price clustering.
- **LIBOR:** The regulatory focus on LIBOR transition will further intensify in 2021. Despite the FCA's Dear CEO letter issued in February 2020, some buy-side firms may have assumed that the transition work will be completed by the sell-side, while AWMs can take the recipient role of signing the amended contracts. However, AWMs also need to demonstrate they have made progress against the regulators' expectations and are ready to move away from LIBOR.

Operational resilience – wait almost over for final policy



Adam Stage

The operational challenges posed by the COVID-19 pandemic have meant a six-month delay in the UK consultation process on operational resilience, with firms now expecting to see the final policy statements in Q1 2021. We do not foresee major changes in the final policy compared to the consultation papers, which set a 12-month implementation period for firms to define and test their operational

resilience and prepare a self-assessment. While many of the 2,000 firms proposed to be in scope for the policy will have already made good progress in interpreting and progressing the policy requirements, the final policy should trigger an acceleration in work across all firms. Some of these firms will also need to prepare for the final PRA supervisory statement on outsourcing and third party risk management being published in parallel.

At a global level we expect the Basel Committee to publish the findings from its consultation on the principles of operational resilience in the first half of 2021. Similarly we can expect to hear more from the US federal

bank regulatory agencies on the topic. They published a joint paper in October 2020 comprising existing regulations, guidance and good practice, and signalled that they will continue to keep their approach under review.

Closer to home, while the UK is no longer a member of the EU, we should not lose sight of the new Digital Operational Resilience Act (DORA) currently under review by Member States. This will apply to financial services firms operating in the EU, so will be important when considering how a multinational firm addresses differing international regulations simultaneously. It focuses on the management of ICT risk and outsourcing/third party risk, as

well as ICT incident reporting and digital operational resilience testing. The Act will steer ICT third parties towards mandatory contractual elements, which may indirectly benefit UK firms working with the same providers, as well as setting out a supervisory framework for 'critical ICT third party service providers'. The emergence of DORA has overshadowed some of the tactical changes coming in such as the introduction of EIOPA guidelines on outsourcing and ICT risk management, which come into force on 1 January 2021 and 1 July 2021 respectively.

Insurance



Anirvan Choudhury

- **General insurance pricing:** The FCA is set to introduce a range of measures to address harms identified in its pricing practices market study. It proposed a package of remedies in September 2020, including a ban on differential pricing between new and existing customers, making it easier for customers to cancel auto-renewing policies, and extending the product governance rules to existing products. Final rules are expected in Q2 2021 and may require changes to firms' pricing and customer attraction and retention strategies.
- **Reserving, credit risk and exposure management:** The PRA identified a number of priorities for 2021 in a Dear CRO letter issued in November 2020, and a Dear CEO letter last month. These include reserve adequacy, exposure management, and credit risk. Firms should develop an action plan to demonstrate to the PRA how they plan to address the issues highlighted in the letters.
- **Changes to the prudential regime:** The UK Government's review of Solvency II is ongoing (its call for evidence closes to comments on 19 February 2021), while the EC is working on legislative proposals on revisions to Solvency II in the EU. While any changes to the prudential regime are still a way off, some of the UK Government's proposed changes (such as to the risk margin and the matching adjustment) are likely to have long-term business, capital and operating model impacts and so firms should stay abreast of the changes and consider their impact.

Vulnerable customers – stronger imperatives for action



Tom Boydell



Tessa Norman

The impact of the coronavirus pandemic has led to a significant increase in both the incidence and complexity of consumer vulnerabilities, pushing a long-standing area of focus even higher up the regulatory agenda.

This year, the economic backdrop means many consumers will continue to experience financial hardship, while publication of the FCA's final

guidance on the fair treatment of vulnerable customers means regulatory scrutiny of firms' practices will intensify. The final guidance is due in Q1 and is likely to come into force immediately. It will require firms to take action to ensure they are meeting the regulator's expectations in how they identify, monitor and treat vulnerable customers. The areas where we believe firms particularly need to take action include knowing their customer base, empowering staff, deploying tech-enabled identification and monitoring, and effecting cultural change.

In addition to the guidance, the FCA is due to consult in Q1 on options for strengthening firms' duty of care to consumers, following a discussion paper issued in 2018. The consultation was delayed from Q4 2020 and is expected to focus on amending the FCA's

Principles for Businesses. These proposed measures, combined with the vulnerable customers final guidance, are likely to create an even greater regulatory imperative for firms to demonstrate that achieving fair outcomes for all customers is at the heart of their business and culture.

Firms will also need to contend with the transition away from the FCA's guidance (introduced over 2020) for treating customers experiencing coronavirus-related financial difficulty. As the FCA's various support measures come to an end during 2021, firms need to focus on tailored customer support and forbearance. The FCA makes clear that firms should take personal circumstances into account when delivering this support and, unlike with the payment holiday roll-out, blanket approaches are discouraged. This presents a

number of challenges for firms, particularly in how to communicate decisions, given customer expectations have been heightened by the exceptional support offered during 2020.

Overall, it's clear that these five overarching themes will require a great deal of work from firms, while there are also a number of initiatives specific to each sector that firms should consider, as we set out in the boxes on banking, insurance and asset and wealth management. Firms have generally proved themselves resilient to the storms of last year, but the packed regulatory agenda for the next 12 months means there will be little time to draw breath before tackling the challenges and evolving expectations of 2021.

Banking



Luke Nelson

- **Credit risk:** As banks' customers continue to face difficulties as a result of the pandemic, the PRA is likely to increase its focus on credit risk, engaging with firms to assess the robustness of credit risk management practices. Specifically, the PRA has said it will examine whether banks are considering an appropriate range of scenarios when determining provisioning levels.
- **Small banks prudential regime:** The PRA looks set to begin a long-anticipated move towards a more graduated prudential regime for banks. Rather than a one-size-fits-all approach based on Basel standards, the UK could move towards a graduated approach within which smaller, less complex firms are subject to simpler rules. The PRA has signalled its intention to publish a discussion paper in the spring on what a simplified approach could look like for small deposit takers.
- **Wholesale conduct risks:** The pandemic forced banks to make changes to the way they operated, which gave rise to new types of conduct risks in wholesale markets – addressing these will be an important issue in 2021. The FCA is particularly focused on how control environments have changed and what firms have done in response. The regulator says firms need to get better at spotting and responding to emerging risks, calling out the LIBOR transition as an area to watch.
- **Perimeter and Handbook changes:** HMT and the FCA have signalled potential changes to the regulatory perimeter and FCA Handbook in areas such as unsecured credit, SME banking and cryptoassets. The FCA's review into the unsecured credit market could result in a number of new business models, particularly in the buy now, pay later market, requiring regulation. A second theme to watch is the rising sentiment for SME banking to receive greater scrutiny. Thirdly, HMT has kicked off 2021 with a consultation and call for evidence on the regulatory approach to cryptoassets and stablecoins, which proposes introducing a regulatory regime for stable tokens used as a means of payment. Longer term, the Government will consider bringing a broader set of cryptoasset market actors or tokens into an authorisation regime.
- **Credit information and overdrafts:** The FCA's credit information market study interim report, delayed from last year, is due to be published in H1 2021. It will make recommendations on the accessibility and quality of credit data, which will likely impact business models, market structure and how firms engage with consumers. Overdrafts is another area where significant changes will begin to filter through during 2021.

