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Risk and Regulation

Being better informed

FS regulatory, accounting and audit bulletin

FS Regulatory Insights

July 2019

In this month's edition:

- 'Banking Package' now live – What should firms expect?
- FCA makes fundamental changes to overdraft charging
- Stewardship in asset management under the spotlight
- PRA outlines future supervisory focus for life insurers



Executive summary



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

June brought a number of important regulatory developments, as regulators rushed to meet their half-year deadlines.

Firstly, the long-awaited ‘Banking Package’ was published in the Official Journal. The package, which comprises CRR II, CRD V, BRRD II and SRMR, is designed to make the financial system more resilient. It makes important amendments to the prudential regime in a number of areas including large

exposures, leverage ratio, liquidity, reporting requirements and disclosure, market risk, counterparty credit risk, loss-absorbency and recapitalisation. We take an in-depth look at these changes and how they’re set to impact firms in our feature article on p. 6.

In another EU development, the EBA consulted on its draft guidelines on loan origination and monitoring. The guidelines aim to set prudent standards for credit risk taking, management and monitoring. They also aim to ensure that newly originated loans are of high quality, and firms’ practices are aligned with consumer protection and AML requirements. The guidelines bring together the EBA’s prudential and consumer protection objectives and will require impacted firms to take a number of steps, including: improving internal governance arrangements for pricing, granting and monitoring of loans; and integrating consumer protection standards into their overall risk management framework.

Consumer protection remains high on the FCA’s agenda, too. It published final rules setting out fundamental changes to overdrafts charges, in a bid to reduce consumer harm. Key rule changes include a ban on fixed fees, preventing firms from charging higher prices for unarranged overdrafts compared to arranged overdrafts, and requiring firms to do more to identify customers at risk of or in financial difficulty. The new rules pose a number of

challenges for firms, including assessing current pricing models and the impact on margins of any changes, and developing a strategy for identifying and managing customers in financial difficulty.

Turning to asset management, stewardship is attracting increasing levels of interest from asset managers and owners, the media and regulators. Combined with the growing appetite among the public to invest in sustainable assets, this means stewardship is fast becoming a regulatory ‘must have’ rather than a ‘nice to have’. In our feature article on p3, we consider how these issues are coming under growing regulatory scrutiny, and the challenges that poses for asset management firms.

In insurance, meanwhile, the PRA wrote to chief actuaries of life insurers outlining its activities over the past 12 months and providing further information on areas where it expects to be more active in the coming year. The letter highlights four areas of expected supervisory focus: model drift, proxy modelling, treatment of expenses in Solvency II technical provisions and the SCR, and firms’ monitoring of MA portfolios. Firms should ensure they’re meeting the PRA’s expectations in these areas.

UK regulators also continue to look ahead to the future of regulation. The BoE issued the findings of a review it commissioned into the

future of finance, looking at how financial services might evolve over the next decade. In its response to the findings, the Bank announced a number of planned initiatives, including: consulting on opening access to its balance sheet to new payment providers, a supervisory statement in the autumn on its approach to cloud computing, a review of the use of regulatory data, and climate stress tests to be carried out in 2021. Meanwhile, the FCA issued a report on the regulatory perimeter, which looks at issues such as how technological advances are impacting the perimeter – for instance, through large technology companies making steps towards providing financial services. It’s important that firms engage with these issues and developments, which are likely to have a major impact on the sector over the coming years.

We hope you enjoy this month’s edition.

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Rising scrutiny for stewardship in asset management?



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Now more than ever, stewardship is attracting high levels of interest from asset managers and owners, the media, regulators and wider society. This seems to be driven by changing public attitudes and the growing awareness that more needs to be done to tackle major societal challenges such as climate change, as well as an appreciation of the role that financial markets can play in supporting this. There is a growing appetite among the public, particularly from younger generations, to invest their savings into assets which have a positive and sustainable impact on society.

Asset managers have been carrying out stewardship activities and pursuing associated investment strategies for a number of years. What is new is the heightened regulatory focus on how firms approach this. So, does this mean that stewardship is becoming a regulatory 'must have' rather than a 'nice to have'? And what do firms need to do to ensure they're meeting regulators' changing expectations?

What is stewardship and why do regulators care?

It is worth recapping on what we mean by stewardship and why regulators care about it. As outlined in [DP19/1: Building a regulatory framework for effective stewardship](#) in January 2019, the FRC and the FCA define stewardship as the allocation and management

of capital to create sustainable value for beneficiaries, the economy and society. Central to this are ESG risks and opportunities associated with the companies that asset managers and owners invest in.

Stewardship has three broad components. The first relates to the way in which firms engage with issuers, through both regular dialogue and voting. Those firms should exercise the rights they are afforded as owners of listed securities to hold issuers to account, therefore driving better behaviours focused on long-term value creation, including through positive ESG impacts. The second component is how firms integrate stewardship activities into their investment decision-making. In practice, this means seeking out economically sustainable investments which deliver long-run returns and wider societal value, rather than focusing on short-term financial returns which the industry has been criticised for in recent years. The third limb of stewardship is for firms to be transparent about their activities to demonstrate how they are reflecting investor interests over a sustained time horizon.

Regulators are taking such a keen interest in stewardship because it goes to the heart of an asset manager's responsibilities to its investors. Firms that support sustainable value creation should generate higher returns and better outcomes for investors in the long-run. This should, in turn, demonstrate that they are

making positive contributions to the wider economy and society, which underpins stakeholder confidence in, and the integrity of financial markets.

An uptick in stewardship regulation

It is becoming clear that the regulators are taking a more interventionist position on stewardship. This can be seen through the [Shareholder Rights Directive II \(SRD II\)](#), which came into force on 10 June 2019 and introduces new requirements for asset managers and owners to disclose, at least annually, how their investment strategy will contribute to the creation of sustainable value. Those firms will also need to publish their engagement policies on a 'comply or explain' basis.

Closely related to this, the FRC is considering how to encourage higher standards of engagement through revisions to the [Stewardship Code](#) (the Code). This sets out how fund managers hold investee companies to account, with signatories adhering to its principles on a voluntary 'comply or explain' basis. The proposals place greater emphasis on the integration of stewardship into investment decision-making. This would include explicit consideration of ESG factors, even if these are not central to a fund's investment strategy. The FRC also intends to extend the scope of the code beyond listed

equities, covering all investable asset classes. Finally, signatories will need to be more transparent on how their purpose, values and culture supports stewardship activities. Firms should be aware that the Code sets a higher benchmark for firms to adhere to than the baseline established in SRD II, recognising the UK's intention to be a leading contributor to global best practice. A final version of the revised Code is expected in July 2019, and firms will have until December 2019 to implement changes.

Firms need to be mindful that SRD II and the Code also have synergies with the ESG disclosure regulation, which forms part of the EU Sustainable Finance Action Plan. This legislation will introduce requirements for ESG considerations to be factored into investment decision-making and to disclose their approach to investors. The file has now reached political agreement across the EU institutions, and is expected to be formally adopted imminently. The current expectation is for there to be a reasonable implementation period, running through to autumn 2020.

Beyond these direct legislative changes, the FCA and FRC are taking a step back to think strategically about the appropriate regulatory framework for fostering effective stewardship. DP19/1 launched a debate around this question, with calls for stakeholder input on a number of areas. The regulators are exploring whether the SRD II requirements should extend to Self-invested Personal Pensions in addition to asset owners, as well as overseas firms investing in UK-based assets. They are

also considering whether the rules should formally apply to asset classes beyond listed equity, consistent with the FRC's proposed new Code. Whether this will result in additional rules is not yet known, but getting the balance right between formal regulation and voluntary codes will be critical to the success of the stewardship initiative.

The challenges for firms

A fundamental issue that firms are grappling with is the definition of stewardship activity. Many firms worry that the definition floated by the FCA and FRC contradicts firms' fiduciary duty to act in the best interests of their investor clients. Some firms are proposing that the regulator should recognise that economic and societal obligations are secondary and incidental to the primary objective of asset managers, which is to deliver good outcomes to investors.

Firms are also facing a number of challenges in relation to requirements on ESG integration and disclosure, including how to determine what constitutes an ESG activity. With the EU sustainability taxonomy regulation still being negotiated in Council, firms lack clarity on the criteria for assessing whether the assets they are investing would constitute 'ESG' for the purposes of their wider ESG regulatory obligations. The EU Technical Expert Group's (TEG) final report on associated non-legislative work on the taxonomy, published in June 2019, should provide firms with some support - but firms will want to see political agreement reached on the formal taxonomy regulation

before they can assess investments with confidence.

In any case, the taxonomy only addresses activity that is environmentally sustainable, which represents just one element of sustainability. Many firms stress that the taxonomy should be extended to deal with socially impactful activities and good governance arrangements. Such an approach would align better with stewardship-related regulation and help to encourage investments in a wider range of economically sustainable activities. Firms are concerned that a narrow approach could hamper investment in economic activities which are having a positive sustainable impact, through only encouraging investment into activities caught by the taxonomy.

Data will play a key role in helping firms make judgements around what constitutes ESG. There are, however, a number of issues with the company information currently available. For example, any available data often comes in an awkward and inconsistent format that is not easily digestible (e.g. PDF documents) or comparable, which raises questions around data quality and 'greenwashing' (i.e. overstating the 'green' credentials of a product), a risk that the taxonomy is intended to address. Related to this, firms are also coming across inconsistent data on the same company provided by different ESG data providers. The Taskforce on Climate-related Financial Disclosures (TCFD) and associated work by the TEG on company disclosure should help to address problems around

environmental data, though the TCFD 2019 Status Report indicates that, despite recent improvements on company disclosure, progress needs to accelerate.

Signatories of the Code are having to juggle timing differences between the implementation deadline for the Code and ESG disclosure regulation. Both initiatives introduce requirements to embed ESG considerations into investment strategies and to be transparent on this. However, as it stands, affected firms will need to begin making changes under the revised Code in July 2019 and finalise their approach by December 2019, far sooner than the expected implementation deadline of autumn 2020 for the ESG disclosure regulation. Some firms may be sufficiently prepared to implement a partial solution from July, but this is likely to evolve by the time the EU requirements take effect next year. Wherever firms get to in the short-term, by December 2019 they will need to publish a statement on their website reporting the extent to which they have complied with the Code.

Finally of note is that some firms are concerned that formal requirements on ESG disclosure, coupled with the wider regulatory narrative around exercising stewardship to drive better ESG outcomes, will effectively make these types of investment strategies mandatory. However, investors will have a range of preferences and, broadly speaking, still prioritise high-performing funds. Firms will need to manage this and be careful not to restrict other investment opportunities available, since doing so would ultimately run

contrary to their duty to act in their clients' best interest. This is likely to form an important component of the FCA's incoming value assessment requirements, which take effect from September 2019.

What do firms need to do?

The volume of regulatory initiatives in this area is a clear indication of regulators' intentions to bring stewardship considerations into the mainstream. It is essential that firms properly engage with this policy agenda to prepare for a range of new regulatory requirements, but also to capitalise on strategic business opportunities stemming from the increased investor appetite for long-term sustainable value creation. There are a number of practical steps that firms should be taking:

- Review their issuer engagement policies in the context of SRD II and the Code, and determine the appropriate level to disclose their policies (e.g. group or firm level, or by product or groups of products).
- Review their internal processes and governance to ensure that ESG and wider stewardship considerations are fully integrated into their risk and investment decision-making processes.
- Update current investor disclosures, and the underlying procedures, in relation to ESG and wider stewardship activities in light of the new obligations under SRD II, the Code, and the ESG disclosure regulation.

- Consider whether there are new opportunities to adapt their product offering around ESG and wider sustainable investments.
- More broadly, place stewardship considerations at the core of their operating model. An essential part of this is having the right people, culture and structures (e.g. remuneration and performance measurement) that support investment strategies and stewardship activities consistent with investors' financial interests.

