

Being better informed

FS regulatory, accounting and audit bulletin



PwC FS Risk and Regulation Centre of Excellence

November 2018

In this month's edition:

- Climate change risks: UK regulators raise expectations
- Insurance: FCA highlights pricing concerns
- Asset management: Making sense of the value assessment
- Brexit: UK regulators step up no-deal planning

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.'

October was certainly a busy month for our regulators, with climate change risks, pricing strategies and Brexit featuring high on the agenda.

Firstly, UK regulators are raising their expectations when it comes to sustainable finance. The PRA consulted on enhancing banks' and insurers' approaches to managing the risks from climate change. It wants firms to take a strategic approach to managing these risks, ensure board-level engagement, and allocate responsibility for identifying and managing climate change risks to an existing SMF. Meanwhile the

FCA issued a discussion paper setting out a range of proposals covering environmental, social and governance policies, climate risk disclosures and initiatives to boost innovation in green finance. Firms should be aware of the direction of travel and **prepare to meet regulators' increasing expectations.**

The FCA and PRA are also stepping up their plans for a no deal Brexit. The FCA published a consultation paper proposing amendments to its handbook and EU Binding Technical Standards (BTS) to **reflect the UK's new legal and regulatory framework after Brexit.** Further to this, it consulted on its approach to the Temporary Permissions Regime, which will be used to allow EEA firms to continue operating in the UK in the event of a no deal Brexit. Soon after, the BoE set out proposed changes to **its rules and BTS to fix 'deficiencies' arising from Brexit.** The BoE also provided further guidance on the process for authorisation and recognition for incoming EEA firms and non-UK FMI's under the Temporary Permissions Regime. **Further, the BoE's** package of communications includes Dear CEO letters updating firms on its approach, and a number of consultations on proposed rule changes, including how firms should interpret existing BoE policy statements on resolution in light of any deficiencies arising from Brexit. Firms should ensure they are

familiar with the regulators' plans and expectations.

In the insurance sector, the FCA raised **concerns that firms' pricing practices are** leading to consumers being treated unfairly. It published the findings of a thematic review into home insurance pricing practices and a Dear CEO letter outlining the immediate actions it expects firms to take around evidencing how their practices result in customers being treated fairly. The FCA also issued the terms of reference for a general insurance market study which will focus on pricing practices in home and motor insurance. The terms of reference suggest a number of possible remedies, such as limiting auto-renewal, which would move the FCA towards a more interventionist approach. Also of interest to insurers will be a package of final Solvency II policy statements issued by the PRA. While the PRA has not generally altered the substance of its expectations, it has made a number of amendments and clarifications with which firms need to ensure they comply.

In asset management, meanwhile, the FCA consulted on a package of measures aimed at reducing the potential harm for retail investors in open-ended funds that hold illiquid assets. Its plans include requiring managers of funds investing in inherently illiquid assets (FIAs) to produce contingency plans in case of a liquidity

crisis, enhance depositories' oversight of liquidity management processes, and increase transparency for retail investors. Firms should carefully consider the proposals and potential changes they may need to make to comply, including completing an analysis of whether their open-ended funds would constitute an FIIA.

Asset managers have also been grappling with the package of measures resulting from **the FCA's market study of the sector, in** particular the requirement for authorised fund managers to produce annual assessments of value. The value assessment will mark a significant change for the industry, and in our feature article this month we take a detailed look at some of the **challenges and opportunities it's likely to** bring for firms, as well as the steps they should take to prepare.

We hope you enjoy reading about these developments and many more in this **month's publication.**

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Assessing value in investment funds - are firms ready?



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Sometimes, the complexity and depth of a **regulatory change doesn't become clear** until firms start to implement it. Simple concepts, executed through short rules lacking prescription, can lull firms into a false sense of security. This appears to be the case with the FCA's new value assessment regime for authorised fund managers (AFMs).

Following its asset management market study, the FCA has made clear its view that AFMs, as agents of the investors in their funds, should be accountable for the value they deliver to those underlying beneficiaries. Its response was to publish **PS18/8** in April 2018, which set out final rules for AFMs to produce and report an annual assessment of value provided to investors. The assessment must be made against a non-exhaustive list of criteria, including whether it is reasonable in relation to costs and the quality of service provided.

Funds with accounting periods ending after 30 September 2018 have already entered into the first accounting period for which an assessment is required, so the value they provide to investors today matters and will

be on the regulator's radar. In this article, we consider some of the key issues for firms in further detail and highlight the steps they should take to prepare as the nature and scale of the challenge becomes clear.

Some fundamental considerations

Value is a subjective concept – it is, to a large extent, in the eye of the beholder. Each investor is likely to have a different set of priorities when it comes to their investment choices and, therefore, differing perceptions of the value being delivered. One investor may consider fund growth to constitute value; others may place greater importance on social or environmental impact. Further to this, how do you value a constrained volatility fund in challenging market conditions, let alone in benign conditions? This type of tension is at the forefront of **firms' thinking when developing an approach to the value assessment.**

Having made their assessments, AFMs must conclude whether each fund offers good value to investors and, if not, take corrective action. The assessment must be explained at least annually in a publicly-available report.

AFMs will need to get comfortable with where they choose to report their value assessments, since this is not explicitly addressed in the new rules. Should they report in their annual fund accounts, directly on their website or both? Whatever the approach, firms should consider the **FCA's behavioural testing** on the effectiveness of costs and charges disclosures - published alongside PS18/9 - when thinking about how to communicate their assessments to investors.

But the end investor is not the only audience for the assessments. Whilst this group is clearly crucial, the so-called **'aggregators'** - be that the media, intermediaries such as wealth managers or new tech-aggregators - should also be considered. Many firms are also finding that the internal audience, particularly new independent non-executive directors (INEDs), are also a key stakeholder group to address.

If firms find robust solutions to these issues, they could plausibly use the value assessment as a marketing opportunity to illustrate the value their funds provide for investors and help to give them a

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competitive edge. Indeed, firms may choose not to limit the assessment to one report per year should they find ways to convert this regulatory requirement into a commercial opportunity.

The new requirements may also impact on non-UK funds, despite not strictly falling within scope. Firms with a mix of UK and non-UK funds might look to adopt the value assessment across the board to establish cross-firm consistency. In fact, competitive dynamics could encourage firms managing purely non-EU funds to do so, particularly where UK consumers are targeted who may come to expect such information prior to investing.

Emerging complexities

As firms grapple with implementation, a number of issues are coming into clearer focus.

Fund economies of scale continue to attract attention, which is one of the prescribed factors firms must consider when producing their value assessments. At a basic level, firms are giving careful thought to what **would constitute an ‘economies of scale saving’ and how this might be measured.** **AFMs are also considering the regulator’s** signal that they are permitted to reinvest any efficiency savings back into the firm to subsidise other activities, provided they can demonstrate how doing so would be in the **investor’s best interest.** **But, if** savings are reinvested into other areas of the business rather than the fund in question, who are

the investors whose interests need to be considered? It should also be noted that the FCA has not previously been supportive of the cross-subsidisation of activities, particularly given its competition mandate.

The aggregation of results at sub-fund level is also a real issue. While AFMs must make their assessments at a share-class level, they must then report those assessments by sub-fund. Firms will be thinking through how best to aggregate those underlying share-class assessments into the form required for reporting purposes.

Many firms are further grappling with how to move from assessments against the individual criteria to an overall picture of value. Where a fund has poor value on the basis of one criterion but high value against another, what are the implications for the overall value proposition? It is not clear whether all criteria are of equal weighting **when deriving the ‘total’ value of a fund, or** whether those weightings are equal across different types of funds.

Indeed, there is a strong possibility that there will be divergent approaches to this aggregation exercise and that the assessments may not be sufficiently comparable to clearly show which products offer the best value. That said, the lack of prescription in the rules may indicate that the FCA is concerned less about a lack of standardisation across the industry, and more that going through the exercise of

producing assessments facilitates a cultural shift when it comes to delivering value.

Interactions with wider regulatory initiatives

Some of the wider remedies resulting from the asset management market study are closely linked to the value assessment.

This is certainly true of the proposals set out **in the FCA’s CP18/9.** The consultation includes new guidance intended to ensure that fund objectives and investment policies contained within fund documentation are clearly presented to investors. When working through any necessary changes, firms should have in mind how this might affect their ability to assess fund performance for the purposes of the value assessment.

The FCA also proposed a new rule in CP18/9 for AFMs to explain to investors why they use a particular benchmark or, where one is not used, how investors can measure fund performance. There is likely to be considerable overlap here with the approach required to assess fund performance under the value assessment. Devising a joined-up approach for implementing these changes may place pressure on firms to accelerate their solution for the value assessment, given proposed in-force dates for the new guidance (upon publication of the policy statement, expected in early 2019) and rules (three to six months following publication of the policy statement) under CP18/9.

Moreover, the underlying Prescribed Responsibility (PR) for the value assessment will sit with AFM Chairs and will take effect in late 2019, alongside the extension of the SM&CR to all financial services firms. This new PR is significant given the scale of change and challenges firms are facing. One concern amongst banks implementing the SM&CR was that top talent may be discouraged from taking on a role with such a high risk profile – only time will tell whether this bares out for AFM Chairs in the context of the value assessment.

A further link between the value assessment and the SM&CR is how duties are discharged under each. For example, the value assessment rules mean that firms **must take ‘sufficient steps’ to address poor** value identified within their funds, whereas the AFM Chairs would need to take **‘reasonable steps’ to discharge their duties** under the SM&CR. Firms will need to think through what these differences mean in practice.

The FCA’s recent *discussion paper* exploring the possible introduction of a new **‘duty of care’ also raises questions for the** value assessment. This seeks to address concerns amongst stakeholders that the current regulatory framework does not provide sufficient protection for consumers, and that a duty of care should be imposed on financial services firms to enhance good conduct and culture.

At a fundamental level, there are likely to be divided views across the industry over whether a formal duty of care is necessary, particularly in light of the SM&CR which may itself be perceived as imposing a form of such duty. A new duty could have implications for how AFMs approach their value assessments, particularly if it takes the form of a government statutory instrument. This type of policy tool may encourage an approach focused on litigation-avoidance, rather than acting in the spirit of the value assessment requirement.

What do firms need to do now?

Overall, it is clear that the value assessment represents a significant change with multiple layers of complexity, including some thorny interactions with the wider asset management market study remedies. If experiences of fund managers in the US **on the ‘Gartenberg Principles’ are anything** to go by, UK AFMs are likely to find that producing robust and meaningful assessments will require enormous time and effort.