Cross sector announcements

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Hannah Swain
FS Regulatory Insights
swain.hannah@pwc.com

Advice

FCA raises concerns over choice and value in advice market

The FCA evaluated the impact of the RDR and FAMR on 3 December 2020. It highlighted an increase in people seeking advice since the two initiatives, as well as some growth in the provision and understanding of new service models (e.g. automated advice). However, it would like to see more innovation in the market, including greater development of simpler forms of streamlined advice and more personalised guidance services.

The regulator is concerned that many consumers continue to hold cash. It believes that this is partly the result of a lack of mass-market consumer services which could help facilitate informed decision-making.

The evaluation also found that, where firms offer both one-off and ongoing advice services, more than 90% of new customers are placed in arrangements with ongoing fees, possibly suggesting that advisers may be offering these ongoing services as a 'default option'. The FCA is concerned that this might lead to consumers paying for services they do not need or use.

In addition, the FCA identified evidence of 'significant' price clustering across adviser charges, at odds with a broader distribution of charges that the FCA would expect in a well-functioning market.

The FCA will supplement the evidence from the review with feedback to its Call for Input on consumer investments, which closed on 15 December 2020. The regulator expects to carry out further work on the topic in H1 2021.

Capital and liquidity

FCA consults on new prudential regime for investment firms

The FCA published CP20/24: A new UK prudential regime for MiFID investment firms on 14 December 2020, the first of three consultations to implement the new UK IFPR. The regime refocuses prudential requirements away from those created for banks, and forces firms to consider and mitigate the potential for harm it can pose to itself, consumers and markets.

The FCA's first tranche of rules introduces the IFPR, and focuses on reporting, Pillar 1 capital requirements, own funds rules, prudential consolidation and the group capital test. It also proposes a range of transitional provisions for firms facing the largest capital increases. In addition the FCA has published a proposed template for the new reporting to support the IFPR and the guidance for completing this template. The draft rules will apply to all MiFID investment firms.

The deadline for responding to the consultation is 5 February 2021. The FCA intends to publish two further consultations to implement IFPR over the course of 2021. The final rules will

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<p>enter into force on 1 January 2022, subject to the FS Bill passing through Parliament.</p> <p>EBA consults on governance and remuneration for investment firms</p> <p>The EBA consulted on two draft guidelines addressing <u>internal governance</u> and <u>remuneration policies</u> under the IFD on 17 December 2020. While the European IFD will not apply to UK firms, it will apply to any EU entities in a UK firm's structure. The UK IFPR also closely mirrors much of the EU regime, so firms may find the guidelines provide clarity on the approach that the FCA may take.</p> <p>The draft guidelines specify the internal governance and remuneration provisions applicable to Class 2 investment firms (where Class 2 firms are broadly equivalent to the UK's non-SNI firm classification). The draft guidelines apply at both individual and consolidated level.</p> <p>The governance consultation sets out a number of provisions under IFD which are intended to ensure sound risk management through the establishment of clear organisational and risk management structures, as well as adequate internal control mechanisms. The consultation on remuneration provides clarity on the EBA's expectations for firms to align the variable remuneration of identified staff with the risk profile of the firm and the assets it manages, as well as ensuring remuneration policies are gender neutral.</p> <p>The consultation closes on 17 March 2021.</p>	<p>EBA publishes draft technical standards on prudential treatment of investment firms</p> <p>The EBA published a <u>package of seven final draft Regulatory Technical Standards (RTS)</u> on the prudential treatment of investment firms under the IFR on 16 December 2020. The final RTS form part of the phase 1 mandates of the EBA roadmap on investment firms.</p> <p>The RTS included in the package set out the main aspects of the new prudential regime in relation to the calculation of regulatory capital requirements. They also provide further clarifications on the methodologies to be applied by all types of investment firms, including investment advisers, portfolio managers, execution brokers, firms trading on their own account and commodity dealers. In addition, the package sets out the requirements for certain specific investment firms to apply banking rules and to seek authorisation as credit institutions.</p> <p>The EBA intends for IFR to enter into force in mid-2021.</p> <p>PRA issues CRD V policy statement</p> <p>The PRA published <u>Policy Statement 29/20: Capital Requirements Directive V</u> on 28 December 2020. It sets out the final policy to <u>Consultation Paper 22/20: Designation of firms within certain consolidation groups</u> which was published on 9 December 2020 and received no responses. The rules proposed in CP22/20 apply to the period between 28 December 2020 and the date on which the UK parent financial (or mixed financial) holding company's application for approval or exemption is determined by the PRA.</p>	<p>PS29/20 also contains the final PRA Rulebook instruments, statements of policy, supervisory statements and templates as published in <u>Policy Statement 26/20: Capital Requirements Directive V</u> on 9 December 2020. The PS26/20 provides feedback to responses to CP12/20 and CP17/20.</p> <p>The PRA made a number of amendments to the proposals in CP12/20. These include:</p> <ul style="list-style-type: none">• changes relating to the application of deferral and clawback to different categories of material risk takers (MRTs)• the treatment of part-year MRTs• the approach to converting other currencies into sterling for the purposes of applying the UK remuneration regime• the definition of branch assets• firm-wide application of risk adjustments. <p>The regulator also clarifies how firms can comply with the recovery plan reporting requirement when a branch recovery plan is not available.</p> <p>Changes to the proposals in CP17/20 include moving back the deadline for holding companies to submit formal applications for approval or exemption from approval, from 31–31 May 2021 to 1–28 June 2021. The PRA has also changed the date of application for the proposed approach to IRRBB from 31 December 2020 to 31 December 2021. And it has made a number of amendments to the Internal Capital Adequacy Assessment requirements, including the treatment of commercial margins in the standardised</p>	<p>framework, the treatment of certain currencies under the supervisory outlier test and the treatment of non-maturing deposits.</p> <p>Conduct</p> <p>FCA proposes minor Handbook changes</p> <p>The FCA proposed minor changes to its Handbook in <u>CP20/23: Quarterly Consultation No 30</u> on 4 December 2020. The changes include transposing an article of BRRD II into FCA rules, and narrowing the scope of communication rules for fund managers introduced as part of the asset management market study. The consultation closed on 4 January 2021 for chapter 6, and closes on 4 February 2021 for all other chapters.</p> <p>FCA confirms ban on speculative mini-bonds</p> <p>The FCA published <u>PS20/15: High-risk investments: Marketing speculative illiquid securities (including speculative mini-bonds) to retail investors</u> on 10 December 2020. Following its June 2020 consultation, the FCA permanently banned the mass marketing of speculative illiquid securities (including speculative mini-bonds) to retail investors.</p> <p>A temporary ban was introduced without consultation in January 2020 following serious concerns that speculative mini-bonds were being promoted to retail investors who neither understood the risks involved, nor could afford the potential financial losses. Alongside speculative mini-bonds, the measure will bring listed bonds with similar features to speculative illiquid securities within scope of the ban.</p> <p>The rules entered into force on 1 January 2021.</p>				

ESMA issues new Q&A on costs and charges

ESMA published [revised MiFID II investor protection Q&As](#) on 22 December 2020, which includes a new Q&A related to the costs and charges regime. It specifies that, to ensure that firms present ex-post costs and charges information in a clear, fair and not misleading manner, they should make the disclosure in a standalone document or in a prominent position in a document containing wider content.