The more forward-thinking firms will appreciate the scale of change that is taking place, and will already be on the front foot in implementing this agenda to realise the potential commercial advantages. Other firms should follow suit. What seems clear is that stewardship is no longer a 'nice to have', but a regulatory necessity.

CRR II and CRD V are finally here: What should firms expect?



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With the long awaited 'Banking Package' published in the Official Journal last month, banks and large investment firms now have certainty over how the prudential regime is set to be shaken up. The package, which comprises the CRR II, CRD V, BRRD II and the SRMR, will make important amendments to the existing prudential regime in a number of areas. These include market risk, counterparty credit risk, large exposures, liquidity, leverage

ratio, reporting requirements and disclosure, loss-absorbency and recapitalisation. The package also introduces a new intermediate parent undertaking (IPU) requirement for large third-country banking groups operating in the EU, allowing the ECB to oversee groups on a more consolidated basis.

BRRD II and SRMR will require banks to comply with the MREL at all times by holding easily 'bail-inable' instruments, and will tighten the rules on their subordination. This is to ensure the effective application of the bail-in resolution tool imposing losses on banks' creditors in the event of a failure with minimum impact on taxpayers. While the package will enter into force on 28 June 2019, the key requirements of the CRR II will apply by 28 June 2021, whereas the rest of the package has to be implemented by 28 December 2020.

In this article we provide a high-level overview of the key changes introduced by CRD V/CRR II and discuss how the changes will impact firms.

Introducing a new market risk regime

Due to the delay in the finalisation of Basel's FRTB framework, the CRR II introduces the revised market risk rules as a reporting requirement, which is unique to the EU. Firms

will be required to start reporting the calculation derived from the so-called alternative standardised approach (ASTA) within one year of the adoption of an additional Delegated Act, currently expected by 31 December 2019.

It remains to be seen how supervisors will consume firms' reports on the basis of the revised rules and whether they will use those as a 'quasi requirement'.

The Delegated Act will also include a new definition of the trading book itself which can cause huge shifts from trading activities to credit business and vice versa. This can lead to significant changes in banks' capital requirements.

The ASTA comes with substantial data requirements, additional risk sensitivity and complexity. But CRR II allows firms with non-material trading books to apply the credit risk framework for banking book positions to their trading books instead of the market risk rules, and for banks with small trading books to use the existing simplified SA subject to some conditions.

Overall, the new market risk rules tend to increase capital requirements for complex trading activities while relieves to standard trading portfolios. This can cause significant

changes in the trading strategy of firms and the profitability of their trading activities.

Revising the counterparty credit risk framework

CRR II adopts a new standardised approach to counterparty credit risk (SA-CCR), which introduces a more risk sensitive measure reflecting netting, hedging and collateral benefits, and better calibrated to observed volatilities. It allows for a simpler SA-CCR (SSA-CCR) method for smaller firms and keeps the Original Exposure Method (OEM) as an alternative approach for firms with very limited derivatives exposures. The use of the SSA-CCR and OEM will be subject to certain eligibility criteria with respect to contract netting agreements. Overall, we wouldn't expect SSA-CCR to be used extensively. It is not necessarily very beneficial for firms, given it is only marginally less complex and on the other hand, does not allow the use of credit risk mitigation.

These revisions are likely to push firms to further upgrade capabilities on data sourcing, analytics and reporting. Aligning SA-CCR with other developments including the FRTB, Initial Margin for Non-Centrally Cleared Derivatives and BCBS 239 (Risk Data Aggregation and Reporting) would capitalise on the

considerable synergies in data and evaluation, while giving business teams a better indication of the overall impact on pricing and returns.

Enhancing the large exposures framework

The revised large exposures framework does not allow the inclusion of Tier 2 capital any more. While the maximum limit for a large exposure will remain set at 25% of a bank's capital (Tier 1 only), the CRR II introduces a tighter limit of 15% of capital for interbank exposures between Global Systemically Important Institutions (G-SIIs). These changes may prompt firms to reconsider or reprice some of their lending businesses and funding strategies, given the regulatory tightening around concentration risk.

CRR II also introduces reporting requirements which increase the data ask. For instance, firms will need to report their 20 largest exposures and, on a consolidated basis, exposures of a value larger than or equal to €300m but less than 10% of their Tier 1 capital.

And CRR II requires firms to report their top ten exposures to 'shadow banks' which will be defined by an RTS to be published by the EBA. This requirement will replace the current requirement for firms to report on exposures to 'unregulated financial sector entities'. So firms should note that the counterparties captured by the reporting requirement may change.

Introducing a new liquidity measure

CRR II introduces the Basel NSFR, a new structural funding regulatory requirement.

Compared to the Basel version, the European text introduces a simplified and less granular version of the NSFR. Small and non-complex institutions will be able to use it subject to approval by their supervisors based on factors including the size of assets, trading book and derivative positions.

This added option will require smaller firms to determine whether this simplified version is beneficial to them, looking at the trade-off between simplicity of reporting and granularity of risk factors (potentially bringing lower requirements).

CRR II also includes adjustments to the Basel standard with respect to the treatment of short-term transactions with financial institutions. Preferential Required Stable Funding Factors for SFTs and certain trade finance on-balance sheet related products will reset after four years, unless the EBA report on the appropriateness of this treatment recommends the Commission submits a legislative proposal to permanently amend the treatment of these short-term transactions.

We expect NSFR's impact to be higher for wholesale funded banks and banks with sizeable SFTs and derivatives portfolios, given the high or asymmetric stable funding requirements associated with those. NSFR will also require firms to ensure their funds transfer pricing process captures all the costs associated with the regulatory requirements.

Updating the leverage ratio regime

While CRR II introduces a binding leverage ratio requirement, these rules are less relevant

for UK banks, as the PRA already applies a more stringent leverage regime.

CRR II sets the ratio at 3% of Tier 1 capital in line with the internationally-agreed Basel level standard and requires G-SIIs to hold an additional leverage ratio buffer on top of the 3%. It is set at 50% of their G-SII capital buffers, which firms should meet with Tier 1 capital.

Structural changes to large third-country groups

CRD V introduces a new requirement to allow for a more holistic supervision of EU activities and to facilitate resolution within the EU. Third-country groups with significant EU activities of at least €40bn including EU branches, regardless of whether they are G-SIIs or not, will have to set up an IPU in the EU within three years of adoption of CRD V (by 28 December 2023).

CRD V permits the establishment of two IPUs taking into account the business separation requirements in certain third countries, as long as such separation would not hinder effective resolution. While branches do not need to be organised under an IPU, they are subject to enhanced reporting and tighter supervision to avoid their use for regulatory arbitrage.

The IPU rule will affect legal entity structures of inbound international banking groups, which will include UK groups after Brexit, requiring them to apply for authorisation.

So what's next?

The CRD V and CRR II package includes a number of other standards that may have implications for firms' internal processes, such as the Pillar II framework, regulatory reporting, Pillar III disclosures, remuneration standards and ESG criteria. Compliance with these will result in additional strategic and operational challenges for firms.

The impact of the new requirements depends on firms' business model. The Commission indicated it has put a lot of effort into minimising the cost of regulation for banks, especially for small and medium-sized banks. It remains to be seen if this will indeed be the case. The proportionality rules come with overall higher capital or liquidity requirements, and high implementation costs.

Firms should also note that the Banking Package does not introduce all of the more recent changes agreed by the Basel Committee in December 2017, sometimes called 'Basel IV'. In particular, it does not yet introduce changes to credit or operational risk requirements, or the output floor.

This calls for another round of EU legislation for CRD VI and CRR III, with a proposal in 2020, to implement remaining elements of 'Basel IV'. So firms should remain vigilant for further rules and make sure their implementation programmes remain flexible to accommodate the next round of regulatory changes.

Cross sector announcements

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Regulation

Benchmarks

Assessing UK firms' readiness for LIBOR transition

The BoE and FCA held a panel event and published a series of documents on LIBOR transition on 5 June 2019.

The most significant is the [Feedback on the Dear CEO Letter on LIBOR transition](#) sent to large UK banks and insurers in September 2018. The regulators summarise the findings across eight key themes. The findings confirm that most firms have made good progress in the transition, but the level of preparedness differs greatly among them across the eight key areas. One particular issue that stands out from the paper is the fact that many firms consider the lack of market consensus and regulatory intervention as inhibiting their transition plans. In response, some firms adopted a 'wait and see' approach. On the positive side, firms have begun proactively to transact RFRs to some extent.

Dave Ramsden, BoE Deputy Governor for Markets and Banking, [added](#) that the regulators will follow up with each firm individually to further discuss their transition plans to make sure firms are ready for end-2021. He said that firms need to transact SONIA-based products and stop adding to

their post-2021 LIBOR exposures, and they need to educate their customers about what the transition involves.

Tushar Morzaria, Chair of the RFRWG, [talked](#) about the near-term priorities of the RFRWG: the development of term SONIA rates, hedge accounting treatment, and regulatory dependencies.

Finally, the RFRWG [published](#) the progress to date, including the value of SONIA-linked issuances, and the roadmap for 2019-2021.

FSB issues guide to overnight RFRs

The FSB published [A User's Guide on Overnight RFRs](#) on 4 June 2019. The guide seeks to clarify how overnight RFRs can be used in cash products.

Although it acknowledges the role of forward-looking term RFR rates for certain cash products, the FSB believes that the overnight RFRs are a better alternative in the majority of cases where an IBOR is currently used. Hence, it encourages the adoption of these rates where appropriate.

The options for using (simple or compound) average RFRs in cash products are:

- 'in advance' payments are known at the beginning of the interest period using an average of RFRs observed before the current interest period began

- ‘in arrears’ payments are known close to the end of the interest period using an average of RFRs over the current interest period
- mixed payments where part of the payment is known and made at the beginning of the interest period.

For each of these payment structures, the paper describes the various options for determining the payment amount and when to make it. Currently, derivative contracts use ‘in arrears’ payment structures, and the more different the option used for cash products, the less efficient the hedge of such cash products is.

The paper concludes that there is a trade-off between knowing the payments in advance and having a payment structure that fully hedges against realised interest rate risk (i.e. ‘in arrears’ payment).

Capital and liquidity

FCA clarifies adequate financial resources

The FCA published [CP19/20 Our framework: assessing adequate financial resources](#) on 14 June 2019. Through this framework the FCA does not intend to introduce new requirements, but it aims to provide more clarity for all FCA regulated firms on adequate financial resources and the way the regulator assesses these. Adequate financial resources is an existing [FCA Principles for businesses](#) requirement, currently covered by Pillar 2 and ICAAPs.

What the FCA looks for from firms when assessing financial resources covers:

- proportionate and regular assessment of risks
- understanding and articulation of their business model and strategy
- preventing harm from occurring
- putting things right when they go wrong
- minimising harm in failure.

The FCA’s expectations of firms to reduce the potential to cause harm cover:

- financial resources
- systems and controls, governance and culture
- identifying and assessing the impact of harm
- risks that could prevent correcting harm that has occurred
- viability and sustainability of firms’ business model and strategy
- wind-down planning.

The FCA indicates it does not intend to increase the overall level of firms’ financial resources – but plans to continue to take a proportionate and risk-based approach to the supervision of firms. However, it does warn that ‘in some cases, it might be necessary to increase a firm’s financial resources’.

The FCA envisages firms may wish to conduct gap analyses to benchmark themselves

against its expectations. It presumes, for cost benefit analysis purposes, that firms subject to ICAAP requirements and periodic supervisory review of their ICAAPs should not need to make changes. But it does expect that other ICAAP firms that won’t previously have received feedback from the FCA on their ICAAPs, and other FCA prudentially regulated firms, may fall short of its expectations. The consultation closes on **13 September 2019**.

Corporate governance

FCA consults on proxy adviser rules

The FCA published [CP19/21: Proxy Advisors \(Shareholders’ Rights\) Regulation Implementation](#) on 26 June 2019. This sets out proposals related to the FCA’s new powers on the oversight of proxy advisers under the Shareholder Rights Directive II (SRD II).