Firms need to place significant focus on developing their approaches and quickly find solutions to the challenges outlined **above. They should realise that this isn’t a** one-off annual compliance exercise and that it needs to be built into their activities on an ongoing basis; if a firm identifies an issue within a reporting period, it would not want

to wait for an annual assessment to tackle a challenge. So, in practice, firms will need to have finalised an approach ahead of the rules coming into force on 30 September 2019. These timing pressures are likely to be exacerbated to the extent that firms develop a joined-up solution with the CP18/9 proposals, which are likely to take effect ahead of the value assessment requirement.

The support and engagement of iNEDs is something firms need to balance with the ability to make a start on the value assessment. While iNEDs will want, and need, to bring challenge, firms cannot afford to wait until these roles are filled.

Despite the challenges and time pressures for firms, the value assessment has the potential to bring about positive change to investors and to the asset management sector as a whole. Properly executed, it can also provide firms with a competitive advantage. First class preparation will be essential in realising these benefits.

Cross sector announcements

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Regulation

Brexit

HMT publishes no deal contingency regulations

HMT has published a number of draft statutory instruments (SIs) which will bring EU regulations into UK law by March 2019 if there is no Brexit transitional period. The SIs will create a UK regulatory framework from 29 March 2019 if EU regulations no longer apply.

Between 5 and 31 October 2018 HMT published explanatory information and draft SIs as part of the 'onshoring' of MiFID, BRRD, the CRAs regulations, AIFMD (including CIS, Venture Capital Funds and Social Entrepreneurship Funds), FiCOD, EMIR, CSDR, Solvency II and PAD. During this period HMT also published SIs setting out its proposed regulatory approach for trade repositories, FMI insolvency as well as the UK authorities' relations with the ESRB and ESAs.

The aim of the draft SIs is to provide continuity in financial services regulation in the event of no Brexit deal, whilst correcting aspects of EU law that will not work in a UK context - for example, where an EU authority currently has a role in the regulations.

HMT details Brexit regulatory phase-in

HMT has provided further details on the phase in of regulatory requirements for EEA firms should there be no transitional period after Brexit and a Temporary Permissions Regime (TPR) come into force in the UK. In its guidance Proposal for a temporary transitional power to be exercised by UK regulators, published on 8 October 2018, HMT acknowledges that it would be challenging for EEA firms operating under the TPR to meet the UK's regulatory requirements by March 2019. Because of this the Government plans to give the UK regulators powers to phase in for up to two years regulatory requirements that would apply for the first time to EEA firms after Brexit.

Transitional relief could be granted to particular firms, classes of firms, or all firms to which new requirements apply. Firms would not need to apply for transitional relief in order to benefit from it. The transitional power could only be used to help firms adjust to the UK's post-Brexit regulatory regime and is not a general power to waive or modify these requirements for any other reason. The transitional will not apply to any requirement that sets the 'regulatory perimeter' for UK financial services activity, FSMA threshold conditions or any provision or requirement which is not within the

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regulatory remit of the UK financial services regulators.

FCA outlines no-deal Brexit plans

The FCA published ***Brexit: proposed changes to the Handbook and Binding Technical Standards – first consultation*** (CP18/28) on 10 October 2018. The proposals are aimed at ensuring a robust regulatory framework is in place on exit day by addressing ‘deficiencies’ arising from Brexit.

Alongside this, the regulator published ***CP18/29: Temporary Permissions Regime for inbound firms and funds***. This focuses on the FCA’s suggested approach to the Temporary Permissions Regime (TPR), which allows EEA firms to continue operating in the UK in the event that the UK leaves the EU without a transition period.

On the same day, the regulator announced that, in Q4 2018, it plans to consult on the fees that ***TRs*** and ***CRAs*** would have to pay in order to be registered in the UK. This follows HMT’s draft Statutory Instruments (SIs) which make provisions for the FCA to register ***TRs*** and ***CRAs*** in the UK, published on 5 October and 8 October, respectively. Both SIs include two registration regimes allowing firms to convert from an ESMA to an FCA registration, and to apply for registration with the FCA before exit day if certain conditions are met. The temporary registration regime is distinct from the TPR mentioned above.

HMT also published a draft ***SI*** providing for temporary authorisations for MiFID authorised EEA data reporting service providers on 5 October 2018. The SI allows such firms to provide data reporting services in the UK for a limited period after exit day, while enabling it to seek authorisation in the UK on a permanent basis. The FCA intends to provide further information later this year on how the regime will operate.

ESMA Chair discusses Brexit and MiFID II

Steven Maijoor, the ESMA Chair, set out his views on Brexit and the state of MiFID II implementation in a ***speech*** on 3 October 2018.

Speaking at the World Federation of Exchanges annual meeting, Maijoor explained that ESMA is drawing up MoUs between the FCA and 27 other EU NCAs to mitigate risks arising from a no-deal Brexit. The ESMA Chair confirmed that, under a no-deal scenario, UK firms would lose their authorisations to conduct business across the EU, and there would be no legal basis for daily data exchange between the UK and the EU27 under MiFID II. He stressed the importance of comprehensive preparation for this outcome.

Maijoor emphasised that, with the UK exiting the EU, there is a strong need for an effective harmonised EU regime for third country firms, referencing in particular third country trading venues. He suggested

that this should, among other things, include a single equivalence decision covering all relevant activities, and ensure that third country firms accessing the EU comply with requirements that are equivalent to those for EU firms.

The speech also included initial observations on how market structure has developed since the introduction of MiFID II. Maijoor noted that, following the introduction of the double volume cap, trading of equities appears to be flowing to SIs and periodic auction trading systems. He expressed concern that periodic auction systems may be designed with the intention to circumvent the double volume cap regime. Maijoor announced that ESMA plans to shortly publish a call for evidence on this issue to gather feedback from stakeholders before deciding whether any intervention is required.

BoE consults on post-Brexit regulation

The BoE provided further details on its plans to have its regulatory framework in place should the UK leave the EU in March 2019 without a deal. The BoE/PRA published a set of consultation papers on 25 October 2018 setting out its proposed approach to on-shoring EU regulation and changes to existing BoE rules as a result of Brexit.

Under the EU Withdrawal Act HMT is responsible for on-shoring level 1 regulations through secondary legislation. Under the Act the regulators are delegated

powers to make amendments to their existing rules as well as to on-shore those Binding Technical Standards (BTS) relevant to their remits.

The package of publications comprise:

- setting out the BoE’s general approach to making changes to regulatory rules and BTS
- Dear CEO letters to ***PRA regulated firms***, ***non-UK CCPs*** and ***non-UK CSDs***
- a PRA ***consultation paper*** proposing the key changes to PRA rules and relevant BTS related to EU legislation
- a BoE consultation paper setting out the key changes to FMI-related BTS and rules
- outlining changes to BTS in relation to resolution and providing clarification on the Bank’s Statements of Policy on resolution.

The BoE/PRA confirms that in the event of no deal there will be a number of changes to its regulatory rules. In particular the current preferential treatment given to EU exposures and assets will be phased out, roles that are currently undertaken by EU authorities will be reallocated to the most appropriate UK authority and the PRA will no longer take part in supervisory colleges and the formal information sharing mechanisms included in EU law will no longer apply.

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The PRA indicates that it intends to phase in the majority of these regulatory changes. Some regulatory changes, such as the requirement for UK firms to include contractual bail-in clauses in MREL and TLAC instruments issued under EU law after Brexit and requiring EEA firms to be covered by the FSCS, will apply from 29 March 2019. The consultations close on **2 January 2019**.

Climate change

PRA consults on climate change risks

The PRA published CP 23/18: Enhancing banks' and insurers' approaches to managing the financial risks from climate change on 15 October 2018, seeking views on a draft supervisory statement on firms' approaches to managing the financial risks from climate change. The PRA classifies these as physical risks (arising from specific weather events and long term changes in climate) and transition risks (arising from the process of adjusting to a low-carbon economy) for insurers.

The proposals in the consultation paper focus on governance, risk management, scenario analysis and disclosure. The PRA expects board-level engagement and calls on firms to allocate responsibility for identifying and managing financial risks from climate change to an existing SMF. Insurers' scenario analysis should consider a wide range of potential impacts across physical and low carbon transition risks. It should also measure the impact of climate

change risks on solvency and liquidity and the ability of insurers to pay policyholders' obligations in the future. In addition, the PRA wants banks to include material climate-related financial risks in the ICAAP.

The consultation is relevant to UK insurance and reinsurance firms, banks, building societies and PRA-designated investment firms. The consultation closes on **15 January 2019**.

FCA engages firms on climate change

The FCA published DP18/8: Climate Change and Green Finance on 15 October 2018 outlining a range of proposals covering initiatives to boost innovation in green finance, environmental, social and governance (ESG) policies and climate risk disclosures. The FCA aims to drive innovation using its Global Financial Innovation Network to help firms interact with regulators more efficiently and explore green finance.

The regulator proposes enhancements to climate change disclosure requirements on reporting ESG issues, how Independent Governance Committees consider members' ethical concerns, and stewardship. Firms should expect a consultation on this in early 2019. Regulated firms may also be required to provide public reporting on climate change risks in line with the FSB Task Force on Climate-related Financial Disclosure's (TCFD) recommendations. A third disclosure proposal includes requiring securities issuers to provide investors with

adequate information on the financial impacts of climate change on their businesses. The FCA also intends to consult on this in the future.

Firms should consider their current approach to climate risk disclosures and identify any gaps against the TCFD framework. The discussion paper closes to comments on **31 January 2019**.

Consumer issues

FCA highlights affordability of HCSTC loans

The FCA issued a Dear CEO letter to firms providing HCSTC loans, on 15 October 2018. The regulator highlights an increase in the number of complaints regarding unaffordable HCSTC lending, and shares a number of recent determinations made by the FOS. In these determinations, the FOS has awarded customers redress where chain lending (repeat lending to an individual over an extended period of time) has been undertaken with poor affordability controls. The FCA expects HCSTC lenders to be aware of customers who may be in financial difficulty and to re-assess creditworthiness regularly. Where firms are not doing this, there is now clear evidence that remedial action could be enforced.

Firms should assess their lending activity to determine whether affordability assessments are compliant. If deficiencies are found, firms should take remedial action and consider proactive redress for all affected customers.

Debt advice

FCA outlines debt packager concerns

The FCA issued a Dear CEO letter to debt packager firms, on 5 October 2018, because it is very concerned about the poor standards of debt advice found during a recent review. Typically, the service provided by debt packagers includes gathering customer information, providing debt counselling advice, recommending a debt solution and then referring the customer to a third party provider in exchange for a referral fee. The FCA has found this model may not be treating customers fairly, and is urging firms to review their:

- quality of debt advice
- identification and treatment of vulnerable customers
- financial promotions
- systems and controls.

The FCA's main concern is that some debt solutions, such as Individual Voluntary Arrangements (IVAs), attract a higher referral fee than other solutions. This can lead to potential conflicts of interest for staff giving advice who may prioritise an IVA over a more appropriate solution.