Data

FCA sets out plan for firms migrating MiFID reference data

The FCA published a [webpage](#) on 4 December 2020, which sets out a cutover plan for firms migrating MiFID reference data and transparency systems as part of the Brexit onshoring process. After the transition period, ESMA switched off the FCA's access to FIRDS and FITRS, both of which are needed to operate the MiFID regime. The FCA has developed equivalent systems for the UK regime, which were launched on 2 January 2021.

IOSCO considers changes to market data

IOSCO published a [consultation paper](#) on market data in secondary equity markets on 4 December 2020. This sets out a range of issues that IOSCO has identified in relation to the content, costs, accessibility, fairness and consolidation of market data. The consultation is intended to alert regulators to risks in this area and, depending on the feedback received (by 26 February 2021), IOSCO may take forward further policy work to address the issues identified.

Finance

ESAs highlight STS status change

On 7 December 2020, the ESAs [highlighted](#) a change in STS securitisation transactions, after the end of the Brexit transition period on 31 December 2020. Those securitisation transactions currently labelled as STS securitisations will lose the status where one or all the securitisation parties are established in the UK. This will apply to STS asset-backed commercial paper (ABCP) securitisations and STS non-ABCP securitisations.

Financial crime

FCA creates temporary cryptoasset registration regime

The FCA created a [Temporary Registration Regime](#) for cryptoasset businesses on 16 December 2020. The change has been made to accommodate firms that have applied to be registered under the Money Laundering Regulations for cryptoasset activities, but for whom a determination has yet to be made. The FCA cites firm complexity, poor application standards and resource constraints as reasons for the delay.

EBA outlines AML/CTF assessment methodology

The EBA published [Risk Assessment under Article 9A of the EBA Regulation](#) on 16 December 2020, outlining details of the methodology and process that it will adopt when discharging its obligation to perform risk assessments of the strategies, capacities and resources of competent authorities to address emerging risks related to money laundering and terrorist financing. These assessments will inform the EBA's wider work on AML and CTF.

Governance

FCA's application of SM&CR returns to normal

In an [update](#) on 18 December 2020, the FCA confirmed its expectation that firms' application of the SM&CR rules should return to normal. This comes after it offered some flexibility in the application of the rules due to the impact of the coronavirus pandemic.

PRA reviews effectiveness of SM&CR

The PRA published its [Evaluation of the SM&CR](#) on 16 December 2020. It concludes that the regime has helped ensure that senior individuals take greater responsibility for their actions, and has made it easier for firms and the PRA to hold individuals to account. 94% of firms surveyed said the regime was having a positive effect on individual behaviour.

The regulator identifies some areas, such as the use of conduct notifications and regulatory references, where it is not yet clear whether the regime is working as intended. It sets out a number of follow-up actions and recommendations to help refine the way the regime operates in practice, including seeking further views on the case for more guidance on allocating prescribed responsibilities, and an option for smaller firms to submit SM&CR documentation less frequently. The PRA also says it will examine the scope for clarifying expectations related to misconduct reporting in notifications and regulatory references.

The regulator welcomes comments on the findings until 26 February 2021.

Operational resilience

ESMA final guidelines on cloud outsourcing

ESMA published the final report on its [guidelines on outsourcing to cloud service providers](#) on 18 December 2020, in line with work previously completed by EBA and EIOPA. The guidelines are intended to help firms identify, address and monitor the risks arising from cloud outsourcing arrangements. The guidelines come into effect on 31 July 2021.

Remuneration

FCA updates the dual-regulated firms remuneration code

The FCA published [PS20/16: Updating the dual-regulated firms Remuneration Code to reflect CRD V](#), on 17 December 2020. It sets out the final rules on remuneration for dual-regulated firms and the revised versions of the relevant guidance documents.

The amendments, reflecting changes made by CRD V, include:

- adding categories of staff who must be included as material risk takers
- replacing the current proportionality thresholds with exemptions
- amending the criteria for assessing whether a UK branch of a third country firm is in scope of application of certain rules
- amending the minimum deferral and clawback periods
- introducing a new requirement for firms to have gender neutral remuneration policies and practices

Executive summary	The regulatory themes set to dominate 2021	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
<ul style="list-style-type: none">• permitting listed firms to award variable remuneration in the form of share-linked instruments and equivalent non-cash instruments. <p>The amendments are also reflected in the following updated guidance documents:</p> <ul style="list-style-type: none">• FG20/4: General Guidance on Proportionality: The Dual-regulated firms Remuneration Code (SYSC 19D)• FG20/5: Dual-regulated firms Remuneration Code (SYSC 19D) – Frequently asked questions on remuneration• FG20/6: IFPRU investment firms Remuneration Code (SYSC 19A) – Frequently asked questions on remuneration <h3>Supervision</h3> <p>BoE finalises policy on the UK's EU withdrawal</p> <p>The BoE and PRA jointly published PS30/20: UK withdrawal from the EU: Changes before the end of the transition period on 28 December 2020. It provides the final policy from CP13/20 and CP18/19, and contains final PRA Rulebook EU Exit instrument, PRA transitional direction and related guidance documents.</p> <p>FCA makes final changes for end of transition</p> <p>The FCA published the final onshoring instruments, related guidance and Temporary Transitional Power (TTP) directions that apply from the end of the Brexit transition period in an update on 22 December 2020.</p>	<p>The regulator made EU exit-related changes to its Handbook and Binding Technical Standards, to ensure the UK's regulatory framework continues to function following the end of the transition period. The final instruments are largely unchanged from draft versions consulted on in September 2020 in Quarterly CP20/18, and are outlined in Handbook Notice 83. The regulator also published guidance on its approach to interpreting reporting and disclosure requirements under CRD and CRR Binding Technical Standards after the end of the transition period.</p> <p>In addition, the FCA published TTP directions. The TTP will be applied on a broad basis from the end of the transition period until 31 March 2022. Firms will be able to see which changes will apply to them by reviewing the new Handbook site alongside the updated TTP information.</p> <p>HMT launches Call for Evidence on Overseas Framework</p> <p>HM Treasury published a Call for Evidence (CfE) on the UK Overseas Framework on 15 December 2020. HMT intends to use the CfE to assess whether the existing UK rules are fit for purpose, and to inform any future approaches to the UK's regulatory framework following the end of the Brexit transition period. In particular, HMT is interested in developing its understanding across a number of related but distinct regimes, including:</p> <ul style="list-style-type: none">• the overseas persons exclusion• investment services equivalence under Title VIII of MiFIR	<ul style="list-style-type: none">• recognised overseas investment exchanges• the Financial Promotion Order in general, and specifically in relation to the distribution of certain overseas long-term insurance products in the UK. <p>HMT has identified overlaps between the activities covered by these regimes, and is seeking to use the information gathered from the CfE to assess whether there is scope for improving consistency and to make the overall framework more transparent and easier to navigate. The CfE closes for comment on 11 March 2021</p> <h3>Sustainability</h3> <p>FCA confirms climate disclosures for premium-listed companies</p> <p>The FCA published PS20/17: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations on 21 December 2020.</p> <p>The Policy Statement sets out final rules following proposals to introduce a rule for premium-listed companies (including non-financial services companies) to disclose compliance with the TCFD-aligned recommendations on a 'comply or explain' basis. The measures taken forward by the FCA fall under HMT's broader TCFD roadmap initiative, which aims to mandate TCFD-aligned disclosures across the economy by 2025.</p> <p>The FCA also published additional guidance to clarify the level of expected alignment of disclosures with TCFD guidance materials, as well as the limited circumstances in which issuers would be expected to explain, rather</p>	<p>than disclose. In addition to the new rule, the FCA has issued a Technical Note to clarify existing disclosure obligations in EU legislation and the FCA Handbook.</p> <p>The new 'comply or explain' rule will apply for accounting periods beginning on or after 1 January 2021. The first annual financial reports including disclosures subject to the rule will be published in Spring 2022.</p> <p>BoE sets out path to climate stress tests</p> <p>The BoE provided an update on 16 December 2020 setting out details of its approach to the Climate Biennial Exploratory Scenario (CBES), which will be launched in June 2021. The update follows the BoE's announcement on 13 November 2020 that it would undertake a programme of planned engagement with CBES participants in order to improve their readiness for the exercise.</p> <p>Following feedback, the BoE has altered aspects of its proposed approach to the exercise, in an attempt to ease the burden on firms. It has also published an indicative list of variables to be provided as part of the CBES scenarios.</p> <p>The BoE requests feedback on its indicative variables by 31 January 2021. As part of its engagement with firms, the BoE will release draft data templates for feedback in February 2021. The finalised CBES qualitative questionnaire and data templates will be released in April 2021, followed by the launch of the exercise in June 2021.</p> <p>See our At a glance briefing for more information.</p>				