[The Proxy Advisors \(Shareholders’ Rights\) Regulations 2019](#) was introduced by HMT on 14 May 2019 to implement Article 3j of the SRD II, which relates to proxy advisers. The legislation requires these firms to make certain disclosures about how they conduct their business, including the code of conduct they apply, their research capabilities, how they produce advice and voting recommendations, and conflicts of interest that may influence the preparation of their research. HMT has designated the FCA as the competent authority over proxy advisers and has, therefore, provided it with new powers to remove a proxy adviser from the public list of proxy advisers and investigate and enforce against contraventions of the legislation.

To implement those new powers, the FCA proposes new decision-making procedures. The first would remove an adviser from the public list of proxy advisers in situations where they stop providing services but have not given the regulator notice to be removed from the list. The second would allow the FCA to investigate and discipline proxy advisers caught by the legislation but which are not authorised by the FCA or PRA.

The deadline for stakeholder feedback on the consultation is **26 July 2019**.

Finance

Global Digital Finance consults on new crypto principles

Global Digital Finance opened a number of consultations on 26 June 2019. It asks for views on three new sections of its code of conduct, [Part VI](#), [Part VII](#) and [Part VII](#). These sections are:

- Part VI: Principles for Stablecoin Issuers. The code will introduce guidelines for fair pricing, valuation, redemption, transparency and the management of market risk.
- Part VII: Principles for Security Token Offerings and Secondary Market Trading Platforms. The principles reflect a number of regulatory frameworks due to the different approaches globally. It mandates local regulatory obligations are met for the issuance and sale of tokens, conflicts of interest are managed and that investor disclosures are prominent, among other risk management procedures.

- Part VII: KYC and AML. The principles will help to ensure firms have adequate staff training in place, correctly report suspicious activity, have accurate records in place and gather necessary information on originators and beneficiaries.

The consultation period for all new parts closes on **30 August 2019**.

Market infrastructure

Further developments on EMIR Refit

ESMA published a [letter](#) sent to the EC on the hedging exemption under EMIR Refit on 14 June 2019 (letter dated 7 June 2019). The hedging exemption is meant to avoid obstructing NFCs from mitigating their commercial risks. On that basis, ESMA believes that it would make sense for the FCs in their group to also apply the same hedging exemption when taking into account the position of the NFCs at group level. However, ESMA cannot find a 'solid legal ground' to interpret EMIR Refit in this way. Hence, ESMA believes that it would be useful for the EC to clarify the correct interpretation of these provisions for FCs with NFCs in their group.

In addition, ESMA updated again its [EMIR Q&As](#) on 14 June 2019. It added a new Q&A to give details about the reporting exemption for intragroup derivative transactions.

Also in response to EMIR Refit, the FCA updated its page on [EMIR notifications and exemptions](#) on the same day.

Retail products

FCA strengthens P2P lending rules

The FCA published [PS19/14: Loan-based \('P2P'\) and investment-based crowdfunding platforms](#) on 4 June 2019. It aims to ensure that investors using P2P platforms will be more informed and able to make better choices in line with their risk tolerances, while platforms themselves will have improved governance, risk assessment frameworks, disclosures and appropriate arrangements for wind-down. The new rules include:

- A limit on investments in P2P agreements of 10% of investable assets for new, inexperienced retail customers ('restricted investors').
- Requirements to clarify the governance arrangements and systems and controls in place to support the outcomes advertised by platforms. The new rules and guidance focus predominantly on credit risk assessment, risk management and fair valuation practices helping to promote transparency and appropriate pricing.
- The introduction of an 'appropriateness assessment' for all new P2P customers. Platforms must assess investors' knowledge and experience of P2P investments before any investments can be made.
- The application of MCOB to P2P platforms that offer home finance products.
- A strengthening of rules governing the orderly wind-down of P2P platforms.

Firms must review their current activities in light of the new rules to identify areas for improvement. The amount of work to be done is likely to vary across business model types. Firms offering home finance plans should immediately adhere to relevant MCOB rules, particularly those relating to affordability and arrears handling, as these came into effect on 4 June 2019.

FCA addresses harms in the 'buy now pay later' market

The FCA published final rules to address harms in the 'buy now pay later' (BNPL) market in [PS19/17: Buy now pay later offers](#), on 12 June 2019. Firms will no longer be able to charge backdated interest in relation to amounts repaid by customers during a BNPL offer period. Backdated interest can be charged on any outstanding amounts, however. In addition to this, the FCA introduces:

- An additional disclosure requirement for BNPL products. Customers must now be told how interest will be charged if the BNPL offer is not repaid within the specified time.
- New rules for BNPL financial promotions. Firms must highlight limitations that apply to introductory offers, and the way in which interest will be charged, in a prominent manner.
- A requirement for firms offering BNPL to provide clear, prominent and timely notice to customers before a BNPL offer period comes to an end. The FCA has

purposefully given firms the flexibility to design these communications as they wish.

The FCA hopes the measures will change customer repayment behaviours, helping to minimise the amount of interest charged once a BNPL offer period ends. Firms must start designing changes to IT systems to reflect the changes to the way interest will be charged. These must then be tested and implemented by 12 November 2019. Firms should also consider the most effective way to communicate the new disclosures and prompts to customers. Further, firms must include measures for dealing with vulnerabilities as part of any communications plan.

Supervision

Chancellor plans for future beyond Brexit

Phillip Hammond, the Chancellor, delivered his Mansion House [speech](#) on 20 June 2019 in which he outlined elements of the plans being put in place to support the continued evolution of London as a financial centre beyond Brexit.

In the context of FinTech innovation, he announced a HMT-led review of the payments landscape, bringing together policymakers and regulators, to make sure that UK regulation and infrastructure keeps pace with the range of new payments models that now exist. He also referred to using the Government's 'Smart Data' review, to build on the Open Banking initiative with a new agenda for 'Open Finance'. This is intended to give small businesses, as well as consumers, more power over their financial data, so that SMEs have access to financial tools currently only accessible to

larger corporates. Hammond indicated that the second step in the plan is to launch a major, long-term review into the future of the UK regulatory framework to lay the foundations for the more global nature of the future UK financial services industry.

Other matters the Chancellor referred to concerned global financial partnerships, financial services workforce skills, migration policy, social challenges, addressing ageing populations and a need for greater 'air traffic control' to manage the cumulative impact of regulatory change arising from different sources. But he warned that 'the biggest challenge of all will be mobilising financial markets in support of the Government's commitment to achieve net zero carbon emissions by 2050'.

Planning for the future of finance

Mark Carney, Governor of the BoE, used his annual Mansion House [speech](#) on 20 June 2019 to announce the publication of [Future of finance - review on the outlook for the UK financial system: What it means for the BoE](#), and to outline the BoE's response in [New economy, new finance, new Bank - The BoE's response to the van Steenis review on the Future of Finance](#) and in a [Summary table of the Bank of England's response to the van Steenis recommendations](#).

Carney said 'there's a new economy emerging, driven by changes in technology, demographics and the environment. This new economy requires a new finance: one that serves the digital economy, is more efficient,

inclusive, sustainable and resilient.' The review's recommendations cover the following areas:

- shaping tomorrow's payment system
- enabling innovation through modern financial infrastructure
- supporting the data economy through standards and protocols
- championing global standards for markets
- promoting the smooth transition to a low-carbon economy
- supporting adaption to the needs of a changing demographic
- safeguarding the financial system from evolving risks
- enhancing protection against cyber-risks
- embracing digital regulation.

In its response, the BoE outlines five priority areas:

- supporting a more resilient, innovative and competitive payments system for UK households and businesses
- helping create an open platform to boost access to finance for small businesses and choice for households
- supporting an orderly transition to a carbon-neutral economy
- delivering a world-class regtech and data strategy

- facilitating greater resilience and adoption of the cloud and other new technologies.

These priorities include a range of specific actions and initiatives, such as the BoE engaging with HMT's National Payments Strategy review and the Government's 'Smart Data' review. More specifically, the BoE aims to publish a supervisory statement in late 2019 covering its updated policy framework on outsourcing arrangements, including a focus on cloud technology and setting out conditions to help give firms assurance on its use. In addition, the BoE plans to consult in 2020 on opening up the level of access to its payments infrastructure and balance sheet. It also intends to conduct a climate stress test for financial institutions in 2021.

FCA examines regulatory perimeter

The FCA issued its first annual report on the regulatory perimeter, [Perimeter report 2018/19](#), on 19 June 2019. The regulator sets out what it does and doesn't regulate, as well as issues with the perimeter which could cause harm to UK consumers and markets, and how the FCA is responding to this potential harm.

The FCA says that the complexity of the perimeter can create confusion for consumers and firms, and it's working to clarify understanding around the perimeter. It also discusses the challenges created by technology-driven changes to markets and business models. For instance, the regulator notes that large technology companies are making steps towards providing financial services in various ways, and the 'boundary

between providing mostly unregulated technical infrastructure to deliver financial services and providing regulated activities is increasingly narrowing'. The FCA is monitoring this closely, and plans to publish a call for input on open finance later this year, addressing how the principles of open banking can be applied across financial services.

In addition, the regulator is looking at how it can make the financial promotions regime more effective in a digital age, given that online or social media adverts can reach high numbers of consumers 'in an instant'.

The FCA's work on the perimeter forms an important part of its work on the UK's post-Brexit future regulatory framework. It plans to provide an update on issues and activities relating to the perimeter in its 2020 annual perimeter report.

Sustainability

New EC guidelines on climate-related reporting

The EC published [new guidelines](#) on corporate climate-related reporting on 18 June 2019 as part of its Sustainable Finance Action Plan. The new guidelines, which are intended to supplement existing guidelines on non-financial reporting from 2017, integrate the recommendations of the FSB's taskforce on climate-related financial disclosures (TCFD).

The new guidelines contain explanations of key concepts in relation to reporting climate information under the Non-Financial Reporting Directive (NFRD), such as materiality, climate-related risks, opportunities, and natural capital dependencies. Also included is guidance on

what climate-related information affected companies should report under each of the areas identified in the NFRD, namely business model, policies, outcomes, risks and indicators. Finally, the guidelines explain how the reporting requirements of the NFRD can be combined with the recommendations of the TCFD.

Like the non-financial reporting guidelines, the EC's new climate-related disclosure guidelines are non-binding, and apply to large listed companies, banks and insurers. The EC notes that the guidelines may be appropriate for entities which do not directly fall within scope, such as asset managers and asset owners.

Affected companies should use the new guidelines for reports published in 2020, covering the 2019 financial year. The EC expects to gather feedback on the use of the guidelines in the second half of 2020.

Supporting the EU Sustainable Finance Action Plan

The EC's Technical Expert Group on Sustainable Finance (TEG) published three reports on 18 June 2019 related to: a [sustainability taxonomy](#), an [EU Green Bond Standard \(GBS\)](#), and [EU climate benchmarks and benchmarks' ESG disclosures](#).

The taxonomy report proposes a classification system for environmentally-sustainable economic activities, intended to provide a framework to help policy-makers, firms and investors identify activities that contribute towards a low-carbon economy. The taxonomy covers a range of sectors, including energy,

transport, manufacturing, agriculture and real estate. The report is intended to provide technical detail to support the formal EU legislative framework for a taxonomy, which is still being negotiated in Council. The TEG expects to publish final recommendations to the EC later in 2019, once it has gathered stakeholder feedback and finalised its approach.

The EU GBS report sets out final recommendations to the EC, proposing a voluntary standard with a verification and an accreditation structure, aimed at increasing transparency and comparability in the green bond market. This GBS would include actions for issuers, banks managing issuances, asset managers and other institutional investors. The EC will consider the recommendations before determining next steps.

Finally, the interim report on low-carbon benchmarks proposes technical detail to support the Commission's formal legislative proposal on low-carbon benchmarks, which has recently reached political agreement. Among other things, the report sets out disclosure requirements by benchmark providers in relation to ESG factors and their alignment with the Paris Agreement. The TEG intends to deliver a final report by September 2019, which will be used as a basis for Level 2 work relating to the new regulation on low-carbon benchmarks.