The FCA reiterates key rules and guidance in the letter for firms to consider what improvements need to be made. It is important firms do this because the FCA states that continued poor standards will

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likely result in referral to its Enforcement Division.

Finance

FCA consults on Securitisation Regulation powers

The FCA issued CP18/30: EU Securitisation Regulation Implementation on 12 October 2018. It published the consultation in anticipation of a statutory instrument (SI) that HMT is expected to lay before Parliament and finalise in December 2018. The SI would give the FCA supervisory, disciplinary and investigatory powers over persons subject to the EU Securitisation Regulation.

The FCA plans to amend its DEPP and Enforcement Guide to accommodate the changes that the SI may introduce. In particular, it proposes to:

- apply its existing enforcement powers over authorised firms acting as securitisers under the Securitisation Regulation
- create a number of decision-making procedures for authorising, withdrawing and cancelling the authorisation of third party verifiers (TPVs), exercising enforcement powers over TPVs and unauthorised securitisers, imposing a temporary ban on simple, transparent and standardised notifications, and imposing a temporary prohibition on individuals who have breached the rules.

The consultation closed on 2 November 2018. Based on the comments received, the FCA plans to issue a policy statement in December 2018.

Latest Government package on patient capital

HMT published Financing growth in innovative firms: Enterprise Investment Scheme (EIS) knowledge-intensive fund consultation response on 29 October 2018, alongside the Autumn Budget. This followed its consultation in spring 2018, which proposed a new EIS fund structure aimed at removing barriers preventing knowledge-intensive companies (KICs) from accessing scale-up capital. The Government has decided to take forward its proposals for a new approved EIS structure, which:

- must invest at least 80% of total funds in KICs
- enables investors to set their relief against income tax liabilities in the year before the fund closes, rather than in the same year as previously permitted
- allows approved funds to make at least 50% of their investments within two years, improving on the previous conditions which required a minimum of 90% of investments within one year.

The new EIS structure will take effect from April 2020, when the existing structure is withdrawn.

These new measures are part of the **Government's ten-year action plan** to

unlock funding for innovative firms, which was announced in the Autumn Budget 2017. HMT also published an update on this action plan on 29 October 2018, one year on from its launch. The update lists a number of steps the Government has already taken, including launching the Managed Funds programme in May 2018, the British Patient Capital in June 2018, and the Regional Angels programme in October 2018. Also cited are the backing of overseas investment in UK venture capital via the Department of International Trade, and investment in first time and emerging fund managers through the British Business Bank.

Governance

FCA consults on SM&CR guidance

The FCA issued GC18/4: Senior Managers and Certification Regime – Proposed guidance on statements of responsibilities (SoRs) and responsibilities maps on 11 October 2018. In light of the planned extension of the SM&CR to all firms, the FCA provides good and poor practice examples, and practical guidance for firms preparing SoRs and responsibilities maps.

The consultation closes on **10 December 2018** and the FCA intends to issue final guidance in the winter.

Market infrastructure

ISDA recommendations on uncleared margin rules

ISDA released a whitepaper on Clearing Incentives, Systemic Risk and Margin

Requirements for Non-cleared Derivatives on 17 October 2018. Based on the results of its analysis, ISDA makes two main recommendations. First, counterparties that pose little or no systemic risk should be exempted from the initial margin rules, by raising the threshold for the last phase of the margin rules (starting September 2020) **to €100bn notional outstanding of derivatives (from €8bn).**

Second, since the initial margin requirement is not a strong clearing incentive, policymakers should reconsider its role in this regard. ISDA believes that these changes would remove unnecessary costs for market participants and leave firms' risk management activities unaffected.

Way forward for non-UK CCPs

The BoE sent a Dear CEO letter to non-UK CCPs on 25 October 2018. The purpose was to inform those non-UK CCPs wishing to operate in the UK after Brexit that they will have to submit formal applications for recognition to the BoE. These CCPs can submit their applications once the UK legislation transposing EMIR comes into force. The letter also lists the information that non-UK CCPs should include in their application, plus the criteria and information needed to enter into the temporary recognition regime where applicable.

In addition, the BoE published the consultation Fees for non-UK CCP

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applications for recognition 2018/19 on 25 October 2018. It proposes an application fee of £35,000 per application, payable once the BoE has formally recognised a non-UK CCP. However, CCPs entering into the temporary recognition regime won't be charged any fee. The consultation runs until **2 January 2019**.

MiFID II

ESMA raises more third country concerns

ESMA published a *letter* on 4 October 2018 addressed to the EC, raising MiFID and MiFIR regime related third country concerns. It offers to contribute to any future work the EC may decide to undertake relating to additional MiFID/MiFIR requirements on investor protection and intermediaries. These concerns relate to aspects of third country firms providing investment services and performing investment activities:

- to eligible counterparties and per se professional clients – MiFIR regime
- to retail and professional clients on request – MiFID II regime
- at the exclusive initiative of clients (termed reverse solicitation) – MiFID II provisions.

ESMA also raises the issue of outsourcing of critical and important functions to third country entities and suggests this should be subject to a stricter regime under MiFID II to facilitate supervision and ensure a higher

level of investor protection. This follows on from its *November 2017 letter* in which ESMA raised other MiFID II/MiFIR related third country concerns.

ESMA publishes latest MiFID II data

On 31 October 2018, ESMA published its latest quarterly *liquidity assessment* for bonds traded on EU trading venues, which covers 470 liquid bonds subject to the pre- and post-trade transparency requirements under MiFID II. The assessment considers quantitative liquidity criteria, including the daily average trading activity and the percentage of days traded per quarter.

Alongside this, ESMA published the latest data on the total number of trades and total volume for equity and equity-like instruments for the purpose of the *SI calculations* under MiFID II. The data focuses on instruments traded on an EU venue, but also includes OTC trading to the extent that it has been reported to ESMA. The publication of data for the SI calculations for derivatives, ETNs, ETCs, SFPs, securitised derivatives and emission allowances will start on 1 February 2019.

Pensions

FCA raises pension transfer advice standards

The FCA published new rules aimed at improving the quality of pension transfer advice, in *PS18/20: Improving the quality of pension transfer and advice* on 4 October 2018. It's going ahead with proposals to amend the pension transfer specialist

qualification and introduce guidance for firms on assessing clients' attitude to transfer risk.

New guidance on advisers working together and assessing attitude to transfer risk, as well as a requirement to prepare a suitability report in all circumstances, comes into force immediately. Perimeter guidance on triage comes into force on 1 January 2019, and changes to the pension increase assumptions take effect from 6 April 2019. Meanwhile the remaining changes, which cover the pension transfer specialist qualifications and appropriate exam standards, apply from 1 October 2020.

The FCA also sought views on charging structures for advising on pension transfers, due to concerns over contingent charging. It is undertaking more work in this area, and intends to consult on any new proposals in the first half of 2019.

Regulators highlight new pensions priorities

The FCA and TPR published *Regulating the pensions and retirement income sector: our joint regulatory strategy* on 18 October 2018. The regulators also issued a *feedback statement* summarising responses to an earlier call for input on their approach to regulating the sector.

The FCA and TPR set out the key issues for consumers in the pensions sector, and how they plan to work together to address them. They highlight two new priority areas for

joint action: setting and enforcing clear standards for delivering value for money, and carrying out a review of the consumer pensions journey in 2019. The regulators plan to examine how disclosures from pension schemes and providers combine with guidance and advice services to help consumers make well-informed decisions.

Remediation

FCA amends FOS criteria for SMEs

The FCA published near-final rules in *PS18/21: SME access to the FOS*, on 16 October 2018, which change the definition of an 'eligible complainant' in the Dispute Resolution: Complaints (DISP) section of the FCA Handbook. The new definition means SMEs that have a turnover of under £6.5m and either fewer than 50 employees, or an annual balance sheet total under £5m, can access the FOS. The FCA estimates an additional 210,000 SMEs meet this criteria and will have access to the FOS.

Responses to feedback within the Policy Statement show that some SMEs were concerned the FOS did not have the relevant skills to assess certain disputes, and that the timeframes for implementation were too short. As a result, the FCA has given the FOS until 1 April 2019 to prepare for the changes, allowing it more time to recruit staff with relevant expertise. The rules will become final once the FCA has approved the FOS business plan and budget for 2018-19, which will likely be early next year. The FCA proposes to review how the new rules are

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working 24 months after implementation. Firms will need to review complaints procedures before 1 April 2019 to adjust for the new definition. Firms should also consider how SMEs are treated within their business as referrals to the FOS will likely bring increased scrutiny to processes and procedures.

FCA proposes raising FOS award limit

The FCA published consultation paper ***CP18/31: Increasing the award limit for the FOS*** on 16 October 2018. The regulator sets out two separate limit proposals, plus its reasoning and intended impact behind the plans.

Firstly, the FCA proposes increasing the FOS award limit for complaints about acts or omissions that occur after 1 April 2019, from £150,000 to £350,000. The FCA reasons an increase to £350,000 is fair as around 2,000 FOS complaints a year involve amounts over the current £150,000 limit. As three quarters of these are upheld, an increase would result in around £113m of additional compensation to customers. The FCA believes this will positively impact customers complaining about products that involve larger sums of money, such as self-invested personal pensions and life insurance. A secondary impact is that firms will have a greater incentive to assess and strengthen complaints procedures, general conduct and product governance, according to the regulator.

Secondly, the FCA proposes increasing the FOS award limit for complaints about acts or omissions that occurred before 1 April 2019 from £150,000 to £160,000, which reflects inflation since the last limit was set.

The FCA invites views on the proposals by **21 December 2018**.

Supervision

ESMA reveals 2019 work programme

ESMA released its ***2019 Annual Work Programme*** on 2 October 2018. It sets out its plans to focus on the following areas in 2019:

- promoting a consistent implementation of MiFID II/MiFIR, the Prospectus Regulation and the Securitisation Regulation
- utilising the data gathered under MiFID II/MiFIR for its risk assessment
- contributing to the implementation of the CMU and FinTech action plans
- supporting the EC's sustainable finance initiative
- enhancing its supervision of CRAs and TRs
- assuming new direct supervision under the Securitisation Regulation and SFTR and preparing for the registration of new entities subject to these regulations
- supporting a smooth and resilient Brexit.

ESMA also acknowledges that it may have to shift its focus in response to major developments related to Brexit, the ESAs review, or the EMIR supervision proposal.

Technology

FSB assesses cryptoasset markets

The FSB published a report assessing current stability risks in cryptoasset markets ***Cryptoasset markets: Potential channels for future financial stability implications***, on 10 October 2018. To assess the risks the FSB utilised a range of data sources including market capitalisation, pricing, ICO issuance and institutional exposures. The FSB concluded that cryptoassets do not currently pose a threat to global financial stability, but there is potential for them to do so in the future.