HMT publishes initial assessment of green transition

HMT published its [interim Net Zero Review](#) on 17 December 2020, which will be used to inform next steps in the UK's transition to net zero by 2050. The report highlights the growing recognition of the opportunities associated with climate transition within the financial services sector, with 38% of assets managed in the UK integrating ESG factors into their investment process in 2020, up from 26% in 2019. The final report will be published in spring 2021, and will build on the analysis set out in the interim report by exploring how the Government can reduce policy uncertainty to encourage further innovation, technological development and investment.

Technology

CMA issues advice on tech firm regime

The CMA published [advice](#) to the Government on the design and implementation of a new UK regime for digital markets on 8 December 2020. The regime is set to govern the most powerful tech firms, and under the CMA's proposals would involve a legally binding code of conduct and pro-competitive interventions. The Government plans to consult on proposals for the regime in early 2021.

Trading

ESMA consults on algorithmic trading changes

ESMA published a [consultation paper](#) on the MiFID algorithmic trading regime on 18 December 2020, which examines whether the approach towards algorithmic trading and high frequency trading is appropriate, and seeks feedback on a series of targeted changes to certain provisions for both

investment firms and trading venues. These include proposals to introduce requirements in RTS 6 for specific types of algorithmic trading strategies adopted by investment firms, and additional prescription for how investment firms and trading venues conduct their annual self-assessments. The consultation closes on 12 March 2021.

FCA confirms approach to derivatives trading

The FCA [published](#) a statement on use of the Temporary Transitional Power to modify the UK's derivatives trading obligation on 31 December 2020. The UK has implemented the G20 commitment to improve OTC derivatives markets by onshoring the MiFIR derivatives trading obligation (DTO) under the EU Withdrawal Act. The UK DTO applies to the same classes of derivatives as the EU DTO.

HMT confirms the open access regime continuity

HMT [announced](#), on 30 December 2020, that the amendment to delay the implementation of the exchange traded derivatives (ETDs) open access regime will not form part of retained EU law in the UK at the end of the transition period. The amendment is included in the EU's CCP Resolution & Recovery Regulation. This means that the regime will continue to apply in the UK from January 2021.

Banking and capital markets

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Luke Nelson

FS Regulatory Insights

luke.a.nelson@pwc.com

Capital and liquidity

PRA restarts limited dividends and bonuses

The PRA announced on 10 December 2020 that the biggest UK banks can restart limited dividends and bonus payments in 2021. The regulator believes that despite the ongoing pandemic, banks remain well-capitalised and are expected to be able to continue to support the real economy through the period of disruption.

In March 2020, the PRA requested boards of the large UK banks to suspend dividends and buybacks on ordinary shares until the end of 2020. At the PRA's request, banks also cancelled payments of any outstanding 2019 dividends and restricted cash bonus payments to senior staff.

The reinstated payments should be limited and not exceed the higher of: 20 basis points of risk-weighted assets as at end-2020; or 25% of cumulative eight-quarter profits covering 2019 and 2020 after deducting prior shareholder distributions over that period. Banks not following this guidance should 'expect a high bar for justifying any exceptions'.

Overall, the PRA expects banks to exercise a high degree of caution and prudence in determining the size of any cash bonuses granted to senior staff, given the uncertain outlook and the need for banks to deploy capital to support the wider economy. The regulator will scrutinise proposed payouts

closely to ensure large banks have applied the PRA's rigorous remuneration regime in an appropriate fashion.

The standard approach to capital-setting and shareholder distributions is expected to return in 2021.

PRA maintains systemic risk buffer rates

The PRA announced the decision to maintain firms' systemic risk buffer rates on 7 December 2020. The rates, set in December 2019, will remain until December 2022. The decision was made in response to the economic shock from COVID-19 and supported by FPC.

Basel Committee publishes latest monitoring results

The Basel Committee published the results of the latest Basel III monitoring exercise on 10 December 2020. The results are based on data as of 31 December 2019 and do not reflect the economic impact of COVID-19. Large internationally active banks made further progress towards meeting fully phased-in final Basel III capital requirements. Banks' liquidity ratios also improved compared with end-June 2019.

EBA updates on Basel III reforms

The EBA published a report on the impact of implementing the final Basel III reforms in the EU on 10 December 2020. The full Basel III implementation in 2028 would result in an average increase of 15.4% on the current Tier 1 minimum capital requirements of EU banks.