ESMA launches probe into short-termism

ESMA published a [questionnaire](#) on 24 June 2019 to gather information on the extent to

which short-termism exists in financial markets. This forms part of the EC's Sustainable Finance Action Plan, a flagship EU initiative to embed sustainability considerations into the financial system.

The questionnaire addresses issuers, asset managers, other institutional investors and trade associations. ESMA asks questions on a range of issues, including the investment horizon adopted within investment strategies, the role of ESG reporting by issuers in supporting long-term investment strategies, and issuer engagement among institutional investors. Also covered is the use of credit default swaps by asset managers, as well as the pay of fund managers and corporate executives. The aim is to understand the relationship between these factors and short-termism.

Stakeholders must provide feedback by 29 July 2019. ESMA will then analyse findings and deliver a report to the EC by December 2019, which may contain advice on ways to avoid short-termism. The EC will consider its approach in relation to that report, which could include policy proposals.

Accounting

PwC publications

IFRS News

Our publication [IFRS News June 2019](#) includes articles on 'The new definition of a business promises to impact the real estate industry', 'The latest on IFRS 17 implementation' and 'Word on the Wharf'.

Illustrative IFRS consolidated financial statements for 2019 year ends

Our [Illustrative IFRS consolidated financial statements December 2019](#) shows financial statements for a fictitious listed company, containing illustrative disclosures for as many common scenarios as possible. The accounts comply with IFRS as issued at 31 May 2019 and that apply to financial years commencing on or after 1 January 2019.

IFRS 16, 'Leases' – interaction with other standards

Our publication [IFRS 16 'Leases' - interaction with other standards](#) considers several consequences arising from IFRS 16, including impairment of non-financial assets, financial instruments and taxes.

Also this month

BoE

- Alex Brazier, Executive Director at the BoE and Member of the FPC, gave a [speech](#) on 13 June 2019 on the future for macroprudential policy and its role in building financial resilience. The speech referenced how the Bank is keeping up with changes in the economy, including monitoring the non-bank system and where new standards of resilience might be needed as the financial system changes shape.
- James Proudman, Executive Director at the BoE, gave a [speech](#) on 4 June 2019 on how the growing adoption of AI in financial services has resulted in changes to

governance frameworks. He stated that an increasingly automated world requires both boards and regulators to review how individual responsibilities should be allocated, including under the SM&CR. He also discussed some key learnings for boards, including prioritising data governance, continued oversight of human incentives and accountabilities, and reviewing whether current controls can adequately mitigate risk.

- The BoE issued a [Discussion Paper](#) on its risk management approach to collateral referencing LIBOR for use in the Sterling Monetary Framework, on 27 June 2019. In the paper, the BoE refers to some of the potential consequences of LIBOR transition on its balance sheet, related to its ability to provide liquidity insurance for firms in support of financial stability. The deadline for responses is **27 September 2019**.

BoE and FCA

The Monetary Authority of Singapore together with the BoE and FCA [announced](#) on 13 June 2019 that they will be working together to strengthen cyber security in their financial sectors. The authorities will work towards a MoU to enhance collaboration on matters such as effective ways to share information and exploring potential for staff exchanges.

CMA

The CMA published an [update](#) on the loyalty penalty super-complaint, on 19 June 2019. The CMA notes regulators' progress in this area, especially the FCA's within insurance, cash

savings and mortgage markets. The CMA will update again at the end of the year on progress and future work areas.

Council

The Council [announced](#) on 14 June 2019 that it had adopted two reforms which make up part of the CMU framework: a regulation to create a pan-European pension product, and a package of measures aimed at removing barriers to the cross border distribution of funds. The measures will shortly be published in the Official Journal and enter into force 20 days later.

CPMI and IOSCO

CPMI and IOSCO published for public comment a [discussion paper on CCP auctions](#) on 5 June 2019. This paper aims to facilitate the sharing of existing practices and views on default management auctions, and to foster dialogue on the key concepts, processes and operational aspects CCPs use to plan and execute effective default management auctions. Alongside this paper is a [cover note](#) listing some of the specific issues on which the CPMI and IOSCO are soliciting input. Comments are due by **9 August 2019**.

EC

- The EC published a [final delegated regulation](#) in relation to SME growth markets under MiFID II in the Official Journal on 24 June 2019. This amends MiFID II so that SME growth market operators require issuers to admit a minimum amount of shares to trading on an MTF, intended to increase liquidity in SME

shares and increase confidence among investors. The changes take effect from 11 October 2019.

- The EC published two final delegated regulations under the Prospectus Regulation in the Official Journal on 24 June 2019, both of which apply from 21 July 2019. The [first](#) is a supplementing regulation relating to the RTS on key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal. The [second](#) regulation provides further detail on the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.
- The EC published a [negotiating mandate](#) on the EU's Crowdfunding Directive on 24 June 2019. The Directive aims to implement a consistent framework for crowdfunding services across the EU which will facilitate cross-border lending. The negotiating mandate will now go to the EP for agreement.
- The [European Cybersecurity Act](#) came into force on 27 June 2019. This introduces, for the first time, EU-wide rules for the cybersecurity certification of products, processes and services. In addition, the Cybersecurity Act sets a new permanent mandate for the EU Agency for Cybersecurity, as well as more resources

allocated to the Agency to enable it to fulfil its goals.

ESMA

- ESMA updated its [Public Register for the Trading Obligation for derivatives under MiFIR](#) on 13 June 2019. It added seven UK trading venues where some of the classes of derivatives subject to the trading obligation are available for trading.
- ESMA published updated [Q&As](#) on the MiFID II and MiFIR transparency requirements on 3 June 2019. Revisions have been made to existing Q&As on topics including pre-trade transparency waivers, the double volume cap, and the SI regime. ESMA has also provided additional clarification on the voluntary SI regime and quoting obligations for SIs for instruments not traded on a venue.
- ESMA launched a [supervisory initiative](#) in relation to the MiFID II appropriateness requirements on 6 June 2019. This work, which is due to begin in the second half of 2019, will aim to ensure that NCAs adopt a consistent approach to supervising the application of those requirements, ultimately helping to enhance investor protection.
- ESMA published a [supervisory briefing](#) related to the MiFIR pre-trade transparency requirements in commodity derivatives, on 3 June 2019. The briefing suggests a three-step plan for NCAs to follow with the aim of supporting supervisory convergence among NCAs and

ensuring consistent implementation of the rules across the EU. ESMA will work closely with NCAs to implement the plan.

- ESMA updated its [public register](#) with the latest double volume cap (DVC) data under MiFID II on 7 June 2019. This included DVC data for the period of 1 May 2018 to 30 April 2019, together with updates to historic data which had already been published. The data shows that there have been 40 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.
- Steven Maijoor, the ESMA Chair, gave a [speech](#) on 18 June 2019, covering ESMA's data strategy and initiatives to improve data quality in the context of supervisory and financial reporting. Maijoor highlighted reporting under the SFTR, AIFMD and EMIR as areas where ESMA and NCAs are using data for regulatory intelligence and supervisory work. He also set out ESMA's aims and expectations related to the implementation of the European Single Electronic Format for financial reporting.

FATF

FATF published [Guidance on Virtual Assets](#) on 21 June 2019. FATF describes how the [FATF Recommendations](#) apply to Virtual Assets and Virtual Asset Service Providers (VASPs). One recommendation, which has drawn criticism, will require VASPs to provide each other with information about their customers for each transfer made, and upon request to regulators.

FCA

- The FCA published policy statement [PS 19/15 – Securitisation \(Amendment\) \(EU Exit\) Regulations 2019 and Securitisation Regulations 2018 \(near final and final rules\)](#) on 6 June 2019. It makes certain enforcement and supervision related changes to its rules in expectation of taking on authorisation and supervision responsibilities for UK securitisation repositories from ESMA, when the UK leaves the EU.
- The FCA consulted on minor changes to its rules, in [CP19/19: Quarterly Consultation No 24](#) on 7 June 2019. The consultation closes on **7 August 2019**.
- The FCA issued a [Dear CEO letter](#) to Claims Management Companies (CMCs), on 4 June 2019. The FCA asks CMCs to: improve their financial promotions, obtain letters of authority before acting for consumers, investigate claims have a good basis, and immediately cease the submission of claims in false names. CMCs must improve how they conduct their activities immediately or risk authorisation refusal.
- The FCA summarised changes to its Handbook in [Handbook Notice No 67](#) on 28 June 2019. These include changes relating to buy now pay later offers, the Shareholder Rights Directive and the Securitisation Regulation.
- The FCA published the terms of reference for two independent lessons learned

reviews commissioned by its board on 20 June 2019. The first review covers supervisory intervention on and the redress scheme for [interest rate hedging products](#) (expected to take 15 months), and the second covers the [handling of the Connaught Income Fund Series 1 and connected companies](#) (expected to take nine months). The FCA plans to publish the reviews in full once complete.

- The FCA [recognised](#) the voluntary FX Global and UK Money Markets Codes under its codes recognition scheme on 26 June 2019. Following recognition, the FCA won't supervise firms or individuals directly against these codes in unregulated markets. Instead it expects firms and individuals to consider both the spirit and letter of code provisions to make sure they fully meet the 'proper standards of market conduct' under SM&CR.
- The FCA published the [findings](#) of a data review of the defined benefit pension advice market on 19 June 2019. It remains concerned about the standards of advice and number of consumers being advised to transfer out of their defined benefit schemes. The regulator sets out plans to continue to assess firms in this market during the remainder of 2019.

FMSB

The FMSB issued a new [Statement of Good Practice on Conflicts of Interest](#) on 20 June 2019. The document covers three areas of potential conflict: client versus client, firm

versus client, employee versus firm/client. There are eight good practice statements which firms should look to when considering their own practice in this area. FMSB members and other interested parties can comment until **6 September 2019**.

FSB

- The FSB published a [report](#) on market fragmentation on 4 June 2019. The report discusses that reducing market fragmentation could improve financial stability and market efficiency. It highlights several measures such as improving deference processes in derivatives markets, strengthening the understanding of resolution approaches and enhancing international information sharing.
- The FSB's Taskforce for Climate-related Financial Disclosures (TCFD) published its [2019 Status Report](#) on 21 May 2019. This report considers the extent to which over 1,100 companies across 142 countries in eight industries reported information in line with the TCFD recommendations published in June 2017. The key finding is that, despite improvements in disclosure since the recommendations were finalised, progress must be accelerated.
- The FSB published its sixth progress report on [implementing the FSB principles for sound compensation practices and their implementation standards](#) on 17 June 2019. The FSB observes that while most banks have in place practices and procedures which reduce the potential for

inappropriate risk-taking, their effectiveness is still being tested.

- The FSB published a summary [progress report](#) on the implementation of the G20 financial regulatory reforms on 25 June 2019. The report highlights that the G20's financial regulatory framework is now largely in place but cautions that implementation is not complete and remains uneven across reform areas.

FSCP

The FSCP published a [research paper](#) on 25 June 2019 investigating the value of an 'automatic upgrade' policy. It argues that if firms were required to upgrade customers' poor performing products (i.e. a savings account with a low interest rate), to a better, comparable product, this would improve consumer outcomes. The FSCP has recommended this policy change to the FCA.

HMT

HMT published [Breathing Space Scheme: Consultation response](#), on 19 June 2019. It finalises the eligibility, design, administration and funding of the scheme which aims to give individuals in problem debt time (60 days) to receive debt advice. The Government will now implement regulations so the scheme can take effect in early 2021.

IBA

IBA published its [Statement of Compliance with BMR and Independent Assurance](#) for its four regulated benchmarks on 19 June 2019. The audit confirmed that the administrator's

control procedures and the calculation of the benchmarks were compliant with the applicable BMR requirements.