It highlights a number of potential risks, most notably volatility and liquidity, and channels in which these risks may manifest. The volatility in this market is largely because the majority of cryptoassets are valued on speculation alone, not underlying contracts. Exacerbating this is liquidity risk. Ownership of cryptoassets is concentrated with a relatively small number of participants which limits the market's ability to accommodate large trading volumes. In turn, the FSB believes this could adversely affect market confidence and financial institutional exposures. As a result, the FSB will continue to monitor various data sources in case interventions are required in the future.

UK Cryptoassets Taskforce publishes final report

The Cryptoassets Taskforce (made up of HMT, the FCA and the BoE) published its ***final report*** on 29 October 2018. The Taskforce sets out a taxonomy for cryptoassets and explores the benefits and potential barriers of DLT and cryptoasset adoption. It also flags a number of upcoming consultations: guidance on cryptoassets, adjustment of the regulatory perimeter and a potential ban on the sale of cryptoasset derivatives to retail consumers.

To help provide clarity on the UK's stance, the Taskforce categorises cryptoassets into three broad categories: exchange tokens, which are typically referred to as cryptocurrencies (e.g. Bitcoin and Litecoin) and used as a means of exchange or investment; security tokens, which provide rights such as ownership or entitlement to a share of profits; and utility tokens, which can be redeemed for access to a product or service. Firms involved in the generation of tokens should understand which definition aligns to their activities and consider any necessary regulations that apply.

Firms should also consider the scope of the upcoming consultations and whether they could have an impact on their business activities.

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Accounting

Our publications

IFRS News – October 2018

Our [IFRS news Oct 2018](#) includes articles on:

- Hedge accounting: Contrasting IFRS and US GAAP
- Cryptographic assets and related transactions: accounting considerations under IFRS.

It also notes the [IASB Update September 2018](#) has been published and the work plan updated.

Corporate reporting

FRC expects further improvement

The FRC published its [Annual Review of Corporate Governance and Reporting 2017/18](#) on 24 October 2018. It outlines the findings from its UK corporate reporting review, drawing on the results of recent thematic reviews.

Although it found some points of strength in corporate reporting, the FRC also identified room for improvement in some areas and was disappointed to see a rise in basic errors and non-compliance in a few areas of reporting. Once more it identified the reporting of the significant judgements and estimates companies made in the preparation of their accounts as a major area for improvement.

In addition, the FRC published its [Corporate Reporting Review – Technical Findings 2017/18](#). It builds on the themes identified in the annual review and highlights the top ten areas where it asked questions of preparers relating to reports reviewed in the year to March 2018. It particularly focuses on the following three areas: judgements and estimates, the use of alternative performance measures and the strategic report. But it also considers reporting of income taxes, revenue, business combinations, impairment of assets, pensions, statement of cash flows and provisions and contingencies.

[Judgements and estimates](#) and the [use of alternative performance measures](#) were also subjects of the FRC's 2017 thematic reviews.

The FRC expects preparers to reflect on these findings and consider what improvements can be made to their reporting.

IFRS and UK GAAP year-end accounting reminders

Our [September accounting reminders – IFRS and UK GAAP](#) outline the IFRS and UK GAAP reporting requirements as at 30 September 2018. This includes the standards, interpretations and other guidance that apply at 30 September 2018 and published standards that are effective at later dates and hence required to be disclosed. It also includes a summary of the latest topical issues.

IFRS 3 – definition of a business

Our In brief publication [Amendments to IFRS 3 – definition of a business](#) considers the impact of the [amendments](#) to IFRS 3 'Business Combinations' issued by the IASB on 22 October 2018. The IASB made these changes following feedback that application of the guidance was too complex, and resulted in too many transactions qualifying as business combinations.

The amended IFRS 3 applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting periods beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted.

IFRS Hot topics – IBOR reforms

Our [video – IFRS Hot topics – IBOR reforms](#) considers the accounting consequences of replacing Inter Bank Offer Rates (IBORs).

PwC IFRS Talks

Our [34th podcast](#) considers preparations for IAS 1, judgements and estimates. The [35th podcast](#) looks at cryptographic assets, including crypto currency.

Also this month

BoE

- The BoE's Working Group on Sterling RFRs and the Loan Market Association

issued the [Syndicated loan replacement of screen rate clause](#) on 16 October 2018. The document is relevant to participants in the syndicated loan market which continue transacting new loan contracts linked to LIBOR. The optional clause aims to give participants greater flexibility to transition to alternative RFRs.

- The BoE sent a [Dear CEO letter](#) to those non-UK CSDs that may require UK recognition after Brexit, on 25 October 2018. The letter gives details on the future regime, including the conditions under which non-UK CCPs can use the transitional regime prior to the UK legislation coming into force. The BoE encourages non-UK CSDs to inform the Bank if they plan to provide CSD services in the UK and use the transitional regime, indicate which activities they would be conducting and whether they perform any non-exempt activities that would require permission under the UK FSMA.

Central Bank of Ireland

Ed Sibley, Deputy Governor at the Central Bank of Ireland, gave a speech on [the importance of technology resilience](#) on 3 October 2018. He recognised that financial services firms must continue to evolve in the digital age in order to continue serving customers, but must take risk-based approaches. Sibley also encouraged firms to consider three key themes – data as an

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asset, outsourcing risks and cyber security – to better protect and serve customers.

CMA

- The CMA launched a Statutory audit market study on 9 October 2018. It invited comments by 30 October 2018 and intends to consult on its provisional views by the end of 2018. This is in addition to the Independent review of the FRC: 2018 which is already underway with the findings also due by the end of 2018. The FRC's responsibilities include ensuring the quality of statutory audits.
- The CMA issued a guidance note on its Role after Brexit on 30 October 2018, stating it's likely to play a bigger role in safeguarding competition for UK consumers after the UK exits the EU. Following a statutory instrument on competition issued by the Government on 29 October 2018, the CMA also outlines how it intends to proceed for mergers and antitrust cases involving the EC or EU law in the event of a no deal Brexit.

Council

The Council released its latest interim compromise text on the EMIR CCP supervision proposal on 25 October 2018. Once the Council agrees its position, the trilogue negotiations with the EP and the EC will start.

EBA

The EBA published for consultation its draft data point model 2.9 on 30 October 2018. This concerns data requirements for supervisory reporting changes arising from the EBA's reporting framework 2.9 revision. This follows on from its related August 2018 consultation on changes to COREP and FINREP reporting. The consultation closes on **7 December 2018**.

EC

- The EC adopted a new anti money laundering directive on 11 October 2018. The directive will impose minimum sanctions for criminal offences relating to money laundering, enable legal entities to be held liable for certain money laundering activities and remove barriers to cross-border judicial and police cooperation. The EC has given Member States up to 24 months to transpose the directive into national law.
- The EC presented its 2019 Work Programme on 23 October 2018, setting out its main priorities for the year ahead. The programme focuses on reaching a swift agreement on the legislative proposals to deliver on its ten political priorities, adopting a limited number of new initiatives to address outstanding challenges, and presenting initiatives to reinforce the foundations for a strong, united and sovereign Europe.

ECON

ECON published a draft report on the EC's proposal for a regulation amending BMR on low carbon benchmarks and positive carbon impact benchmarks, on 2 October 2018. The report proposes a number of amendments to the proposal.

EDPS

The European Data Protection Supervisor (EDPS) issued Opinion 8/2018 on 5 October 2018, supporting EU proposals to modernise consumer protection legislation. The EDPS calls for a holistic approach to consumer protection in digital markets and enhanced cooperation between enforcers in the EU.

ESMA

- ESMA published an updated version of its Q&As on MAR on 1 October 2018. It adds three new questions and answers (Q5.3, Q5.4 and Q5.5) dealing with the delay of disclosure of inside information by a credit or financial institution to preserve financial stability under Article 17(5) of MAR.
- ESMA announced on 3 October 2018 the Withdrawal of its MiFID guidelines on systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities. This decision resulted from a review of existing guidelines in light of the introduction of MiFID II in January 2018.

- ESMA updated its Q&As for MiFID II market structure and transparency topics on 4 October 2018. The new Q&As provide further clarity on a range of issues, including the scope of the pre-trade transparency waiver provided under Article 9(1)(c) of MIFIR, market making activities and incentives to be provided during stressed market conditions, treatment of bulk quotes for the calculation of the Order to Trade Ratio, and the registration of an MTF segment as an SME growth market.
- ESMA updated its Q&As for MiFID II investor protection and intermediaries topics on 3 October 2018. ESMA introduced a new Q&A on best execution, providing clarity on a firm's RTS 28 reporting obligations in situations where it agrees a trade via a request-for-quote system. ESMA also introduced a new Q&A on whether an investment firm providing advice on financial instruments issued by itself or by a firm with which it has close links can be held out as independent.
- ESMA updated its public register with the latest double volume cap (DVC) data under MiFID II on 8 October 2018. This includes DVC data for the period of 1 September 2017 to 31 August 2018, together with updates to historic data. The data suggests there have been 57 breaches in equities at the 8% cap, applicable to all trading venues, and 12

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breaches in equities at the 4% cap that applies to individual trading venues.

- On 11 October 2018, ESMA published its board of supervisors' decision to delegate to its chair the responsibility for some assessments of third country trading venues under MiFID II and MiFIR. The decision sets out criteria the ESMA chair will use when assessing whether to consider a third country entity as a trading venue for the purposes of Articles 20 and 21 of MiFIR or Article 57(4) of MiFID II. The board of supervisors will retain responsibility for more controversial assessments of third country trading venues.
- Patrick Armstrong, Senior Risk Analysis Officer at ESMA, gave a speech on ESMA's approach to financial technology on 10 October 2018. Armstrong positively reflected upon the rise and use of DLT, but feels ESMA faces a balancing act between minimising disruption and harm to markets, while fostering technological innovation. He reinforced the message that regulators should maintain flexible approaches – knowing when supportive or protective measures are needed.
- ESMA published Advice to ESMA on ICOs and cryptoassets, a report by its Securities and Markets Stakeholder Group (MSG), on 19 October 2018. The MSG's main advice is for ESMA to provide guidance on a number of

existing rules, for example the interpretation of the MiFID definitions for 'transferable securities' and 'commodities', as these have major implications for how cryptoassets are treated. In addition, the MSG suggests wider actions to help protect investors such as the inclusion of tokens in the MiFID financial instrument list.