Executive summary	The regulatory themes set to dominate 2021	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
<p>The results do not reflect the economic impact of the COVID-19 pandemic on participating banks as the reference date of this impact assessment is December 2019.</p> <p>EBA updates its Basel III impact study</p> <p>The EBA <u>published an impact study</u> on the implementation of Basel III in the EU on 15 December 2020. The updated impact is meaningfully lower than previously estimated. The report presents qualitative reflections on the potential interactions between different elements of Basel III framework and the estimated adverse impact of the COVID-19 crisis.</p> <p>EBA updates on liquidity measures</p> <p>The EBA <u>published a report</u> on liquidity measures, which monitors and evaluates the liquidity coverage requirements currently in place in the EU, on 17 December 2020. The LCR of EU banks stood at around 166% in June 2020, materially above the minimum threshold of 100%. UK banks are included in the sample.</p> <p>Conduct</p> <p>Evaluation of rent-to-own cap</p> <p>The FCA published <u>EP20/1: An evaluation of our rent-to-own price cap</u> on 2 December 2020. The price cap has been found to be successful, resulting in an average price reduction of 19% for customers. One area of concern when the rules were finalised was that firms may increase other prices or charges to counteract the price cap, but this has not materialised.</p>			<p>Guidance on BBLS debt collection</p> <p>The FCA published its guidance consultation <u>Bounce Back Loan Scheme (BBLS) – Pay as you grow options and CONC 7 compliance</u> on 4 December 2020. The FCA's guidance will apply where firms are conducting regulated debt collection activity on BBLS lending. It sets out expectations for complying with CONC 7, recognising vulnerability, meeting customer needs and how to assist with debt advice.</p> <p>Operational resilience</p> <p>Regulatory letters on operational resilience</p> <p>The PRA, ECB and the US Federal Reserve Board all published <u>statements</u> on 3 December 2020 committing to supervisory cooperation on operational resilience. The statements reinforce the need for banks to ensure that they have a consistent global approach to how they demonstrate operational resilience and prioritise investment. They also remind firms to test their resilience against a variety of sources including cyber-related incidents and natural disasters.</p> <p>Recovery and resolution</p> <p>PRA issues simplified obligations for recovery planning</p> <p>The PRA published <u>Policy Statement 25/20: Simplified obligations for recovery planning</u> on 7 December 2020. It provides feedback to responses to consultation paper 10/20. It also contains the PRA's final policy, in the form of an updated version of <u>Supervisory Statement 9/17: Recovery planning</u>. The changes took effect on 7 December 2020.</p>	<p>BoE amends MREL deadlines</p> <p>The BoE <u>announced</u> changes to MREL and resolvability deadlines under the Resolvability Assessment Framework (RAF) on 18 December 2020. The deadline for mid-tier banks to comply with their end-state MRELs is 1 January 2023, unless they are already subject to a later deadline. The deadline for mid-tier banks to implement the <u>Bank of England's Approach to Assessing Resolvability</u> and to achieve the three resolvability outcomes has been extended to 1 January 2023. The BoE also published a <u>Discussion Paper</u> as part of the MREL review.</p> <p>EBA publishes draft RTS on BRRD</p> <p>The EBA <u>published</u> its final <u>draft RTS</u> on the contractual recognition of stay powers on 16 December 2020. The technical standards provide further specification of essential elements to ensure the effectiveness of the resolution regime established by the BRRD.</p> <p>EBA publishes final technical standards for setting MREL</p> <p>The EBA published <u>final draft Regulatory Technical Standards</u> (RTS) on 23 December 2020 specifying the methodology to be used by resolution authorities to estimate the Pillar 2 and combined buffer requirements at resolution group level for the purpose of setting the MREL. The standards form part of the EBA's wider programme of work to implement the BRRD and address the problem of too-big-to-fail banks. The draft RTS will be submitted to the EC before being published in the Official Journal, and will enter into force 20 days after the publication date.</p>	<p>PRA feedbacks on recovery and resolution</p> <p>The PRA published <u>Policy Statement 28/20: Bank Recovery and Resolution Directive II</u> on 21 December 2020. It provides feedback to responses to CP18/20: BRRD II. It also contains the PRA's final policy: <u>Amended Contractual Recognition of Bail-in</u> and <u>Stay in Resolution</u>.</p> <p>Supervision</p> <p>PRA sets out supervisory priorities for 2021</p> <p>The PRA published Dear CEO letters for <u>deposit takers</u> and <u>international banks</u> in the UK on 15 December 2020, setting out its supervisory priorities for 2021.</p> <p>Financial resilience is one of the key areas highlighted by the PRA. The regulator continues to monitor the regulatory regime to ensure it does not act in a procyclical way, including ensuring firms can draw down on capital and liquidity buffers where necessary. Stress testing remains a core PRA tool and the BoE will conduct a stress test in 2021 to explore the financial resilience of major UK banks and building societies.</p> <p>In the letter to UK deposit takers, the PRA notes that it will maintain engagement to assess whether firms have robust credit risk management practices, and whether they are considering an appropriate range of scenarios in determining provisioning levels, including appropriate use of staging within IFRS 9 or other applicable accounting regimes. The PRA expects to conduct further thematic work on wholesale portfolios in potentially COVID-19 vulnerable sectors, plus some international portfolios subject to challenging economic and</p>		

credit risk conditions. While payment deferrals remain of interest, the intensity of data collection will ease over 2021. The PRA will reassess the temporary COVID-19 data collections at the appropriate time.

The PRA will continue to challenge how firms are ensuring that risk and control frameworks are operating effectively under the current working environment. Following consultations, the PRA will set standards for operational resilience and outsourcing during 2021.

On LIBOR transition, the PRA plans to monitor progress against the targets of the RFRWG and non-GBP exposures where relevant. It will use supervisory tools where insufficient progress, poor risk management or governance is in place.

Competition and future regulatory frameworks are also high on the PRA's agenda. In its letter to UK deposit takers, the PRA says it will finalise the proposed approach for new and growing banks ([CP 9/20](#)) in H1 2021. The FPC and Prudential Regulation Committee will conduct a review of the UK leverage ratio framework.

In addition, the PRA highlights the importance of strong governance, diversity and the Senior Managers Regime.

Technology

BoE explores impact of COVID-19 on machine learning

The BoE published its [findings](#) from a survey exploring the impact of COVID-19 on machine learning (ML) in the UK banking sector on 18 December 2020. While the use of ML by banks has remained broadly stable since the start of

the pandemic, around half of respondents expected the importance of ML for future operations to increase as a result of COVID-19. The BoE will continue to monitor ML developments closely as part of its objective to support ML's safe adoption in the financial services sector.

Asset management

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Investment funds

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Andrew Strange
FS Regulatory Insights

andrew.p.strange@pwc.com

Investment funds

FCA clarifies position on sub-funds post-Brexit

The FCA published a new [webpage](#) on 3 December 2020 explaining the proposed process for adding a new sub-fund to an umbrella scheme under the temporary marketing permissions regime (TMPR). If new sub-funds of EEA UCITS are authorised by the relevant home state regulator after the end of the transition period, but form part of an umbrella scheme under the TMPR prior to the end of the transition period, they may be added into the regime so they can be marketed to retail investors. The new regime applies to sub-funds authorised on or after 31 December 2020.

ESMA updates MMF reporting

ESMA [updated](#) its regulatory reporting rules under the MMF Regulation on 4 December 2020. The changes provide additional clarification to the validation rules in order to fix inconsistencies and support the understanding of the rules. No changes have been made to the reporting templates.