IOSCO

- IOSCO published a [report](#) on market fragmentation and cross-border regulation on 4 June 2019. The report cautions that there are signs of fragmentation in certain parts of global financial markets and proposes several measures such as fostering mutual understanding of different legislative frameworks and deepening international supervisory cooperation.
- IOSCO published its final report on [Sustainable finance in emerging markets and the role of securities regulators](#) on 5 May 2019. The report sets out a series of recommendations for regulators in emerging markets to consider when developing their regulatory frameworks regarding sustainable finance issues. Among other things, IOSCO recommends requirements for issuers and financial services firms to disclose material ESG risks, aimed at enhancing transparency.
- IOSCO published [Liquidity in corporate bond markets under stressed conditions: final report](#) on 21 June 2019. The global regulator notes that factors including reduced capacity of intermediaries to provide liquidity and post-crisis regulatory reform are likely to have reduced liquidity in these markets. The report highlights the ability of market participants to provide sufficient demand-side liquidity and robust

liquidity management tools among asset managers as key factors that will help stabilise markets under stress.

- On 18 June 2019 IOSCO [issued](#) a final report providing an overview of three internationally recognised cyber standards and frameworks used by IOSCO members. The report is intended to raise awareness of existing international cyber standards and frameworks and encourage the adoption of good practices to protect against cyber risk. It includes a sample set of 15 questions to assist firms in understanding certain key structural components commonly found in the three core standards.

ISDA

ISDA updated the [ISDA Master Regulatory Disclosure Letter](#) on 7 June 2019. This is a form of letter that is intended to allow market participants to exchange information regarding counterparty status as required under relevant regulatory regimes. The update takes into account the changes brought by EMIR Refit.

JCESA

The JCESA launched a re-consultation on [Draft ITS amending Implementing Regulation \(EU\) 2016/1800 on the allocation of credit assessments of external credit assessment institutions \(ECAIs\) to an objective scale of credit quality steps in accordance with Solvency II](#) on 6 June 2019. Following the [initial consultation](#) in October 2018, it's consulting on the new amendments linked with Solvency II, as the initial approach regarding

comments on the amendments linked with SCR was not fully functional. It also updates references to CRR and elements in the mapping table for the latest assessments. The comment period ended on 10 July 2019.

Law Commission

The Law Commission (LC) published a [report](#) on the UK's Suspicious Activity Reports (SARs) regime, on 18 June 2019. The LC shares findings from its holistic review of the SARs regime. It also highlights a number of areas for improvement and recommends changes to legislation and guidance to help facilitate an improved regime.

PRA

- The PRA published an [Occasional Consultation Paper \(CP13/19\)](#) on 7 June 2019. The paper proposes minor amendments to the PRA's Rulebook, Supervisory Statements, relevant log files and templates. The consultation closes on **7 August 2019**.
- Lyndon Nelson, Deputy CEO and Executive Director at the PRA, [spoke](#) at the launch of PwC's joint report with TheCityUK entitled, 'Operational resilience in financial services: time to act' on 5 June 2019. He highlighted two of the mindset changes the joint authorities hoped to bring about through their 2018 [discussion paper](#), namely: the assumption that operational disruption will occur and that firms should plan accordingly; and the need for firms and regulators to collaborate to address the resilience question.

- The PRA updated the Annex BF to the [PRA Rulebook: EU Exit \(Amendment\) Instrument 2019](#) on 13 June 2019. The revised instrument includes an amendment to its planned implementation date, coming into force on the 'exit day' instead of 1 July 2019.
- The PRA published policy statement [PS12/19 - Regulated fees and levies: rates proposals 2019/20](#) on 13 June 2019. It sets an Annual Funding Requirement for 2019/20 at £255.3m, an increase of 5% and £12.2m on the previous year, as proposed in paper [CP 9/19](#).

TC

- The TC launched its [Decarbonisation of the UK economy and green finance inquiry](#) on 5 June 2019. This will examine the role of HMT, regulators and financial services firms in supporting the Government's climate change commitments, as well as the green finance product landscape and the associated regulatory environment. The deadline for submissions is **26 July 2019**.
- The TC published the [FCA's response](#) to its May 2019 report on consumers' access to financial services, on 21 June 2019. The TC had made a number of recommendations on topics such as a Duty of Care and customer vulnerability. Nicky Morgan, Chair of the Committee, said the FCA's response appeared to lack a desire to effect any change, and she urged the regulator to issue a new response which

approaches the recommendations with a 'more inquisitive' attitude.

TPR

TPR updated [A guide to investment governance](#), designed to help trustee boards meet its standards, on 27 June 2019. The guidance incorporates rules which come into force from October 2019 and October 2020, including additional requirements around stewardship of investments and ESG matters.

Banking and capital markets

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Regulation

Capital and liquidity

'Banking Package' now live

The legislative amendments comprising the 'Banking Package', consisting of [CRR II](#), [CRD V](#), [BRRD II](#) and [SRMR II](#), appeared in the Official Journal on 7 June 2019. The package aims to make the financial system more resilient and stable by making material amendments to the existing EU prudential regime in a number of areas including:

- leverage ratio
- NSFR
- market risk
- counterparty credit risk
- holding company requirement for large third-country G-SIBs
- pillar 3 disclosures
- large exposures
- regulatory reporting
- loss-absorbance and recapitalisation.

The measures also introduce other important changes concerning the Pillar II framework, remuneration standards and ESG criteria. CRR II largely applies from 28 June 2021 whereas the CRD V, BRRD II and SRMR II

amendments take effect from 28 December 2020.

See p. 6 for a detailed analysis of the package and how it's set to impact firms.

Challenging challengers' risk management practices

The PRA published a Dear CEO letter, [Review and findings – fast growing firms](#) (FGFs) on 12 June 2019. It sets out the results of the PRA's review to test the financial resilience of these firms. The review comprised three elements covering ICAAP stress testing, asset quality reviews, and funding and lending analysis. The regulator identifies weaknesses in risk management practices of some firms as well as highlighting aspects of risk management and control that the PRA considers all firms should be adopting. The PRA also views its findings as a reminder of the importance for all firms of ensuring their governance and risk management capabilities remain aligned with their business model risk profile and appetite.

The PRA finds that many FGFs need to strengthen further their stress analysis and stress management capabilities. This includes expecting all firms to demonstrate effective engagement and challenge by senior management and boards, with stress testing integrated into the business. In relation to asset quality, the PRA observes that better FGFs ensure that their risk functions remain

Executive summary	Rising scrutiny for stewardship in asset management?	CRR II and CRD V are finally here: What should firms expect?	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
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adequately resourced with experienced staff to provide challenge and oversight. It notes this should mitigate pressure to meet growth targets that otherwise may lead to taking on unintended higher levels of risk. Concerning funding and lending analysis, the PRA notes that better firms take a more realistic account of market pressures on both sides of their balance sheets, in both their baseline and stress testing projections.

The PRA intends to provide further feedback at its upcoming conference session for chairs and non-executive directors of non-systemic UK banks and building societies in July 2019. It also indicates that FGFs can expect their PRA supervisory teams to discuss the points raised in this letter as part of their ongoing supervisory engagement.

Refining PRA pillar 2 liquidity framework

The PRA published policy statement [PS13/19: Pillar 2 liquidity – updates to the framework](#) on 17 June 2019. It also published [PRA 110 reporting Q&As – version 5](#) on the same day. It makes a number of liquidity reporting amendments and clarifications to its framework. But following feedback on [CP6/19](#), the PRA is removing the clarification concerning the encumbrance treatment of collateral relating to intraday liquidity that it proposed. It intends to consider further how best to address the identified differences in reporting practices to reflect the associated liquidity risks appropriately.

Following a review of and feedback on its trial interim reporting, the PRA makes a range of

changes to its new PRA 110 liquidity template and reporting instructions. These changes take effect from 1 January 2020. The PRA also implements a short delay to its expectation that firms should be able to survive throughout a granular LCR stress scenario of the cash flow mismatch risk (CFMR) framework, pending further amendments to the PRA 110 reporting template. It commits to give at least two months' notice before introducing it and that this will not be before 1 January 2020.

In addition, the PRA provides more detail relating to its CFMR enhanced stress tools and further clarification on its approach to more frequent reporting for a firm during a stress. Also, the PRA is stopping branch-level liquidity reporting by UK branches of EEA banks incorporated outside the EU and replaces it with whole-firm level liquidity reporting. Those changes take effect from 1 July 2019.

Adjusting liquidity-stressed firms' reporting frequency

The PRA published consultation paper [CP14/19: Pillar 2 liquidity: PRA110 reporting frequency threshold](#) on 25 June 2019. It proposes to increase the reporting frequency of the PRA110 reporting template (PRA110), when a firm is in a liquidity stress, for firms with total assets of £5bn or above, instead of the current €30bn threshold. The regulator also published [PRA110 reporting Q&As – version 6](#) on the same day.

After careful consideration the PRA judges it needs access to liquidity data on a daily basis for any firm that is in stress and has total

assets of £5bn or above. Currently, firms in a stress with total assets less than €30bn must report weekly (in normal circumstances monthly). Firms in a stress with total assets of more than €30bn are already required to report daily (in normal circumstances weekly) and so are unaffected by this change. PRA110 liquidity reporting started from 1 July 2019 but the PRA intends to implement this change from 1 May 2020. The consultation closes on **27 September 2019**.

Making leverage ratio changes

The Basel Committee finalised its revision of the [Leverage ratio treatment of client cleared derivatives and Revisions to leverage ratio disclosure requirements](#) on 26 June 2019. The Committee decided to allow both cash and non-cash segregated initial margin and cash and non-cash variation margin received from a client to offset the replacement cost and potential future exposure for client cleared derivatives only. This aligns with the measurement under the standardised approach to measuring counterparty credit risk exposures.

The disclosure revisions aim to address window dressing by requiring banks to disclose their leverage ratios based on quarter-end and on daily average values of SFTs. It intends that a comparison of the two will enable market participants to better assess banks' actual leverage throughout a reporting period. Both revisions apply from 1 January 2022.

Outlining new market risk implementation journey

The EBA published its [Roadmap for the new market and counterparty credit risk approaches](#) under CRR II and three related consultations on internal model approach (IMA) for market risk on 27 June 2019. The consultations concern draft RTS on [Liquidity horizons for the IMA](#), [Back-testing requirements and profit and loss attribution requirements](#) and [Criteria for assessing the modellability of risk factors under the IMA](#). It also launched a market risk related [non-modellable risk factor \(NMRF\) stress scenario risk measure data collection exercise](#) on the same day.

Drawing on the feedback from its December 2017 [discussion paper](#) the EBA, through its roadmap, provides a plan and timetable for the development of the CRR II specified RTS/ITS, reports and guidelines to support the implementation of these new approaches. The implementation is prioritised around four phases starting with the elements deemed essential. The later phases cover elements that require feedback and experience from the earlier stages.

The three IMA related draft RTS consultations are part of the first phase, the EBA recognising industry concerns regarding their 'operational burden'. It expects these requirements to need 'substantial investments and improvements to institutions' current systems and processes'. The EBA intends that in scope firms commence prudential reporting using the new

IMA three years after these three RTS come into force.

The data collection exercise will support the EBA in calibrating the methodology for the computation under the IMA of the capital charge concerning risk-factors identified as non-modellable. This is relevant to a phase 2 roadmap RTS. IMA institutions participating in the NMRF data collection exercise must submit their data by **4 September 2019**. The consultations close on **4 October 2019**.

Consumer issues

FCA launches credit information market study

The FCA launched its credit information market study with the publication of [MS19/1.1: Terms of reference](#), on 27 June 2019. The FCA is seeking to understand more about the credit information market, and whether it is working well for consumers, due to its prominent use in credit risk and affordability assessments. The FCA is especially interested in whether vulnerable customers are disproportionately affected by the way credit information is used. The market study will focus on the following areas:

- the purpose, quality and accessibility of credit information
- market structure, business models and competition
- consumers' engagement and understanding of credit information and how it impacts their behaviour
- the future evolution of the market.