- ESMA published its statement on European common enforcement priorities for 2018 annual financial reports on 26 October 2018. These include new accounting standards effective this year, IFRS 9 – financial instruments and IFRS 15 – revenue from contracts with customers, together with other areas such as Brexit and alternative performance measures.
- ESMA's Securities and Markets Stakeholder Group (MSG)** wrote a letter on PRIIPs to the EC's Vice President Valdis Dombrovskis on 31 October 2018. The MSG identifies some unintended consequences arising from PRIIPs in relation to performance scenarios and cost calculations that have, in its view, caused KIDs to become misleading and difficult to follow. The letter calls for the EC to make some targeted amendments to the PRIIPs Regulation to address these issues.
- On 31 October 2018 ESMA's Securities and Markets Stakeholder Group (MSG)** issued an opinion on the EC's earlier

request to the ESAs to report on the cost and past performance of retail investment, insurance and pension products. The MSG welcomes the EC's request and recognises that such reporting would be a valuable step in ensuring protection for retail investors. The MSG does, however, stress the need for the relevant ESAs to consider clarity, helpfulness and comparability across products when drafting the reports.

- ESMA issued another public statement on EMIR and MiFIR clearing and trading obligations on 31 October 2018. These obligations are expected to apply from 21 December 2018. Acknowledging the difficulties faced by certain group entities and certain non-financial counterparties above the clearing threshold in meeting these obligations, ESMA recommends NCAs to not prioritise their supervisory actions towards these entities and to apply their risk-based enforcement powers proportionately.
- ESMA renewed its temporary restriction on the marketing, distribution or sale of Contracts for Difference to retail investors on 23 October 2018. This temporary restriction is in accordance with Article 40 of MiFID II and will be imposed for a further three months effective from 1 November 2018. ESMA believes that this measure is necessary to mitigate

investor protection risks arising from retail participation in these products.

ESMA and EBA

ESMA and the EBA published guidelines on complaints handling for the securities and banking sectors on 4 October 2018. The guidelines intend to provide consumers with a single set of complaints handling arrangements across all types of product and service. ESMA and the EBA believe this will help to harmonise firms' arrangements for handling complaints, and ensure those arrangements are subject to a minimum level of supervisory convergence across the EU.

FATF

- The FATF updated its FATF Recommendations on 19 October 2018, to reflect the new risks posed by cryptoassets and to clarify what activities the standards apply to. The FATF has added new definitions for the terms 'virtual asset' – a digital representation of value, not including fiat currency or security representations – and 'virtual asset service providers' – such as exchanges, wallet providers and financial services related to ICOs. The recommendations demonstrate that the FATF expects virtual asset service providers to be subject to AML/CTF regulations and to be licensed or registered for monitoring purposes.
- The FATF published its Risk-Based Approach (RBA) Guidance for the

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Securities Sector on 26 October 2018 to help financial institutions identify, assess, and understand their AML/CTF risks. Firms are also given guidance on focusing mitigation measures at high risk areas.

FCA

- Megan Butler, the FCA's Executive Director of Investments, Wholesale and Specialist Supervision, gave a **speech** to the Pan Asian Regulatory Summit in Hong Kong on 8 October 2018. The speech followed the agreement between the FCA and Securities and Futures Commission on the mutual recognition of funds in the UK and Hong Kong. Butler emphasised the importance of international cooperation to avoid a model of competing philosophies and regulatory agendas, and in promoting economic growth, consumer protection and effective competition.
- FCA Chair Charles Randell **spoke** on the 'cycle of deregulation, crisis and regulation' on 2 October 2018. He suggested a number of ways to avoid this cycle, including regulators keeping 'an open mind about the shortcomings of our existing rules'.
- The FCA published its final **Approach to Competition** on 15 October 2018. The document, one of a series explaining the FCA's approach as part of its Mission, sets out the regulator's role in promoting competition and how it aims to do this.
- Christopher Woolard, FCA Executive Director of Strategy and Competition, delivered a **speech** on the FCA's approach to climate change focusing on the regulatory challenges and potential for innovation within financial services on 19 October 2018. He commented on the establishment of a new FCA-PRA Climate Risk Forum aimed at ensuring regulatory alignment on this emerging area.
- The FCA published feedback statement **FS18/2: Digital Regulatory Reporting (DRR)**, which summarises feedback on a proof of concept that would unlock smarter regulatory reporting, on 17 October 2018. The FCA received a positive response from the financial services industry. It's currently running a pilot to assess the technologies used to develop a DRR prototype, and intends to publish the findings in Q1 2019.
- The FCA issued **CP18/32: Recovering the costs of the Office for Professional Body Anti-Money-laundering Supervision (OPBAS)** on 18 October 2018. It seeks feedback on proposals for the OPBAS fee-rate, timetable for reporting future data and the minimum fee for professional body supervisors. The consultation closes on **14 December 2018**.
- The FCA launched the Green FinTech Challenge on 19 October 2018, releasing an **application form** through which firms may apply. The FCA will provide support – dedicated Innovate adviser, sandbox testing, steers – to successful applicants who are developing products and services to assist in the UK's transition to a greener economy. The challenge is open to a wide variety of firms and has a deadline of 11 January 2019.
- The FCA provided information on **TR registration** on 22 October 2018. Once the UK leaves the EU, the FCA will become the UK regulator of TRs. In this context, the FCA asks UK TRs intending to offer services in the UK from Brexit day to apply for either conversion registration or temporary registration from 1 January 2019.
- The FCA published **Evaluation Paper 18/2: the impact of bringing additional benchmarks into the regulatory regime** on 22 October 2018. The results show that the FCA's intervention improved benchmarks' robustness, but reduced liquidity and participation levels where previous levels were already low. The latter effect is due to market participants perceiving a regulatory risk driven by fines, methodology changes, and regulatory change.
- The FCA published **Handbook Notice No 59** on 26 October 2018, confirming changes to COBS relating to amended pension transfer advice rules announced in PS18/20.
- On 25 October 2019 Andrew Bailey, CEO of the FCA, gave a **speech** focusing on Brexit. Bailey stated that the FCA is prepared for a hard Brexit and called for action by the EU-27 to address cliff edge risks in the event of no-deal.
- The FCA issued a **Dear CEO letter** relating to the due diligence requirements for Self-Invested Personal Pension (SIPP) investments on 30 October 2018. This flags a number of pending civil claims in the High Court which reference FCA principles and rules, and deal with SIPP operators' due diligence obligations when accepting customers' investments. The regulator expects firms to consider any implications arising from the outcome of these cases and says it will be contacting SIPP operators to discuss this.
- The FCA published **Modification by consent: COBS 13 Annex 2 1.9R** and the associated **modification direction** on 31 October 2018. It aims for the modification to allow defined contribution pension schemes to provide simpler statutory money purchase illustrations for their customers. The modification is valid until 30 September 2020.

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- The FCA published *Our response to key comments from the independent panels' annual reports for 2017/18* on 31 October 2018. It responds to comments by the panels on the FCA's work, both on specific issues raised and on themes which were common across the panels. Common themes include Brexit, operational resilience, regulatory burden and culture.

FCA and CMA

The FCA and CMA published a joint report on behalf of the UK Competition Network, *Helping people get a better deal: Learning lessons about consumer facing remedies*, on 1 October 2018. They set out a range of lessons learned on choosing, designing and testing competition interventions, and state that 'a combination of supply and demand-side interventions' may be needed to deliver better consumer outcomes. In a *speech* on the same day, FCA Executive Director of Strategy and Competition Christopher Woolard explained how the FCA tests its remedies.

FIA

The FIA updated its *Risk Disclosure Booklet* to reflect new disclosure requirements regarding cryptocurrencies, on 1 October 2018. The new requirements include two advisories and one disclosure, both of which aim to improve customer awareness of cryptocurrency risks. US futures commission merchants must provide the

new disclosures to customers from 31 October 2018.

FRC

- The FRC published its accounting related *Policy on developing statements of recommended practice* on 11 October 2018. The policy takes effect from 15 October 2018 and replaces the March 2016 version.
- The FRC published a *Summary of key developments for 2018/19 annual reports* on 24 October 2018. In this letter to audit committee chairs and finance directors it sets out its expectations for reporting on new accounting standards effective this year, the findings from its monitoring work and topical reporting areas, including the effect of Brexit.
- The FRC *announced* the launch of a 'major project' to challenge existing thinking about corporate reporting on 30 October 2018. It invites participation through membership of an advisory group. The FRC aims to publish its findings in the second half of 2019.

HMT

HMT published *Breathing space scheme: consultation on a policy proposal* on 29 October 2018. HMT proposes a new 'breathing space', which would give a debtor the right to legal protections from creditor action while receiving debt advice, and a statutory debt repayment plan, enabling a

debtor to enter a statutory agreement to repay debts to a manageable timetable. The consultation closes on **29 January 2019**.

IMF

The IMF published its *2018 Global Financial Stability Report* on 3 October 2018. Chapter 2 looks at regulatory reform since the financial crisis. It identifies the need to complete the implementation of leverage ratio and provide frameworks for cross-border resolution of banks and insurers.

ISDA

- ISDA published the *2018 Model Netting Act* on 15 October 2018. This is an update to the 2006 version which seeks to guide jurisdictions in implementing close-out netting legislation. The main purpose of such legislation would be to ensure the post-insolvency enforceability of close-out netting upon the occurrence of a default event or termination event under the netting agreement.
- ISDA and a number of EU-27 financial services trade associations published a *paper* warning of the risks to the OTC derivatives market from a no-deal Brexit. The paper, published on 9 October 2018, sets out a number of risks to EU-27 and UK financial institutions and their clients and counterparts.

JCESA

The JCESA set out its planned activities and outputs for the year ahead, in its *JCESA 2019 Work Programme* on 9 October 2018. During 2019, the JCESA plans to continue to focus on consumer protection issues such as supporting and providing guidance for the PRIIPs Regulation and monitoring FinTech innovations. It also intends to concentrate on sustainable finance and securitisation.

PRA

- The PRA published consultation paper *CP 21/18 – Regulatory transactions: Changes to notification and application forms* on 1 October 2018, proposing a range of minor changes to passporting, change in control, insurance special purpose vehicles and notification related forms. The consultation closed on 1 November 2018.
- The PRA announced in a *letter* to level one firms (total assets greater than £50bn) on 18 October 2018, the withdrawal of its practice of issuing 'non-objection' statements on their proposed distribution of variable remuneration awards. The PRA continues to expect to receive firms' remuneration policy statements and quantitative data tables in advance and intends to provide feedback where relevant. But it also plans to have a greater emphasis on how the relevant SMFs discharge their responsibilities under SM&CR.

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- The PRA consulted on changes to its rulebook, supervisory statements, statements of policy and forms in **CP24/18: Occasional Consultation Paper** on 18 October 2018. The changes include amending branch returns, penalties for breaches by qualifying parent undertakings of ring-fenced bodies and the written reports by external auditors. The consultation closes in part on **22 November 2018**, and in part on **22 January 2019**.
- Sam Woods, the PRA's CEO, delivered a **speech** on 25 October 2018 describing the regulator's role in areas where its interests align or diverge from financial institutions, such as operational resilience and internal models respectively. He also discussed the PRA's expectations regarding regulatory reforms in the wake of the financial crisis.