ESMA updates guidelines on MMFs

ESMA updated its MMF [guidelines](#) on 16 December 2020, which take account of liquidity risks that were exposed during the outbreak of COVID-19. Having assessed whether the stress testing scenarios under the existing guidelines from 2019 are still appropriate, ESMA has modified some

parameters, notably in the case of the redemption scenario, so that fund managers have the information they need to populate the reporting fields under Article 37. The new 2020 parameters will have to be used for the purpose of the first reporting period following the start of the application of the updated guidelines (i.e. two months after the publication of their translations).

ESMA finalises fund leverage guidelines

ESMA published [Guidelines on Article 25 of Directive 2011/61/EU](#) on 17 December 2020. This sets out new guidelines for NCAs to consider when monitoring and assessing risks to the financial system stemming from the use of leverage in AIFs. The guidance would supplement existing measures under AIFMD, and come in response to a [recommendation](#) by ESRB in February 2018.

The guidelines suggest that NCAs perform a risk assessment on a quarterly basis, intended to identify the level, source and different usage of leverage by AIFs. They include a common set of minimum indicators to be taken into account by NCAs during their assessment, namely the size of the AIF and its ability to move the market (even if not employing significant leverage), risk of fire sales, the risk of direct spillovers to other financial institutions, and the risk of interruption in direct credit intermediation. NCAs would be expected to base their assessment on a mix of qualitative and quantitative data.

ESMA also suggests that regulators should impose leverage limits on funds or groups of funds that they consider to pose risks to financial stability. It sets out guidance for NCAs on the design, calibration and implementation of those macro-prudential leverage limits.

The guidelines will apply two months after they have been translated into the official EU languages.

Insurance

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Melinda Strudwick
Insurance Risk and Regulation Lead
melinda.strudwick@pwc.com



Anirvan Choudhury
FS Regulatory Insights
anirvan.choudhury@pwc.com

Capital and liquidity

Publishing Solvency II technical information after Brexit

The PRA issued a [Statement of Policy: The PRA's approach to the publication of Solvency II technical information](#) on 2 December 2020. The statement sets out the PRA's approach to the publication of Solvency II technical information following the end of the Brexit transition period.

The PRA will publish technical information necessary for the valuation of insurance liabilities for each relevant currency to ensure that at least 99% of technical provisions of UK insurers are covered, which includes the Society of Lloyd's' solo technical provisions.

The PRA also sets out its approach to determining volatility adjustment (VA) reference portfolios (RPs) which would inform the calculation of the VA, in light of the loss of sharing of regulatory returns data between the PRA and EIOPA. The PRA will derive VA RPs using the same technical approach as EIOPA, except for three specific areas where the PRA's proposed approach will differ.

The first difference is that the derivation of the VA RPs will reflect UK firms' asset exposures. The second difference in the VA RP approach is that the PRA will apply a simplified approach to determining the weights for bond portfolios when 'looking through' into the underlying assets held within collective investment

undertakings (CIUs). The PRA will assume that the exposures within CIUs in respect of duration, sector and rating are the same as exposures held outside of CIUs. The third difference is that the PRA published country VA RP for GBP will be the same as the currency VA RP.

The PRA plans to publish the technical information by the eighth working day of each month, with the first set of information expected to be published in January 2021. The PRA's VA RPs will become effective from the next 31 March following publication.

Conduct

FCA proposes guidance on BI claims handling

The FCA issued [Draft guidance: Business interruption \(BI\) insurance test case – proving the presence of coronavirus](#) on 11 December 2020. The FCA outlines the types of evidence and methodologies which policyholders may use when proving the presence of COVID-19 in a particular area around their premises. The FCA also proposes guidance for insurers and intermediaries in relation to proving the presence of COVID-19. The FCA expects the proposed guidance to enable policyholders to receive claim payments as early as possible should the Supreme Court uphold the High Court's decision in the BI test case that relevant policies provide cover in response to the pandemic.

Executive summary	The regulatory themes set to dominate 2021	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
<p>The FCA expects insurers to provide fair consideration and assessment of any evidence submitted by policyholders to prove the presence of COVID-19 where required under the terms and conditions of their BI policy. The draft guidance sets out specific evidence that policyholders can use to prove the presence of COVID-19 in the Relevant Policy Area (RPA) applicable to their policy and claim. The FCA proposes that when contesting a claim, the insurer will need to clearly explain to the policyholder the basis on which it considers that the policyholder's evidence does not discharge the burden of proof in relation to the requirements of the policy.</p> <p>The FCA proposes that where one policyholder has proved the presence of COVID-19 in a particular location in respect of their policy, the insurer should accept this evidence as sufficient for other claimants. The FCA also proposes that insurers and intermediaries may wish to publish on their websites records of the RPAs in which cases of COVID-19 have been proved by policyholders, to assist other policyholders when making claims.</p> <p>The consultation closed on 18 January 2021.</p> <p>FCA outlines expectations for SIPP operators</p> <p>The FCA issued a Dear CEO letter on 2 December 2020, setting out its supervision strategy for self-invested personal pension (SIPP) operators. The FCA expects SIPP operators to maintain adequate financial resources, implement robust product governance and complaints handling procedures, and to manage operational resilience risks to deliver appropriate outcomes for clients. The FCA states that SIPP operators</p>	<p>should perform adequate due diligence when accepting new business to mitigate the risk of scams and fraud.</p> <p>Supervision</p> <p>PRA outlines supervisory priorities for 2021</p> <p>The PRA published a Dear CEO letter on 15 December 2020 setting out its supervisory priorities for insurers in 2021. In the letter the PRA notes that the insurance sector faces an uncertain economic environment and several longer-term risks.</p> <p>Due to the illiquid nature of much of the sector's credit exposure, the PRA expects boards to satisfy themselves that firms are resilient to a wide range of adverse credit scenarios. The PRA notes that the assessment of resilience should encompass both the firm's capital position and the risk management of illiquid exposures. In addition, the PRA expects insurers to conduct firm-specific stress testing of affordability and adopt a prudent approach to the distribution of dividends.</p> <p>In the letter, the PRA reminds firms that the deadline for LIBOR transition is fast approaching, and states that the PRA will closely monitor how firms are managing the risks associated with the transition. The PRA plans to assess firms' progress against the targets set by the RFRWG and the targets for non-GBP exposures where relevant.</p> <p>The PRA expects firms to consider the steps they will need to take to meet the standards outlined in the recent consultations on operational resilience and outsourcing. The PRA notes that changes in working patterns have increased reliance on technology</p>	<p>infrastructure. In response, the PRA expects firms to place greater emphasis on resilience to cyber threats, and to maintain their preparations for operational disruptions.</p> <p>On climate risk, the PRA reminds firms that they should be able to demonstrate they have implemented and embedded the expectations set out in SS3/19 by the end of 2021. The PRA expects those firms not participating in the Climate Biennial Exploratory Scenario exercise to assess the impact of climate risk on their balance sheets to identify any gaps in their data and risk management processes.</p> <p>Looking ahead, the PRA states that in 2021 it plans to develop its approach to recovery and resolution planning for insurers, and that the next sector-wide insurance stress test exercise will be carried out in 2022.</p> <p>Sustainability</p> <p>EIOPA consults on climate risk and non-life underwriting</p> <p>EIOPA published Discussion paper (DP) on non-life underwriting and pricing in light of climate change on 10 December 2020. The DP highlights challenges associated with current non-life underwriting practices and options to ensure the availability and affordability of insurance products in the context of climate change. The consultation closes on 26 February 2021.</p> <p>EIOPA consults on climate risk and Solvency II</p> <p>EIOPA published Discussion Paper (DP): Methodology on potential inclusion of climate change in the nat cat standard formula on 2 December 2020. It highlights that further work is needed to investigate whether climate</p>	<p>change-related perils such as droughts and wildfire could be better captured in the Solvency II framework, and that regular recalibration of the natural catastrophe risk module should take into account the effect of climate change. The consultation closes on 26 February 2021.</p>				