As part of the study, the FCA will gather evidence from credit rating agencies, data contributors (e.g. lenders, utility companies, local government), credit information users (e.g. credit brokers, consumers, debt managers) and consumer groups. This will help the FCA to identify any areas of concern across the entire market and to develop potential remedies.

The FCA is not formally consulting on the terms of reference, but invites any comments by **31 July 2019**. The FCA indicates its preliminary report will be published in spring 2020.

Payments

PSR opens debate on ATM interchange fees

The PSR published [Call for views: review of LINK interchange fees](#), on 6 June 2019.

The PSR seeks to explore whether the structure of fees that banks are charged when customers use ATM services is appropriate. It also wants to understand whether these fees disincentivise banks to provide ATMs – negatively affecting access to cash.

The PSR gives an overview of the current fee charging structure and the environment ATMs now operate within. The PSR challenges whether these historic fee structures need updating, in light of the decreasing use of cash, ATM numbers and bank branches, to incentivise geographic spread and to meet customers' need for cash. It also invites views on whether it has taken into account all of the relevant cost implications for ATM deployers and all of the value-add factors for consumers.

The PSR will wait for views on how the costs of operating the ATM estate interact with the current interchange fee before deciding on the best course of action. But, it does suggest a number of potential alternative fee structures it would be open to exploring further. These include multi-part tariffs (fixed fee per ATM and per transaction based on supply costs), differentiated or banded fees (rural or urban differentiation) and further use of premiums to reflect specific demand or cost conditions. The call for views closed on 5 July 2019.

Retail products

FCA makes fundamental changes to overdrafts

The FCA published final rules to address significant harm in the overdraft market in [PS19/16: High-cost Credit Review: Overdrafts](#) on 7 June 2019. The rules aim to tackle the harm caused by high unarranged overdraft prices, facilitate better competition and introduce strategies to address repeat use. Key rule changes include:

- a ban on fixed fees for overdraft use
- the prevention of charging higher prices for unarranged overdrafts compared to arranged overdrafts
- a requirement for simple, single interest rates (no tiered rates), but risk-based pricing is still allowed
- standardisation of overdraft cost data, including displaying an APR and an Effective Annual Rate
- the need for firms to do more to identify customers at risk of, or already in, financial

difficulties, including developing a strategy to combat repeat use of overdrafts.

Firms should start to assess current pricing models for compliance with the new rules. Where adjustments are required, firms should understand how changes to the pricing model will impact margins. The guidance on refused payment fees, detailing what constitutes a fair fee, must be immediately adhered to. Firms must ensure they are compliant with this guidance as a matter of urgency.

Firms must begin to develop a strategy for identifying and managing customers in financial difficulty and for reducing repeat use. The strategy should include the ways in which customer overdraft use is monitored, how repeat users are identified, indicators of financial difficulty and methods of intervention.

Alongside this publication the FCA invites comments on [CP19/18: Overdraft competition remedies](#), which seeks to introduce a number of information and alert requirements. The consultation closes on **7 August 2019**.

Supervision

Raising loan origination and monitoring standards

The EBA launched a consultation on [Draft guidelines on loan origination and monitoring](#) on 19 June 2019. The EBA aims to set prudent standards for credit risk taking, management and monitoring, and to ensure that firms' practices are aligned with consumer protection and AML requirements.

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The guidelines also reflect policy development and supervisory priorities related to credit granting including ESG factors as well as technology-based innovation. The guidelines cover:

- internal governance arrangements for granting and monitoring loans
- borrower affordability and creditworthiness together with information collection from borrowers
- risk-based pricing of loans
- valuation of immovable and movable property collateral
- ongoing monitoring of credit exposures.

Through these guidelines and following the expansion of the EBA's remit, it is proposing for the first time, requirements that extend to providers of consumer credit under the CCD and to non-bank mortgage credit providers under the MCD. The EBA intends that the guidelines take effect from 30 June 2020 and replace existing 2015 [Guidelines on credit worthiness assessment](#) that relate to MCD exposures. The consultation closes on **30 September 2019**.

Also this month

Basel Committee

The Basel Committee published an [Overview of Pillar 2 supervisory review practices and approaches](#) on 21 June 2019. The Basel framework does not include prescriptive guidance or direction on supervisory

approaches to Pillar 2. But it observes that all supervisors use assessment programmes that reinforce and review banks' risk management frameworks. Although there are differences in approach, the Pillar 2 outcomes across jurisdictions are directionally similar.

BoE

The BoE published an [update](#) on its Real-Time Gross Settlement (RTGS) synchronisation review along with a [background guide](#) on 19 June 2019. The BoE has received support for its proposal, with banks recognising a number of positives such as reduced intra-day security exposure and simpler housing transactions. The BoE welcomes continued feedback as it progresses its policy work.

EBA

- The EBA published DGSD related statistical [data](#) from 2018 to enhance transparency and accountability of the EU DGSs on 17 June 2019. The data, which comprises the available financial means and covered deposits, shows that most DGSs had increased their funds throughout 2018.
- The EBA published its [2020 EU-wide stress test draft methodology, templates and template guidance](#) on 25 June 2019 for discussion with the industry. It currently excludes UK banks from the preliminary sample on the assumption that the UK will leave the EU on 31 October 2019. It intends to finalise methodology and guidance by the end of the year, launch the

stress test in January 2020 and publish the results in July 2020.

- The EBA adopted an [opinion](#) on the elements of strong customer authentication (SCA) under PSD2, on 21 June 2019. The EBA gives non-exhaustive lists of acceptable authentication elements for the inherence, possession and knowledge elements of SCA. Firms are encouraged to view these tables to ensure chosen elements are acceptable.

EC

The EC published its [Fourth progress report on the reduction of non-performing loans and further risk reduction in the Banking Union](#) on 12 June 2019. Andrea Enria, Chair of the Supervisory Board of the ECB, covered similar ground in a [speech](#) on 14 June 2019. Non-performing loans levels continue to fall but are still high by pre-crisis standards and still require continued attention.

ECB

The ECB published a [speech](#) on Europe's transforming payments landscape by Sabine Lautenschläger, ECB Executive Board Member, on 14 June 2019. Lautenschläger focused on Europe's instant payment system, the Instant Credit Transfer scheme, and encouraged payment institutions that had not yet implemented it to do so. Not only will this increase efficiency across wholesale and retail markets, it will allow for further payments innovation.

FSB

- The FSB published two discussion papers on [resolution-related disclosures](#) and the [solvent wind-down of the derivative and trading book activities](#) of G-SIBs on 3 June 2019. The papers explore potential measures to ensure the orderly wind-down of the derivative and trading portfolios of G-SIBs and to improve the transparency of their resolution planning and resolvability. Stakeholders are invited to respond to the papers by **2 August 2019**.
- The FSB published a [consultation](#) on SME financing evaluation on 7 June 2019. The evaluation draws on a broad range of information sources and does not identify material and persistent negative effects of the post-crisis financial regulatory reforms on the financing of SMEs. The FSB invites stakeholders to respond to the consultation by **7 August 2019**.

PRA

- The PRA published a [consultation](#) on the prescribed responsibility for recovery plans and resolution packs that forms part of the SM&CR on 7 June 2019. The consultation aims to strengthen individual accountability in those UK banks and building societies with £50bn or more in retail deposits on an individual or consolidated basis. The consultation closes on **7 August 2019**.
- Victoria Saporta, Executive Director of Prudential Policy, PRA gave a [speech](#) on 26 June 2019 covering PRA liquidity policy priorities including its current review of its

approach to risks arising from firms' encumbrance positions. In the context of the UK's future regulatory framework, Saporta also made the case for the PRA to have the rule-making flexibility to support emerging opportunities and to address emerging risks.

cash is accessed and used. A progress report is due on 30 September 2019.

PSR

The PSR published an [update report](#) on 27 June 2019, setting out improvements in the provision of access to payment systems, and their governance, throughout 2018. The PSR notes a record number of 12 new participants joined the interbank payment system in 2018, up from seven in 2017. It sees this as a positive for competition and, in turn, customer service.

SRB

The SRB published an [addendum](#) to its 2018 MREL policy on 25 June 2019. The addendum focuses on the TLAC requirements and the interplay between certain key regulatory changes in the Banking Package and the SRB's MREL policies and decisions. The changes introduced in the addendum took effect from 27 June 2019.

UK Finance

UK Finance [announced](#) the UK's banking and finance industry's commitment to maintaining free access to cash for communities, on 12 June 2019. UK Finance will begin a programme of engagement with various stakeholders - customers, businesses and local authorities - to better understand how

Asset management

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Also this month

ECOFIN

ECOFIN adopted the [final EU rules](#) to remove barriers to the cross-border distribution of investment funds on 14 June 2019, which follows EP agreement in April 2019 and closes the legislative process in Council. The approach has been to amend the UCITS directive, AIFMD, and EuVECA and EuSEF regulations, to remove overly complex and burdensome requirements and diverging national regulatory frameworks. The rules are expected to be published in the Official Journal shortly, and enter into force 20 days later.

ESMA

ESMA updated its Q&As on [AIFMD](#) and [UCITS](#) on 4 June 2019. Additional clarity is provided on requirements relating to depositaries, including the distinction between depositary functions and related supporting tasks not subject to these directives, and the delegation of depositary functions to another legal entity within the same group.

ESRB

The ESRB asked [Can ETFs contribute to systemic risk?](#) on 17 June 2019. This sets out how exchange-traded funds (ETFs) can affect systemic risk, including the fact that ETF prices are decoupled from the underlying securities. While the ESRB does not propose any policy

measures, it does call for further research into ETF order flows in periods of stressed market conditions, and the levels of exposure that financial services firms have to ETFs.

Insurance

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Regulation

Financial stability

IAIS revises holistic framework

Alongside its general [consultation on supervisory materials](#), the IAIS launched a [consultation on supervisory material related to the holistic framework for systemic risk in the insurance sector](#) on 14 June 2019. In its [November 2018 consultation](#), the IAIS proposed a holistic framework to assess and mitigate systemic risk in the insurance sector. Based on the [comments received](#) from this consultation, the IAIS is proposing to revise ICP 9 (Supervisory Review and Reporting) and ComFrame in ICP 9, ICP 10 (Preventive Measures, Corrective Measures and Sanctions), ICP 16 (Enterprise Risk Management for Solvency Purposes) and ComFrame in ICP 16, ICP 20 (Public Disclosure) and ICP 24 (Macroprudential Supervision).

See the [Summary of main comments received on Section 3 \(Supervisory Policy Measures\) of the consultation document Holistic Framework for Systemic Risk in the Insurance Sector and their resolution](#) for more details.

The comment period ends on **15 August 2019**. The IAIS intends to adopt the holistic framework in November 2019.

Solvency II

Group supervision - EC publishes initial findings

The EC published its report on [the application of Solvency II with regard to group supervision and capital management within a group of insurance or reinsurance undertakings](#) on 27 June 2019. Taking account of EIOPA's [advice](#) (December 2018), it considers the benefit of enhancing group supervision and capital management within a group of insurance or reinsurance undertakings.

Overall it concludes the prudential framework of group supervision is proving to be robust, laying emphasis on capital management and governance, and allowing for a better understanding and monitoring of risks at group level. But it also highlights a number of concerns that might need to be addressed by changing the requirements. The EC wants EIOPA to provide further technical advice on these issues, and potential rule changes, as part of its 2020 Solvency II review.

Standard formula SCR amendments enter into force

The EC published [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Solvency II](#) in the Official Journal on 18 June 2019. It sets the date of entry into force of the Delegated Regulation amending the design and calibration of

elements of the standard formula SCR as 8 July 2019 (other than changes in respect of loss absorbing capacity of deferred tax and non-life and health premium and reserve risk which take effect from 1 January 2020). See our [At a Glance: EC finalises changes to Solvency II standard formula SCR](#) for further details of the Delegated Regulation.