UK Finance

UK Finance published a **Financial Abuse Code of Practice** on 10 October 2018 consisting of six principles aimed at helping financial services industry market participants support victims of financial abuse.

UK Government

- The Government issued drafts of **The Financial Services and Markets Act 2000 (Claims Management Activity) Order 2018** and **explanatory memorandum** on 9 October 2018. It

transfers regulation of claims management activities to the FCA with effect from 1 April 2019, and allows the FCA and FOS to make rules and guidance ahead of that transfer.

- The UK Parliament published a **letter from Guy Verhofstadt, MEP, to Seema Malhotra, MP**, regarding the impact of Brexit on existing contracts on 16 October 2018. Verhofstadt comments that the EU has identified fewer insurance and OTC derivatives contracts likely to suffer contract continuity issues following Brexit than initially feared. He also emphasises that insurers are expected to take the necessary measures to ensure they can service their contracts post Brexit.

World Federation of Exchanges

The World Federation of Exchanges published its **Sustainability Principles** on 4 October 2018, identifying five core principles to guide its members in promoting the sustainable finance agenda. These include educating market participants on the importance of sustainability issues.

Banking and capital markets

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A brief round up of other regulatory developments



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Regulation

Capital and liquidity

EBA assesses Basel IV impact

The EBA published two reports, *Basel III monitoring exercise – results based on data as of 31 December 2017* and *Liquidity measures under article 509(1) of the CRR* on 4 October 2018. The Basel III monitoring related report addresses the impact on a sample of EU banks of the fully phased-in final revisions of credit risk, operational risk and leverage frameworks, as well as the output floor. The EBA also incorporates the full impact of the new standards on market risk and credit valuation adjustments, but acknowledges that the Basel Committee is still undertaking work in these areas, which are not yet in their final form.

It finds that overall, the finalised Basel III reforms lead to a weighted average increase of 16.7% in Tier 1 minimum required capital for the sample of 101 EU banks. The largest contributors to the increase are the implementation of the output floor and operational risk. The EBA also observes that the leverage ratio is the constraining Tier 1 capital requirement for some banks. The authority intends to publish a further, more detailed Basel III impact report based on a larger sample and using 30 June 2018 data in response to the *EC's call for advice*.

The EBA's annual report on liquidity, based on data as of 31 December 2017, shows that EU banks have continued to improve their LCR, with the average ratio standing at around 145% (December 2016: 137%). The EBA also observes that EU banks tend to hold lower liquidity buffers in some foreign currencies such as US dollars.

EBA discusses CRR II risk proposals

The EBA published a letter addressed to the EC, Council and the EP on 8 October 2018 relating to the risk reduction measures (RRM) package as *November 2016 banking reform* proposals reach their final legislative stages. It expresses its views and makes suggestions in a number of areas, including:

- the prompt implementation of the fundamental review of the trading book provisions
- the careful use of cross-border capital waivers within the eurozone
- the undesirable increase in national flexibility for certain types of banks
- the undue national flexibility with respect to COREP
- the extension of the list of interdependent assets and liabilities in the NSFR
- aligning MREL and TLAC reporting and disclosure with similar provisions in CRR II.

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<p>The EBA emphasises the role the RRM should have in addressing ‘persisting fragmentation in the European banking market’ and the role the EBA can play in relation to monitoring and proportionality.</p> <p><i>Leverage ratio: changing derivatives’ exposure measure?</i></p> <p>The Basel Committee issued a consultation concerning the <i>Leverage ratio treatment of client cleared derivatives</i> on 18 October 2018. It seeks views on two possible alternatives to the existing treatment of derivative exposures. These are:</p> <ul style="list-style-type: none">• to allow the offset of initial margin received from clients against the potential future exposure of derivatives centrally cleared for clients’ accounts• to align the measure of derivative exposure with the standardised approach for counterparty credit risk, by allowing the offset of initial margin and variation margin received against the replacement cost and potential future exposure of the related derivatives. <p>The Committee welcomes views on the materiality of the impact of the possible revisions on the leverage capital requirement and on the anticipated impact the revisions might have on client clearing service provision in general. But in the absence of a ‘strong evidence-based case’ for revision, the Committee intends to maintain the existing treatment of not allowing the use of collateral to reduce the leverage ratio exposure measure.</p>		<p>The Committee also seeks views on whether to require the segregation of client initial margin received from a clearing member bank’s own assets as an eligibility condition for offset. Finally, the Committee is also interested in the ‘potential forward-looking behavioural dynamics of the client clearing industry’ that might result from any amended treatment of derivatives. The consultation closes on 16 January 2019.</p> <p><i>EC amends LCR regulation</i></p> <p><i>Delegated Regulation (EU) 2018/1620 amending Delegated Regulation (EU) 2015/61 to supplement CRR with regard to liquidity coverage requirement for credit institutions</i> appeared in the Official Journal on 30 October 2018. The regulation specifies which assets are considered liquid and how expected cash outflows and inflows over a 30-day stressed period are calculated. The amendments include:</p> <ul style="list-style-type: none">• a waiver for the requirement for a minimum issue size applying to liquid assets held by a subsidiary undertaking in a third country• recognising the reserves held by a third country subsidiary or branch of an EU credit institution in the central bank of a third country, subject to certain conditions• setting the criteria to determine whether a securitisation can be designated as a simple, transparent and standardised and considering it to be eligible as level 2B assets, subject to certain conditions	<ul style="list-style-type: none">• permitting NCAs to waive the unwind mechanism for the calculation of the liquidity buffer in the case of secured transactions with the ECB or with the central bank of an EU Member State, subject to certain conditions• aligning the treatment of outflow and inflow rates for repos, reverse repos and collateral swaps with the approach in the international standard for the LCR set by the Basel Committee• clarifying various provisions including those on the fulfilment of the liquidity coverage requirement, the calculation of additional liquidity outflows and the preferential treatment of intragroup credit and liquidity facilities. <p>The changes are intended to improve alignment with international standards and facilitate more efficient liquidity management by credit institutions. The amendments apply from 30 April 2020.</p> <p><i>Managing non-performing exposures</i></p> <p>The EBA published its final report, <i>Guidelines on management of non-performing and forborne exposures</i> on 31 October 2018. This follows a <i>March 2018 consultation</i>. The level of non-performing exposures (NPEs) in the EU remains high by historical standards. These guidelines are part of a wider set of initiatives to tackle NPEs in the EU, both existing and those that could arise in the future. Through these guidelines, the EBA aims to reduce banks’ NPEs by providing supervisory guidance to</p>	<p>ensure firms effectively manage their NPE and forborne exposures. Further, the guidelines have due regard to ensuring consumers are treated fairly throughout the loan life-cycle.</p> <p>The guidelines address the development and implementation of a NPE strategy. This incorporates the elements of governance and operations of a NPE workout framework with aspects relating to direction and decision making, the NPE operating model, internal control framework as well as NPE monitoring. The EBA recognises that a NPE strategy and related operational framework may not be necessary for banks with lower levels of NPEs and so it introduces a NPEs ratio threshold of 5% of total exposures - subject to NCAs’ discretion.</p> <p>The guidelines also cover forbearance processes, recognition of NPEs, impairment measurement and collateral valuation. Finally, the guidelines include requirements concerning NCAs’ assessment of banks’ NPE management as part of the SREP. The guidelines apply from 30 June 2019.</p> <p><i>Financial crime and enforcement</i></p> <p><i>FCA reviews e-money financial crime risks</i></p> <p>The FCA published its findings from a thematic review into e-money firms’ financial crime risks in <i>TR18/3: Money Laundering and Terrorist Financing Risks in the E-Money Sector</i> on 3 October 2018.</p>			

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The FCA reviewed money laundering and terrorist financing risks within 13 e-money firms. The review focused on e-money products, including prepaid cards and digital wallets.

The FCA found the majority of firms had good awareness of their financial crime obligations and a positive culture. Most firms had effective AML systems and controls to mitigate money laundering and terrorist financing risks. But it identified some poor practice, including a lack of risk scoring methodology for retail customers at one firm. Because other weaknesses were found, the FCA urges firms to avoid complacency.

Firms should review the good and poor practice in the thematic report and consider whether their AML and CTF systems and controls could be improved.

Reporting

Delaying liquidity reporting termination

The PRA published consultation paper **CP22/18 – Liquidity reporting: FSA 047 and 048** on 12 October 2018. Part of the implementation of the PRA's new Pillar 2 liquidity regime in **PS2/18** includes a cash flow mismatch risk framework with associated mismatch reporting using the PRA110 template. This new reporting starts from 1 July 2019 with existing 'daily flows' and 'enhanced mismatch' reporting (FSA047 and 048) due to cease from the same date. But following a reassessment of

the transitioning risk, it now proposes to delay the termination of existing FSA047 and 048 reporting by six months.

A range of factors informed its reassessment. These include that the PRA now considers the testing phase currently underway is insufficient 'to provide a reasonable degree of assurance over data quality of the PRA110 and the resilience of firms' and the PRA's reporting systems to business-as-usual and stressed reporting frequencies'. In addition to the six months overlap between the PRA110 and the FSA047 and 048, it proposes to reduce the reporting frequency of FSA 047 and 048 reporting to align it with PRA 110 reporting where it would otherwise differ during the overlap period.

The PRA expects to finalise these changes in early 2019 and intends that they apply with immediate effect upon publication of the policy statement. The consultation closes on **12 November 2018**.

Supervision

Updating the PRA's supervisory approach

The PRA updated its **Approach to banking supervision** on 31 October 2018, replacing its **March 2016 version**. It makes a range of amendments to simplify and improve its readability and to reflect recent policy developments. The PRA highlights that having fully embedded the SM&CR regime **for banks, 'individual accountability has**

become a key tool through which we deliver **our supervisory approach**'.

Given the increasing reliance on digital systems and platforms and the risk of cyber-attacks, the PRA adds operational resilience requirements. Its evolving approach, as set out in detail in discussion paper **DP1/18**, focuses on the continuity of the business **services that a firm's customers and the wider economy rely upon**. The PRA expects firms to develop impact tolerances based on a range of severe but plausible scenarios. It also notes the board responsibility for operational resilience, emphasising the **need to ensure there is 'sufficient challenge to the executive and that they have access to people with appropriate technical skills'**.

The PRA also incorporates the RFB regime which restricts the activities that can be undertaken within ring-fenced entities and requires independent governance, including the ability to identify conflicts of interest. Its main focus concerning Brexit is to ensure the transition to a new relationship is as smooth and orderly as possible to minimise risks to its objectives. The PRA plans to use mechanisms such as the Temporary Permissions Regime to bridge incoming EU-27 firms for three years while they seek an authorisation to continue business in the UK.