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
19/01/21	<u>Long-term investment funds – Review of EU rules</u>	EC
22/01/21	<u>CP20/22: Regulatory fees and levies: policy proposals for 2021/22</u>	FCA
23/01/21	<u>Procedural rules for penalties imposed on Benchmark Administrators</u>	ESMA
25/01/21	<u>CP20/19: General insurance pricing practices market study</u>	FCA
29/01/21	<u>Review of EU rules on alternative investment fund managers</u>	EC
29/01/21	<u>Draft guidelines on remuneration policies</u>	EBA
31/01/21	<u>CP18/20 Bank Recovery and Resolution Directive II</u>	PRA
31/01/21	<u>CP19/20 Resolution assessments: Amendments to reporting and disclosure dates</u>	PRA
31/01/21	<u>CP20/20 Operational continuity in resolution: Updates to the policy</u>	PRA
04/02/21	<u>CP20/23: Quarterly Consultation Paper No. 30</u>	FCA
05/02/21	<u>CP20/24: A new UK prudential regime for MiFID investment firms</u>	FCA
05/02/21	<u>Draft Application Paper on Resolution Powers and Planning</u>	IAIS
07/02/21	<u>Draft definition and high-level principles to inform the criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard</u>	IAIS
15/02/21	<u>ITS amending Commission Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models</u>	EBA
17/02/21	<u>Statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement</u>	EIOPA

Closing date for responses	Paper	Institution
19/02/21	<u>Future Regulatory Framework Review: Consultation</u>	HMT
19/02/21	<u>Solvency II Review: Call for evidence</u>	HMT
26/02/21	<u>CR03/2020 Market Data In The Secondary Equity Markets</u>	IOSCO
12/03/21	<u>Consultation Paper MiFID II/MiFIR review report on Algorithmic Trading</u>	ESMA
15/03/21	<u>Consultation on the Supervisory Statement on ORSA in the context of COVID-19</u>	EIOPA
16/03/21	<u>Technical standards to calculate risk weights of collective investment undertakings</u>	EBA
17/03/21	<u>Consultation paper on Guidelines on remuneration policies for investment firms</u>	EBA
17/03/21	<u>Consultation paper on Guidelines on internal governance for investment firms</u>	EBA

Glossary

ABI	Association of British Insurers
ABS	Asset Backed Security
AI	Artificial intelligence
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU
AML	Anti-Money Laundering
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)
BIS	Bank for International Settlements
BoE	Bank of England
BMR	EU Benchmarks Regulation
BRRD	Bank Recovery and Resolution Directive 2014/59/EU
BRRD II	Bank Recovery and Resolution Directive (EU) 2019/879 amending BRRD
CASS	Client Assets sourcebook
CBILS	The UK Coronavirus Business Interruption Loan Scheme
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
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

Executive summary	The regulatory themes set to dominate 2021	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
CRD IV	Capital Requirements Directive 2013/36/EU			EEA	European Economic Area		
CRD V	Capital Requirements Directive (EU) 2019/878 amending CRD IV			EEC	European Economic Community		
CRR	Capital Requirement Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms			EIOPA	European Insurance and Occupations Pension Authority		
CRR II	Capital Requirements Regulation (EU) 2019/876 amending CRR			ELTIF	European long-term investment fund		
CSD	Central Securities Depository			EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EU) No 648/2012		
CSDR	Central Securities Depositories Regulation (EU) 909/2014			EP	European Parliament		
CSMAD	Criminal Sanctions Market Abuse Directive 2014/57/EU			EPC	European Payments Council		
CTF	Counter Terrorist Financing			ESA	European Supervisory Authority (i.e. generic term for EBA, EIOPA and ESMA)		
DEPP	The FCA's Decision Procedure and Penalties Manual			ESCB	European System of Central Banks		
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union			ESG	Environmental, social and governance		
DGS	Deposit Guarantee Scheme			ESEF	European Single Electronic Format		
DGSD	Deposit Guarantee Schemes Directive 2014/49/EU			ESMA	European Securities and Markets Authority		
DLT	Distributed ledger technology			ESRB	European Systemic Risk Board		
D-SIBs	Domestic Systemically Important Banks			€STR	Euro short-term rate		
EBA	European Banking Authority			ETC	Exchange-traded commodity		
EC	European Commission			ETN	Exchange-traded note		
ECB	European Central Bank			EU	European Union		
ECJ	European Court of Justice			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		
ECL	Expected credit loss			EURIBOR	Euro Interbank Offered Rate		
ECOFIN	Economic and Financial Affairs Council (configuration of the Council of the European Union dealing with financial and fiscal and competition issues)			Eurosysteem	System of central banks in the euro area, including the ECB		
ECON	Economic and Monetary Affairs Committee of the European Parliament			EuSEF	The European social Entrepreneurship Funds Regulation		
ECP	Eligible counterparty			EuVECA	European Venture Capital Funds Regulation (EU) 345/2013		
EDIS	European Deposit Insurance Scheme						

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FAMR	Financial Advice Market Review			HMRC	Her Majesty's Revenue and Customs		
FATF	Financial Action Task Force			HMT	Her Majesty's Treasury		
FC	Financial counterparty under EMIR			IA	Investment Association		
FCA	Financial Conduct Authority			IAIS	International Association of Insurance Supervisors		
Fiat currency	Currency whose value is underpinned by the strength of the issuing government, e.g. USD, GBP, euro and other major world currencies			IASB	International Accounting Standards Board		
FICC	Fixed income, currencies and commodities			IBA	ICE Benchmark Administration		
FICOD1	Amending Directive 2011/89/EU of 16 November 2011			IBOR	Interbank Offered Rate		
FICOD	Financial Conglomerates Directive 2002/87/EC			ICAAP	Internal Capital Adequacy Assessment Process		
FMI	Financial Market Infrastructure			ICAS	Individual Capital Adequacy Standards		
FMLC	Financial Markets Law Committee			ICO	Initial coin offering		
FMSB	FICC Markets Standard Board			ICOBs	Insurance: Conduct of Business Sourcebook		
FOS	Financial Ombudsman Service			ICPs	Insurance Core Principles		
FPC	Financial Policy Committee			ICT	Information and Communication Technology		
FRC	Financial Reporting Council			IDD	The Insurance Distribution Directive (EU) 2016/97		
FRTB	Basel Committee fundamental review of the trading book market risk capital requirements			IFD	Investment Firms Directive		
FSB	Financial Stability Board			IFPR	Investment Firms Prudential Regime		
FSCS	Financial Services Compensation Scheme			IFRS	International Financial Reporting Standards		
FSI	Financial Stability Institute (of the BIS)			ILAA	Internal Liquidity Adequacy Assessment		
FSMA	Financial Services and Markets Act 2000			ILAAP	Internal Liquidity Adequacy Assessment Process		
FTT	Financial Transaction Tax			ILS	Insurance-Linked Securities		
GDPR	General Data Protection Regulation			IMAP	Internal Model Approval Process		
G-SIBs	Global Systemically Important Banks			IMCO	The European Parliament's Committee on Internal Market and Consumer Protection		
G-SIIs	Global Systemically Important Institutions			IMD	Insurance Mediation Directive 2002/92/EC		
HCSTC	High Cost Short Term Credit			IMF	International Monetary Fund		