PRA amends Solvency II requirements

The PRA published [CP13/19 - Occasional Consultation Paper](#) on 7 June 2019. For insurers, it consults on updating [SS3/15 Solvency II: The quality of capital instruments](#) following the changes to the Solvency II Delegated Regulation that entered into force on 8 July 2019. It updates the requirements regarding the redemption of instruments within five years of the date of issue and the expectations that the conversion or write down of restricted Tier 1 instruments would need to apply to the total amount.

The PRA also proposes to delete extraneous and historic material from [SS8/14 Subordinated guarantees and the quality of capital for insurers](#) and [SS2/15 Solvency II: Own funds](#) to align with the current format and bring the statements up to date.

Additionally, the PRA intends to make minor updates, corrections and clarifications to its NSTs, NST LOG files, internal model output templates and LOG files and [SS25/15 Solvency II: Regulatory reporting internal model outputs](#) for year-end 2019 submissions onwards.

The comment period ends on **7 August 2019**.

Stress testing

PRA launches insurance stress test 2019

The PRA launched its biennial [insurance stress test \(IST\)](#) on 18 June 2019. It follows on from its [Request for technical input](#) in April 2019. The regulator asks the largest life and general insurers to submit information on the impact of a range of stress tests on their business (see the [Life IST](#) and the [General IST](#)). The PRA is also undertaking an exploratory exercise in relation to cyber underwriting and climate change. It includes a set of climate scenarios to explore the impacts to liabilities and investments stemming from physical and transition risks.

Senior management are required to confirm they are satisfied with the stress test submissions and that the information provides a reasonable estimate of own funds and the SCR after each stress scenario. The board is also expected to review the test results, but the results do not need to be audited.

The submission deadline for the majority of this information is 30 September 2019, except for the climate change scenarios which is 31 October 2019. The PRA intends to publish its findings at an aggregate level during the first quarter of 2020, but it does not plan to publish any firm-specific information.

The PRA is also encouraging insurers that have not been asked to participate in the stress test to consider using the materials to inform their own stress testing exercises.

Supervision

IAIS highlights change in approach

The IAIS published its [Strategic Plan: 2020-2024](#) on 13 June 2019. Following consultation, the new strategic plan sets out the IAIS' high level goals and strategies for the period 2020 to 2024. As well as finalising the delivery of the Insurance Capital Standard, the IAIS intends to focus on supporting supervisors to implement its supervisory material and assessing implementation.

The IAIS also plans a fundamental shift in emphasis towards increased monitoring of new vulnerabilities and trends aimed at addressing emerged and emerging risks. These include FinTech, cyber, climate risk and the challenge of sustainable development.

IAIS consults on supervisory material

On 14 June 2019, the IAIS launched a [consultation on supervisory materials](#) seeking feedback on its:

- draft revised IAIS Glossary
- draft ComFrame Assessment Methodology
- changes in the Introduction to ICPs and ICP 7 (Corporate Governance) for consistency with ComFrame development
- draft revised ICP 22 (AML and Combatting the Financing of Terrorism)
- revisions to ICPs and ComFrame related to the holistic framework development.

The comment period ends on **15 August 2019**. The IAIS plans to adopt the revised ICPs and ComFrame at its Annual General Meeting in November 2019.

The IAIS has also incorporated a number of improvements and revisions to its supervisory materials based on the feedback it received from its 2018 consultation (see [Summary of main comments received during the 2018 public consultation on overall ComFrame and their resolution](#) and [Public consultation comments](#)).

Life insurers - PRA highlights its concerns

Following on from its speech on [Model use and misuse](#) in May 2019, the PRA wrote to chief actuaries of life insurers about [Observations from recent regulatory reviews](#) on 17 June 2019. The regulator highlights its key concerns for the coming year including model drift, proxy modelling, treatment of expenses in technical provisions and the SCR and firms' monitoring of MA portfolios.

The PRA intends to continue monitoring trends in modelled SCR at firm level, especially material SCR reductions and weakening of risk calibrations (e.g. credit spread widening) where these cannot be adequately justified.

For internal model life insurers using a proxy model to calculate their SCR, the PRA is concerned that firms recognise the risks associated; do not place too much reliance on the proxy model output; and make sufficient allowance for the risk of model error. The PRA is considering consulting on its expectations in this area.

For expense projections within technical provisions and in the capital requirement calculation, the PRA expects firms to reflect the principles underlying EIOPA's Q&A responses

(numbers 1037 & 1678) and plans to undertake some work on this in 2019.

The PRA worries that firms are not adequately monitoring their regulatory compliance in relation to the MA, so it is contemplating further reviews in this area. It plans to focus on firms' internal management information and governance processes. Specifically, the regulator suggests chief actuaries may wish to consider the adequacy of how their firm monitors the trading of MA assets, and collateral management.

The PRA also confirms that it does not plan to take any further industry-wide activity in the areas of future management actions, mortality improvements in Solvency II technical provisions and the impact of expected inflation for annuity writers.

Sustainability

EIOPA issues draft opinion on sustainability

EIOPA published a [CP on an opinion on sustainability within Solvency II](#) on 3 June 2019. It forms part of EIOPA's strategic activities on sustainable finance and builds on [EIOPA's Technical Advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and the IDD](#).

EIOPA aims to integrate sustainability risks, in particular those related to climate change, in the investment and underwriting practices of insurers. The draft opinion addresses the valuation of assets and liabilities, and assesses current investment and underwriting practices. It also seeks to contribute to the integration of sustainability risks in market risks and natural

catastrophe underwriting risks for the SCR for standard formula and internal model users.

The comment period ends on **26 July 2019**. EIOPA plans to submit its final opinion to the EC, EP and Council by 30 September 2019.

Accounting

Accounting

IFRS 17: IASB issues exposure draft

The IASB issued the [Exposure Draft - Amendments to IFRS 17](#) on 26 June 2019. It proposes narrow scope amendments in eight different areas of IFRS 17 in addition to several clarifications to the standard. It also includes explanations on why other reported concerns and implementation challenges did not result in amendments to IFRS 17. See our [In brief](#) publication for a summary of the proposed amendments to IFRS 17, following the issuance of the Exposure Draft.

The comment deadline is **25 September 2019**.

Also this month

EIOPA

- EIOPA published [Risk-free interest rate term structures - Report on the calculation of the ultimate forward rate \(UFR\) for 2020](#) on 6 June 2019. It defines the UFR to be applied for the calculation of the risk-free interest rates from 1 January 2020. Under the standard methodology it sets the applicable UFR for both the euro and the pound sterling for 2020 at 3.75% (currently 3.90%).

- EIOPA published the 2.4.0 public working draft of the Solvency II Data Point Model and XBRL Taxonomy and [Release notes](#) on 3 June 2018. Insurers are expected to apply this version from the 31 December 2019 year-end until a new version is announced in line with the [Governance of Taxonomy Releases and Schedule 2019-2021](#).

European Financial Reporting Advisory Group

The European Financial Reporting Advisory Group (EFRAG) published a [questionnaire](#) for insurers on 24 June 2019. As part of its endorsement advice on IFRS 17 for the EC, it wants to gain a better understanding of the impact on hedging strategies and practices of adopting IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'. The FRC [encourages](#) UK insurers to participate and provide their feedback to EFRAG by **16 September 2019**.

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
12/07/19	Consultation on Pre-Cessation Issues for LIBOR and Certain Other Interbank Offered Rates	ISDA
15/07/19	CP19/15: Independent Governance Committees: extension of remit	FCA
15/07/19	CP10/19: Enforcement: Changes to the PRA's settlement policy	PRA
26/07/19	Consultation paper on an opinion on sustainability within Solvency II	EIOPA
26/07/19	CP19/21: Proxy Advisors (Shareholders' Rights) Regulation Implementation (DEPP and EG)	FCA
29/07/19	Issues, Risks and Regulatory Considerations Relating to Crypto-Asset Trading Platforms	IOSCO
31/07/19	MS19/1: Credit Information Market Study	FCA
07/08/19	CP19/18: Overdraft Pricing and Competition Remedies	FCA
07/08/19	CP12/19: Strengthening individual accountability: Resolution assessments and reporting amendments	PRA
07/08/19	CP19/19: Quarterly Consultation Paper No 24	FCA
07/08/19	CP13/19: Occasional Consultation Paper	PRA
09/08/19	Consolidated Basel Framework	Basel Committee
21/08/19	CP11/19 - Solvency II: Maintenance of the transitional measure on technical provisions	PRA
06/09/19	FMSB issues new Statement of Good Practice on Conflicts of Interest	FMSB
13/09/19	CP19/20: Our framework: assessing adequate financial resources	FCA
27/09/19	CP14/19: Pillar 2 liquidity: PRA110 reporting frequency threshold	PRA
30/09/19	Draft Guidelines on loan origination and monitoring	EBA
04/10/19	Draft RTS on liquidity horizons for the Internal Model Approach under points (a) to (d) of Article 325bd(7) of Regulation (EU) No 575/2013 (CRR II)	EBA

Executive summary	Rising scrutiny for stewardship in asset management?	CRR II and CRD V are finally here: What should firms expect?	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
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Closing date for responses	Paper	Institution
04/10/19	<u>Draft RTS on back-testing requirements under Article 325bf(9) and profit and loss attribution requirements under Article 325bg(4) of Regulation (EU) No 575/2013 (CRR II)</u>	EBA
04/10/19	<u>Draft RTS on criteria for assessing the modellability of risk factors under the Internal Model Approach under Article 325be(3) of Regulation (EU) No 575/2013 (CRR II)</u>	EBA

Forthcoming publications

Date	Topic	Type	Institution
Asset management			
Q3 2019	Proposed amendment of permitted links rules	Policy statement	FCA
Q3 2019	Amendments to bond market liquidity and size specific to the instrument thresholds under MiFIR	Amendment to RTS	ESMA
Q3 2019	Illiquid assets and open-ended funds – feedback to CP18/27 and final rules	Policy statement	FCA
Q4 2019	Functioning of the consolidated tape equity under MiFID II	Report	ESMA
Q4 2019	Prices for pre and post-trade data under MiFIR	Report/technical advice	ESMA
Q4 2019	EU investment firm prudential regime implementation	Consultation paper	FCA
Banking			
Q3 2019	Review of the disclosure requirements for the LCR	Review	EBA
Summer 2019	FCA guidance on cryptoassets	Policy statement	FCA
Q3 2019	ITS on MREL disclosure and reporting	Consultation	EBA
Q3 2019	Guidelines on credit risk mitigation	Guidelines	EBA
Q3 2019	Feedback on cash savings market discussion	Feedback statement/consultation paper	FCA
Q3-Q4 2019	High-cost credit review: Overdraft pricing remedies and competition remedies – PS to CP19/18	Policy statement	FCA
Q4 2019	Draft ITS on Pillar 3 disclosures	Draft ITS	EBA
Q4 2019	Price discrimination in the cash savings market	Possible consultation paper	FCA
Q1 2020	Mortgage market study	Final report	FCA
Cross-sector conduct			
Q3 2019	Fair pricing in financial services	Feedback statement	FCA
Q1 2020	Treating customers fairly and data	Discussion paper	FCA

Executive summary	Rising scrutiny for stewardship in asset management?	CRR II and CRD V are finally here: What should firms expect?	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
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Date	Topic	Type	Institution
Insurance			
Q2-Q4 2019	Solvency II outstanding issues (inc. ongoing assessment of the effective value test)	Consultation paper	PRA
Q3 2019	General insurance value measures reporting	Policy statement	FCA
Operational resilience			
Q4 2019	Building the financial sector's operational resilience	Consultation paper	PRA/FCA
Q1 2020	Cyber multi-firm review findings	Review findings	FCA
Pensions			
Q3 2019	Retirement outcomes review	Policy statement	FCA
Q4 2019	Independent governance committees remit extension	Policy statement	FCA
Securities and markets			
Q3 2019	Data use and access to data in wholesale markets	Call for input	FCA
Supervision			
Q1 2020	FCA principles review	Discussion paper	FCA