Also this month

Basel Committee

- The Basel Committee published its latest six-monthly **Basel III monitoring report** on 4 October 2018. It sets out for the first time the effects of the Committee's December 2017 **finalisation of the Basel III reforms** as well as the impact of the Basel III framework that was initially agreed in 2010. The final Basel III minimum requirements are expected to be implemented and fully phased in by 1 January 2027.
- The Basel Committee published its **Stress testing principles** on 17 October 2019. This guidance supersedes a May 2009 version that addressed key weaknesses in stress testing practices as highlighted by the financial crisis. It intends this revision reflects the growth in the importance of stress testing, both as a critical element of risk management for banks and as a core tool for supervisory authorities.
- The Basel Committee issued a **statement** on 18 October 2018, cautioning that window dressing by banks undermines the intended policy objectives of the leverage ratio requirement. The Committee proposes a number of supervisory actions to address potential window dressing activities including additional public disclosures, more

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frequent reporting and supervisory inspections.

BoE

The BoE announced on 9 October 2018 that it intends to publish its UK annual cyclical scenario stress test results on 5 December 2018. It has also decided to delay the launch of the 2019 biennial exploratory scenario stress tests by six months until September 2019 – due to resource constraints arising from Brexit preparations.

EBA

- Andrea Enria, the EBA's Chairperson, delivered his initial statement in front of ECON Committee of the EP on 8 October 2018. He commented on a number of developments in the EU banking sector, ranging from capital adequacy to non-performing loans. He also discussed the major items on the EBA's regulatory agenda.
- The EBA published its quarterly Risk dashboard – data as of Q2 2018 on 8 October 2018. It notes a continuing improvement in the level of non-performing loans, but profitability remains a concern.
- The EBA drew attention in a press release on 9 October 2018 to the adoption by the EC of an ITS that incorporates prudent valuation data into COREP reporting as well as other amendments. This is a component of the EBA supervisory reporting framework

2.8 changes due to take effect from 31 December 2018.

- The EBA announced that the EC had adopted the ITS with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution plans under BRRD on 23 October 2018. The EBA has updated its webpage to include a link to the ITS as published in the Official Journal on 7 November 2018. The ITS enter into force on 27 November 2018 and replace Regulation (EU) 2016/1066.

EC

The EC adopted RTS under BRRD specifying the criteria for assessing the impact of an institution's failure together with Annexes on 25 October 2018. NCAs will apply the RTS to determine whether institutions qualify for simplified obligations by reference to the impact of their failure on financial markets, other institutions and funding conditions. Once the RTS come into force, the EBA Guidelines on simplified obligations will fall away.

ECB

- The ECB updated its TARGET2 Pricing Guide (version 6) on 5 October 2018. It applies from 1 November 2018.
- The ECB published its SSM Supervisory Priorities for 2019 on 30 October 2018, highlighting the key risk drivers in the

banking sector including geopolitical uncertainties, the stock of non-performing loans, cybercrime and IT disruptions. To address these risks, it sets out its supervisory priority areas as credit risk, risk management, and activities comprising multiple risk dimensions.

ESRB

The ESRB published a report on Approaching non-performing loans (NPLs) from a macro-prudential angle on 1 October 2018. This contributes to a wider request made by the Council in July 2017 for the ESRB to develop 'macro-prudential approaches to prevent the emergence of system-wide NPL problems'. The ESRB plans to respond with a policy report by the end of 2018.

FMLC

The FMLC published a paper dealing with issues arising from the draft Bank Recovery and Resolution and Miscellaneous Provisions (Amendment)(EU Exit) Regulations 2018 on 26 October 2018. It highlights legal and operational uncertainties in relation to cooperation arrangements, the recognition of English law instruments, references to other legislation and the loss of protections owed in relation to the functioning of CCPs.

JCESA

The JCESA launched a public consultation on 26 October 2018, proposing new amendments to technical standards on the mapping of External Credit Assessment Institutions. The proposed amendments reflect the outcome of an earlier monitoring exercise on the adequacy of the mappings. The consultation closes on **31 December 2018**.

Pay.UK

Pay.UK (formerly the New Payment System Operator) revealed the release to PSPs of standards, rules and guidance for a new Confirmation of Payee service together with a webpage and an independent report, Confirmation of Payee: Understanding consumer and stakeholder perspectives, on 18 October 2018. PSPs will be able to roll out the new service in 2019 to reduce the risk of customers sending payments to the wrong account.

Asset management

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Regulation

Investment funds

FCA to reform open-ended funds

The FCA published CP18/27: consultation on illiquid assets and open-ended funds on 8 October 2018, proposing a package of measures to reduce the potential harm for retail investors in open-ended funds that hold illiquid assets. This follows an earlier discussion paper in February 2017, in which the FCA posed a number of questions around the risks arising when open-ended funds invest in illiquid assets, particularly in stressed market conditions.

The regulator's proposals align with IOSCO's revised recommendations on liquidity risk management for collective investment schemes (published in February 2018). IOSCO issued these in response to the FSB's recommendations to address structural vulnerabilities arising from asset management activities (published in January 2017).

The FCA is concerned that open-ended funds invested in illiquid assets can encounter difficulties in satisfying redemptions if sought by a large number of investors simultaneously at short notice,

creating poor outcomes for those investors. It proposes a requirement for non-UCITS retail schemes holding 'immovables' such as property and infrastructure to suspend trading when the Standing Independent Valuer expresses 'material uncertainty' about the value of the assets that account for at least 20% of the scheme.

The regulator also proposes a requirement for managers of funds investing in inherently illiquid assets (FIAs) to produce contingency plans in case of a liquidity crisis, to enhance depositories' oversight of liquidity management processes, and increase transparency for retail investors.

The FCA believes that the package of measures will reduce the risk of poor outcomes for investors in FIAs, and boost investors' confidence in the management of liquidity risk in open-ended funds.

Also this month

Council

The Council published the compromise texts for the proposals for a directive and a regulation on the prudential supervision and requirements of investment firms in the EU on 9 October 2018. The texts outline the Presidency compromise on the proposed rules for investment firms.

EC

The EC published final amendments to Level 2 measures under AIFMD and UCITS in the Official Journal on 30 October 2018. These changes clarify requirements relating to the safekeeping duties of funds' depositories. They follow proposals issued on 30 May 2018 and subsequent adoption by the EC on 12 July 2018, and will apply as of spring 2020.

ESAs

The ESAs wrote to the EC on 1 October 2018 regarding the application of the KID for PRIIPs, responding to two letters from the EC on this topic in July and August 2018. The ESAs express concern with an approach whereby, from 1 January 2020, retail investors will receive a combination of the UCITS and PRIIPs disclosures. They emphasise the need for legislative change to avoid duplication, and propose to consider

this as part of a wider review of the PRIIPs Regulation.

ESMA

ESMA updated its Q&As on AIFMD on 4 October 2018. It added one new Q&A, which provides further clarity on the application of the notification requirements to AIFMs managing EU umbrella AIFs on a cross-border basis by way of an AIF passport.

FCA

The FCA and the Securities and Futures Commission entered into a MoU on 8 October 2018, covering the mutual recognition of funds. This arrangement will facilitate the exchange of information, regulatory dialogue and industry cooperation in relation to the cross-border offering of eligible Hong Kong public funds through a streamlined process.

Insurance

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Regulation

Capital and liquidity

Illiquid liabilities – EIOPA issues feedback request

Further to an [EC request](#) for data on the liquidity of insurance liabilities and information on the asset management of insurers (in April 2018), EIOPA published a [Request for Feedback on Methodological Considerations regarding Illiquid Liabilities](#) on 29 October 2018. It seeks feedback on approaches to assess the illiquidity characteristics of insurance liabilities, the actual holding periods of assets of insurers as well as the risks of holding assets over a longer term.

EIOPA has set up a dedicated [Project Group on Illiquid Liabilities](#) which aims to:

- identify criteria of liquidity characteristics for the liabilities and a measure for insurers' ability to invest over the long term and decide the timing of buying and selling
- explore the link between the characteristics of liabilities and the management of insurers' assets

- analyse whether the current treatment in the regulatory regime appropriately addresses the risks associated with the long-term nature of the insurance business.

The feedback period ends on **7 December 2018** and EIOPA plans to submit its report to the EC on 16 December 2019.

Conduct

FCA probes general insurance pricing practices

The FCA published [TR18/4 Pricing practices in the retail general insurance sector: Household insurance](#) and an accompanying [Dear CEO letter](#) on 31 October 2018. It highlights problems with pricing practices that it believes can cause significant harm and poor outcomes for consumers. These include:

- firms being unable to reliably assess and evidence whether they are treating their customers fairly
- differential pricing leading to some groups of consumers paying more than others with similar risk and cost to serve characteristics

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- the risk of discriminating against consumers through using rating factors in pricing based on data relating to or derived from protected characteristics.

The FCA expects firms to act now to address any of these issues that apply to them.

The conduct regulator also published *Terms of reference – General Insurance Pricing Practices Market Study* on 31 October 2018. It plans to examine whether pricing practices for home and motor insurance lead to consumer harm, who is affected, and, if required, what action is needed to improve the market. The FCA adds that where relevant, it intends to identify lessons from the market study that are relevant to other markets it regulates. The comment period ends on **3 December 2018**.

At the same time, the FCA published *DP18/09 Fair Pricing in Financial Services* to stimulate debate on pricing issues across all sectors. It invites stakeholders' views on firms charging different prices to different consumers based solely on differences in consumers' price sensitivity and firms charging existing customers higher prices than new customers. The comment period ends on **31 January 2019**.

Disclosure and distribution *EIOPA seeks improved supervisory cooperation*

EIOPA published a *Decision of the Board of Supervisors on the cooperation of the competent authorities of the Member States of the EEA with regard to the IDD* on 10 October 2018. It replaces and updates the *Luxembourg Protocol* on the implementation of the IDD.

The Decision aims to strengthen cooperation between national supervisors and in particular to enhance the exchange of all relevant information, enabling national supervisors to fulfil their supervisory tasks and to protect customer interests. The Decision entered into force on 1 October 2018.

Governance *PRA finalises SM&CR for insurers*

The PRA published *PS26/18 Strengthening accountability: Implementing the extension of the SM&CR to insurers* on 18 October 2018, along with the final amended rules for the implementation of the extension of the SM&CR to insurers and a technical correction of its rulebook.

In a change to the policy consulted upon in CP18/18, the PRA has included the individual conduct standards applicable to small NDFs in its definition of 'individual

conduct requirements' and not deleted from this definition references to parts of its rulebook and FCA handbook no longer in force.

The PRA also encourages firms to review its note on *Redesignation of Senior Insurance Management Functions to Senior Management Functions, and the change-over to 'Statements of responsibilities' by insurers*, published in September 2018.