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IORP	Institutions for Occupational Retirement Provision			MiFID II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MiFIR		
IOSCO	International Organisation of Securities Commissions			MiFIR	Markets in Financial Instruments Regulation (EU) No 600/2014		
IRB	Internal Ratings Based			MLRO	Money Laundering Reporting Officer		
IRRBB	Interest rate risk in the banking book			MMF	Money Market Fund		
ISDA	International Swaps and Derivatives Association			MoJ	Ministry of Justice		
ITS	Implementing Technical Standards			MoU	Memorandum of Understanding		
JCESA	Joint Committee of the European Supervisory Authorities			MPC	Monetary Policy Committee		
JMLSG	Joint Money Laundering Steering Committee			MREL	Minimum requirements for own funds and eligible liabilities		
KID	Key Information Document			MTF	Multilateral Trading Facility		
KIID	Key Investor Information Document			NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution		
KYC	Know your customer			NCA	National competent authority		
LCR	Liquidity coverage ratio			NDF	Non-Directive Firms – firms that do not fall within Solvency II		
LEI	Legal Entity Identifier			NFC	Non-financial counterparty under EMIR		
LIBOR	London Interbank Offered Rate			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		
MA	Matching Adjustment			NPE	Non-performing exposure		
MAD	Market Abuse Directive 2003/6/EC			NSFR	Net Stable Funding Ratio		
MAR	Market Abuse Regulation (EU) 596/2014			NST	National specific template		
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			NURS	Non-UCITS Retail Scheme		
MCD	Mortgage Credit Directive 2014/17/EU			OECD	Organisation for Economic Cooperation and Development		
MCOB	Mortgages and Home Finance: Conduct of Business sourcebook			Official Journal	Official Journal of the European Union		
MCR	Minimum Capital Requirement			OFT	Office of Fair Trading		
Member States	Countries which are members of the European Union			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)		
MiFID	Markets in Financial Instruments Directive 2004/39/EC						

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ORSA	Own Risk Solvency Assessment			RRPs	Recovery and Resolution Plans		
O-SIIs	Other systemically important institutions			RTS	Regulatory Technical Standards		
OTC	Over-The-Counter			RWA	Risk-weighted assets		
OTF	Organised trading facility			SARON	Swiss Average Rate Overnight		
PAD	Payment Accounts Directive 2014/92/EU			SCA	Strong Customer Authentication (rules under PSD2)		
PERG	Perimeter Guidance Manual			SCR	Solvency Capital Requirement (under Solvency II)		
PPI	Payment Protection Insurance			SCV	Single customer view		
PRA	Prudential Regulation Authority			SEC	Securities and Exchange Commission (US)		
Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis			SECR	Securitisation Regulation		
PRIIPs	Packaged retail and insurance-based investment products			SEPA	Single Euro Payments Area		
PSD2	The revised Payment Services Directive (EU) 2015/2366			SFP	Structured finance product		
PSP	Payment service provider			SFT	Securities financing transaction		
PSR	Payment Systems Regulator			SFTR	Securities Financing Transactions Regulation (EU) 2015/2365		
P2P	Peer to Peer			SFO	Serious Fraud Office		
QIS	Quantitative Impact Study			SI	Systematic internaliser		
QRT	Quantitative Reporting Template			SIMF	Senior Insurer Manager Function		
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)			SIMR	Senior Insurer Managers Regime		
RDR	Retail Distribution Review			SM&CR	Senior Managers and Certification Regime		
REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011			SME	Small and Medium sized Enterprises		
RFB	Ring-fenced bank			SMF	Senior Manager Function		
RFQ	Request for quote			SOCA	Serious Organised Crime Agency		
RFRs	Risk-free rates			SOFR	Secured Overnight Financing Rate		
RFRWG	The Working Group on Sterling Risk-Free Reference Rates			Solvency II	Directive 2009/138/EC		
RONIA	Repurchase Overnight Index Average			SONIA	Sterling Overnight Index Average		
				SPV	Special purpose vehicle		

SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRMR	Single Resolution Mechanism Regulation (EU) No 806/2014
SRMR II	Single Resolution Mechanism Regulation (EU) 2019/877 amending SRMR
SSM	Single Supervisory Mechanism
SSR	Short Selling Regulation (EU) 236/2012
STS	Simple Transparent and Standardised (concerning securitisations)
SUP	FCA supervision manual
SYSC	The part of the FCA handbook titled senior management arrangements, systems and controls
T2S	TARGET2-Securities
TSC	Treasury Select Committee
TCFD	The FSB Task Force on Climate-related Financial Disclosures
TLAC	Total Loss Absorbing Capacity
TMTF	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

Contacts

**Hannah Swain**

+44 (0) 7803 590553
swain.hannah@pwc.com

Operational resilience and
financial crime

**Adam Stage**

+44 (0) 7483 422845
adam.stag@pwc.com

Operational resilience

**Lucas Penfold**

+44 (0) 7483 407581
lucas.penfold@pwc.com

Wholesale markets and asset
management conduct regulation

**Andrew Strange**

+44 (0) 7730 146626
andrew.p.strange@pwc.com

Retail distribution, SM&CR,
upcoming regulatory change

**Leo Donnachie**

+44 (0) 7483 329595
emilio.donnachie@pwc.com

Cross-sector conduct, asset
management

**Tom Boydell**

+44 (0) 7483 399332
tom.boydell@pwc.com

Retail banking, consumer credit
and non-bank lending

**Anirvan Choudhury**

+44 (0) 7843 423721
anirvan.choudhury@pwc.com

Insurance prudential

**Conor MacManus**

+44 (0) 7718 979428
conor.macmanus@pwc.com

Cross-sector regulatory affairs,
Brexit and banking prudential

**Laura Talvitie**

+44 (0) 78 5090 824
laura.talvitie@pwc.com

LIBOR transition

**Tessa Norman**

+44 (0) 7826 927070
tessa.norman@pwc.com

Publications and vulnerable
customers

**Luke Nelson**

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

Climate change and banking
regulation

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