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

Glossary

ABI	Association of British Insurers	BRRD	Bank Recovery and Resolution Directive 2014/59/EU
ABS	Asset Backed Security	BRRD II	Bank Recovery and Resolution Directive (EU) 2019/879 amending BRRD
AI	Artificial intelligence	CASS	Client Assets sourcebook
AIF	Alternative Investment Fund	CCA	Consumer Credit Act 1974 (as amended)
AIFM	Alternative Investment Fund Manager	CCB	Countercyclical capital buffer
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU	CCD	Consumer Credit Directive 2008/48/EC
AML	Anti-Money Laundering	CCPs	Central Counterparties
AMLD3	3rd Money Laundering Directive 2005/60/EC	CDS	Credit Default Swaps
AMLD4	4 th Money Laundering Directive 2015/849/EU	CET1	Common Equity Tier 1
AMLD5	5 th Money Laundering Directive	CFTC	Commodities Futures Trading Commission (US)
AQR	Asset Quality Review	CGFS	Committee on the Global Financial System (of the BIS)
ASB	UK Accounting Standards Board	CIS	Collective Investment Schemes
Banking Reform Act (2013)	Financial Services (Banking Reform) Act 2013	CMA	Competition and Markets Authority
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework	CMU	Capital markets union
Basel III	Basel III: International Regulatory Framework for Banks	COBS	FCA conduct of business sourcebook
Basel Committee	Basel Committee of Banking Supervision (of the BIS)	COCON	FCA code of conduct sourcebook
BCR	Basic capital requirement (for insurers)	CoCos	Contingent convertible securities
BIS	Bank for International Settlements	ComFrame	The Common Framework
BoE	Bank of England	CONC	FCA consumer credit sourcebook
BMR	EU Benchmarks Regulation	COREP	Standardised European common reporting

Council	Generic term representing all ten configurations of the Council of the European Union	DGS	Deposit Guarantee Scheme
CPMI	Committee on Payments and Market Infrastructures	DGSD	Deposit Guarantee Schemes Directive 2014/49/EU
CRA1	Regulation on Credit Rating Agencies (EC) No 1060/2009	DLT	Distributed ledger technology
CRA2	Regulation amending the Credit Rating Agencies Regulation (EU) No 513/2011	D-SIBs	Domestic Systemically Important Banks
CRA3	Proposal to amend the Credit Rating Agencies Regulation and directives related to credit rating agencies COM(2011) 746 final	EBA	European Banking Authority
CRAs	Credit Rating Agencies	EC	European Commission
CRD	'Capital Requirements Directive': collectively refers to Directive 2006/48/EC and Directive 2006/49/EC	ECB	European Central Bank
CRD II	Amending Directive 2009/111/EC	ECJ	European Court of Justice
CRD III	Amending Directive 2010/76/EU	ECL	Expected credit loss
CRD IV	Capital Requirements Directive 2013/36/EU	ECOFIN	Economic and Financial Affairs Council (configuration of the Council of the European Union dealing with financial and fiscal and competition issues)
CRD V	Capital Requirements Directive (EU) 2019/878 amending CRD IV	ECON	Economic and Monetary Affairs Committee of the European Parliament
CRR	Capital Requirement Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms	ECP	Eligible counterparty
CRR II	Capital Requirements Regulation (EU) 2019/876 amending CRR	EDIS	European Deposit Insurance Scheme
CSD	Central Securities Depository	EEA	European Economic Area
CSDR	Central Securities Depositories Regulation (EU) 909/2014	EEC	European Economic Community
CSMAD	Criminal Sanctions Market Abuse Directive 2014/57/EU	EFTA	European Free Trade Association
CTF	Counter Terrorist Financing	EIOPA	European Insurance and Occupations Pension Authority
DEPP	The FCA's Decision Procedure and Penalties Manual	ELTIF	European long-term investment fund
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union	EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EU) No 648/2012
DG MARKT	Internal Market and Services Directorate General of the European Commission	EP	European Parliament
		EPC	European Payments Council

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ESA	European Supervisory Authority (i.e. generic term for EBA, EIOPA and ESMA)							FICC	Fixed income, currencies and commodities
ESCB	European System of Central Banks							FICOD1	Amending Directive 2011/89/EU of 16 November 2011
ESG	Environmental, social and governance							FICOD	Financial Conglomerates Directive 2002/87/EC
ESEF	European Single Electronic Format							FMI	Financial Market Infrastructure
ESMA	European Securities and Markets Authority							FMLC	Financial Markets Law Committee
ESRB	European Systemic Risk Board							FMSB	FICC Markets Standard Board
€STR	Euro short-term rate							FOS	Financial Ombudsman Service
ETC	Exchange-traded commodity							FPC	Financial Policy Committee
ETN	Exchange-traded note							FRC	Financial Reporting Council
EU	European Union							FRTB	Basel Committee fundamental review of the trading book market risk capital requirements
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							FSA	Financial Services Authority
EURIBOR	Euro Interbank Offered Rate							FSB	Financial Stability Board
Eurosystem	System of central banks in the euro area, including the ECB							FSBRA	Financial Services (Banking Reform) Act 2013
EuSEF	The European social Entrepreneurship Funds Regulation							FS Act 2012	Financial Services Act 2012
EuVECA	European Venture Capital Funds Regulation (EU) 345/2013							FSCP	Financial Services Consumer Panel
FAMR	Financial Advice Market Review							FSCS	Financial Services Compensation Scheme
FATF	Financial Action Task Force							FSI	Financial Stability Institute (of the BIS)
FC	Financial counterparty under EMIR							FSMA	Financial Services and Markets Act 2000
FCA	Financial Conduct Authority							FTT	Financial Transaction Tax
Fiat currency	Currency whose value is underpinned by the strength of the issuing government, e.g. USD, GBP, euro and other major world currencies							G30	Group of 30
								GAAP	Generally Accepted Accounting Principles
								GDPR	General Data Protection Regulation
								G-SIBs	Global Systemically Important Banks

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G-SIFIs	Global Systemically Important Financial Institutions			IORP	Institutions for Occupational Retirement Provision			
HCSTC	High Cost Short Term Credit			IOSCO	International Organisation of Securities Commissions			
HMRC	Her Majesty's Revenue and Customs			IRB	Internal Ratings Based			
HMT	Her Majesty's Treasury			IRRBB	Interest rate risk in the banking book			
IA	Investment Association			ISDA	International Swaps and Derivatives Association			
IAIS	International Association of Insurance Supervisors			ITS	Implementing Technical Standards			
IASB	International Accounting Standards Board			JCESA	Joint Committee of the European Supervisory Authorities			
IBA	ICE Benchmark Administration			JMLSG	Joint Money Laundering Steering Committee			
ICAAP	Internal Capital Adequacy Assessment Process			KID	Key Information Document			
ICAS	Individual Capital Adequacy Standards			KIID	Key Investor Information Document			
ICO	Initial coin offering			KYC	Know your customer			
ICOBS	Insurance: Conduct of Business Sourcebook			LCR	Liquidity coverage ratio			
ICPs	Insurance Core Principles			LEI	Legal Entity Identifier			
ICT	Information and Communication Technology			LIBOR	London Interbank Offered Rate			
IDD	The Insurance Distribution Directive (EU) 2016/97			MA	Matching Adjustment			
IFRS	International Financial Reporting Standards			MAD	Market Abuse Directive 2003/6/EC			
ILAA	Internal Liquidity Adequacy Assessment			MAR	Market Abuse Regulation (EU) 596/2014			
ILAAP	Internal Liquidity Adequacy Assessment Process			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			
ILS	Insurance-Linked Securities			MCD	Mortgage Credit Directive 2014/17/EU			
IMAP	Internal Model Approval Process			MCOB	Mortgages and Home Finance: Conduct of Business sourcebook			
IMCO	The European Parliament's Committee on Internal Market and Consumer Protection			MCR	Minimum Capital Requirement			
IMD	Insurance Mediation Directive 2002/92/EC							
IMF	International Monetary Fund							

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Member States	Countries which are members of the European Union			OFT	Office of Fair Trading			
MiFID	Markets in Financial Instruments Directive 2004/39/EC			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 II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MiFIR			ORSA	Own Risk Solvency Assessment			
MiFIR	Markets in Financial Instruments Regulation (EU) No 600/2014			O-SIIs	Other systemically important institutions			
MLRO	Money Laundering Reporting Officer			OTC	Over-The-Counter			
MMF	Money Market Fund			OTF	Organised trading facility			
MoJ	Ministry of Justice			PAD	Payment Accounts Directive 2014/92/EU			
MoU	Memorandum of Understanding			PERG	Perimeter Guidance Manual			
MPC	Monetary Policy Committee			PIFs	Personal investment firms			
MREL	Minimum requirements for own funds and eligible liabilities			PPI	Payment Protection Insurance			
MTF	Multilateral Trading Facility			PRA	Prudential Regulation Authority			
NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution			Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis			
NCA	National competent authority			PRIIPs	Packaged retail and insurance-based investment products			
NDF	Non-Directive Firms – firms that do not fall within Solvency II			PSD2	The revised Payment Services Directive (EU) 2015/2366			
NFC	Non-financial counterparty under EMIR			PSP	Payment service provider			
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			PSR	Payment Systems Regulator			
NPE	Non-performing exposure			P2P	Peer to Peer			
NSFR	Net Stable Funding Ratio			QIS	Quantitative Impact Study			
NST	National specific template			QRT	Quantitative Reporting Template			
NURS	Non-UCITS Retail Scheme			RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)			
OECD	Organisation for Economic Cooperation and Development			RDR	Retail Distribution Review			
Official Journal	Official Journal of the European Union							

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REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011			SMF	Senior Manager Function			
RFB	Ring-fenced bank			SOCA	Serious Organised Crime Agency			
RFQ	Request for quote			SOFR	Secured Overnight Financing Rate			
RFRs	Risk-free rates			Solvency II	Directive 2009/138/EC			
RFRWG	The Risk-free Rate Working Group of the BoE			SONIA	Sterling Overnight Index Average			
RONIA	Repurchase Overnight Index Average			SPV	Special purpose vehicle			
RRPs	Recovery and Resolution Plans			SREP	Supervisory Review and Evaluation Process			
RTS	Regulatory Technical Standards			SRF	Single Resolution Fund			
RWA	Risk-weighted assets			SRM	Single Resolution Mechanism			
SARON	Swiss Average Rate Overnight			SRMR	Single Resolution Mechanism Regulation (EU) No 806/2014			
SCR	Solvency Capital Requirement (under Solvency II)			SRMR II	Single Resolution Mechanism Regulation (EU) 2019/877 amending SRMR			
SCV	Single customer view			SSM	Single Supervisory Mechanism			
SEC	Securities and Exchange Commission (US)			SSR	Short Selling Regulation (EU) 236/2012			
SEPA	Single Euro Payments Area			STS	Simple Transparent and Standardised (concerning securitisations)			
SFP	Structured finance product			SUP	FCA supervision manual			
SFT	Securities financing transaction			SYSC	The part of the FCA handbook titled senior management arrangements, systems and controls			
SFTR	Securities Financing Transactions Regulation (EU) 2015/2365			T2S	TARGET2-Securities			
SFO	Serious Fraud Office			TC	Treasury Committee			
SI	Systematic internaliser			TLAC	Total Loss Absorbing Capacity			
SIMF	Senior Insurer Manager Function			TMTP	Transitional Measure on Technical Provisions			
SIMR	Senior Insurer Managers Regime			TONA	Tokyo Overnight Average Rate			
SM&CR	Senior Managers and Certification Regime			TPR	The Pensions Regulator			
SME	Small and Medium sized Enterprises							

TR	Trade Repository
UCITS	Undertakings for Collective Investments in Transferable Securities
UCITS V	UCITS V Directive 2014/91/EU
UKLA	UK Listing Authority
UK Finance	Trade body representing the banking and finance industry, formed by a merger of a number of associations including the British Bankers' Association
UTI	Unique Trade Identifier
XBRL	extensible Business Reporting Language

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Operational resilience

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