The extended SM&CR for insurers is due to come into effect on 10 December 2018.

Solvency II *ERMs – PRA postpones implementation to 2019*

The PRA published an update to its *Solvency II: Equity release mortgages (ERMs) webpage* on 25 October 2018. Following feedback on *CP13/18: Solvency II: ERM*s, the PRA has decided to postpone the implementation date of its proposals for ERMs from 31 December 2018 to 'not before 31 December 2019'.

In CP13/18 the PRA made a number of proposals to address concerns that firms holding ERMs may be overstating the MA benefit. These could have significant implications for the capital position of insurers with large equity release portfolios. See our *At a glance: PRA issues significant consultation on treatment of ERMs by*

insurers for further information. The consultation proposed an implementation date of 31 December 2018, but allowed significantly affected insurers to phase in the requirements over up to three years.

The PRA is announcing this postponement now to help insurers planning for the 2018 year-end. However, it still intends to consider the consultation responses further and look at the impact, if any, of the updated implementation date to the proposed phase-in period. It plans to publish final policy and supervisory statements in due course.

PRA fine tunes Solvency II policy

The PRA published the following final Solvency II policy statements, including the related supervisory statements and rules on 17 October 2018: *PS22/18 Solvency II: Volatility adjustment (VA)*, *PS23/18 Solvency II: Internal models – modelling of the VA* and *PS24/18 Solvency II: Updates to internal model output reporting*.

Alongside *PS24/18* the PRA published v1.0.0 of the BoE insurance XBRL taxonomy on the *Regulatory reporting – insurance sector page*.

Further to the consultation process, the PRA has not generally altered the substance of its expectations. It makes a number of minor amendments, clarifications and

corrections to the draft policies. It also changes the endorsement of the application of the VA to make the process more streamlined.

The rule changes and supervisory statements came into effect on publication.

Hybrid instruments – PRA consults on tax changes

HMRC introduced tax changes for hybrid instruments in the Budget on 29 October 2018. In response the PRA published CP27/18 – Solvency II: Adjusting for the reduction of loss absorbency where own fund instruments are taxed on write down on 31 October 2018. It intends to amend SS 3/15 – Solvency II: the quality of capital instruments for the implications of these proposed tax changes on Tier 1 own funds. The consultation proposes that, for any restricted Tier 1 instrument issued after 1 February 2019 which writes down on trigger, the maximum tax charge generated by a write-down should be excluded from own funds.

The comment period ends on **2 January 2019**.

Supervision

EIOPA calls for wider mandate

On 8 October 2018, ECON held a hearing at which the chairs of the three ESAs gave evidence of their authorities’ activities and

experience during 2018. In his Introductory statement, Gabriel Bernardino, Chairman of EIOPA, outlined EIOPA’s achievements and the challenges ahead, particularly focusing on EIOPA’s number one priority: supervisory convergence.

Bernardino’s overview of EIOPA’s achievements includes the provision of advice to the EC on the review of Solvency II and the range of oversight activities developed to support national supervisors. He highlights a number of new tools used by EIOPA to enhance supervisory equivalence including the introduction of cross-border cooperation platforms, new activities added to its conduct of business strategy, investigations into breaches or non-application of EU law and development of the supervisory convergence plan. EIOPA also published a leaflet summarising its Key achievements October 2017 – September 2018 on 8 October 2018.

Bernardino calls for EIOPA regulation to be strengthened, with a mandate to perform independent evaluations of national supervisory practices and to act more intrusively when it detects early signs of cross-border risks. He also believes that an effective oversight of the application of equivalence decisions should be considered. He highlights cross-border cooperation platforms, independent assessment of internal models, enhanced consumer

protection and transparency of stress tests as specific areas requiring stronger regulation.

Bernardino concludes by considering future challenges for insurers and pension providers such as sustainable finance, cyber risk, Brexit and development of the Pan-European Personal Pension Product.

PRA remodels its supervisory approach

The PRA updated its Approach to insurance supervision on 31 October 2018. It makes widespread amendments to the March 2016 version to simplify and improve its readability and update it for recent policy developments including:

- extension of SM&CR to insurers from 10 December 2018
- inclusion of operational resilience
- the UK’s future relationship with the EU.

The PRA is extending the SM&CR to insurers to strengthen individual accountability and reinforce collective responsibility. It views individual accountability as a key tool in the supervision of insurers.

The PRA expects firms to identify individuals responsible for SMFs and to document their responsibilities clearly. It

particularly highlights the ‘duty of responsibility’ whereby senior management are required to take reasonable steps to prevent or stop regulatory breaches in their area of responsibility; and a requirement to ensure that any delegation of their responsibilities is to an appropriate person and that they oversee the discharge of the delegated responsibility effectively. It expects senior management committees to operate in a spirit of collective responsibility, rather than simply placing the burden on the committee chair who holds the SMF responsibility.

Given the increasing reliance on digital systems and platforms and the risk of cyber-attacks, the PRA has added operational resilience requirements to its approach. These focus on the continuity of the business services that a firm’s customers and the wider economy rely upon. The PRA expects firms to develop impact tolerances based on a range of severe but plausible scenarios. It also notes that the board is responsible for operational resilience, the need for sufficient challenge to the executive and access to people with appropriate technical skills.

The PRA’s main focus regarding Brexit is to ensure that the transition to a new relationship is as smooth and orderly as possible to minimise risks to its objectives. It plans to use mechanisms such as the

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Temporary Permissions Regime to bridge incoming EU-27 firms for three years while they seek an authorisation to continue business in the UK.

Accounting

IFRS 17

EIOPA backs implementation of IFRS 17

EIOPA published its [Analysis of IFRS 17 Insurance Contracts](#) on 19 October 2018. It considers the impact on EU insurers of implementing IFRS 17 and the relationship between insurers' financial and prudential reporting.

Overall, EIOPA thinks that implementing IFRS 17 will be beneficial for the EU public good as it expects it to significantly improve insurers' financial reporting. It believes the increased transparency and comparability of insurers' financial statements will give a better insight into insurers' business models and lead to greater financial stability in the EEA. EIOPA also considers the measurement of insurance obligations under IFRS 17 better reflects economic reality – and so supports efficient risk management and allows stakeholders to gain important insights into the entity's business model, exposures and performance.

Meanwhile, EIOPA is concerned that some concepts in IFRS 17 may affect the comparability and relevance of the financial statements and so need to be addressed. It believes IFRS 17's principles on determining the applicable discount rate and risk adjustment may have exceeded the appropriate level of allowing for entity-specific inputs, giving rise to significantly different and potentially incomparable results. EIOPA also believes that areas such as the level of contracts' aggregation or gains from reinsurance contracts held may lead to added complexity.

EIOPA adds that inputs and processes developed for Solvency II will help with the practical implementation of IFRS 17, but may need to be adapted.

Exchanging views on IFRS 17 endorsement process

The ESAs published a [joint letter](#) to the European Financial Reporting Advisory Group (EFRAG) on the endorsement process of IFRS 17 insurance contracts on 19 October 2018. Whilst the letter does not express any technical views on IFRS 17, it notes that the ESAs would have expected a more transparent decision-making process around the recent EFRAG board letter to the IASB, which urges the IASB to change key building blocks of IFRS 17. It also highlights the importance of the timely

completion of the endorsement process given financial conglomerates undertaking insurance activities have been granted the option to defer the application of IFRS 9, the new standard on financial instruments, until 1 January 2021, to coincide with the effective date of IFRS 17.

EFRAG published its [response](#) to the letter on 26 October 2018. It concludes that if the IASB confirms that IFRS 17 will not be changed, EFRAG will continue with a draft and then final endorsement advice, albeit with a delay compared to the original timetable. But should the IASB decide to reopen IFRS 17, then EFRAG will suspend its endorsement advice for the duration of the IASB's re-deliberations and will contribute to the IASB's due process during that period.

Our publications

The latest on IFRS 17 implementation

At its meeting on 24 October 2018, the IASB discussed stakeholder concerns regarding the implementation of IFRS 17. It agreed that any potential changes to IFRS 17 should not:

- result in less useful information for investors
- disrupt existing implementation processes

- risk undue delays in the effective date of the standard.

In the coming months, the IASB is planning to discuss the need to modify IFRS 17 including a potential deferral of the effective date. If it identifies any justified changes to the standard, it intends to follow the normal due process for standard-setting, including developing an exposure draft and subsequent public consultation. See our In Transition publication [The latest on IFRS 17 implementation](#) for details.

Solvency II

SFCR audit – PRA outlines final policy

The PRA published [PS 25/18 Solvency II: external audit of the public disclosure requirement](#) on 17 October 2018. It confirms the PRA's final policy to remove the audit requirement in respect of the SFCR for smaller insurers for financial years ending on or after 15 November 2018. It includes the final amended [External Audit Part of the PRA Rulebook](#) and an updated [SS 11/16 'Solvency II: External Audit'](#).

In line with the consultation (CP8/18), the final policy requires insurers to determine their eligibility for the exemption by reference to a 'score' based on gross written premiums and best estimate liabilities. See our [At a glance: PRA removes SFCR audit requirements for smaller insurers](#) for further details.

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Based on feedback to the consultation, the PRA intends to introduce a two-year smoothing mechanism similar in operation to the small company audit exemption under the Companies Act. This is to avoid firms with scores close to the threshold moving in and out of the requirement on a year-by-year basis. As the PRA considers this to be a significant change to its proposals, it has included in the policy statement an additional impact assessment on firms, and specifically mutuals.

Also this month

ABI

The ABI and Department for Health and Social Care launched an updated [Code on the use of genetic testing in the insurance market](#) on 22 October 2018. Insurers have again committed to not asking customers about predictive genetic test results when applying for insurance. The updated code is open-ended, whereas the previous version expired every three years unless it was extended.

EIOPA

- EIOPA published a [speech](#) given by EIOPA Chairman Gabriel Bernardino at the International Conference on Insurance Regulation on 18 October 2018, covering the Solvency II review,

proportionality and supervisory convergence.

- EIOPA published its [Risk Dashboard for October 2018](#) on 22 October 2018. Overall it finds risk exposures for the EU insurance sector remain stable.
- In October 2018, EIOPA published answers to questions on: [\(EU\) No 2015-2011 lists of regional governments local authorities exposures](#), [\(EU\) No 2015-2450 templates for the submission of information to the supervisory authorities](#) and [\(EU\) 2015-35 supplementing Directive 2009-138](#). EIOPA publishes [Q&A on Regulation](#) to ensure consistent and effective application of EU regulation and to aid supervisory convergence.

FATF

The FATF published [Guidance for a Risk-Based Approach for the Life-Insurance Sector on 25 October 2018](#). It gives [non-binding guidance for a risk-based approach to fight money laundering and terrorist financing for the life insurance sector](#). The approach encourages supervisors, financial institutions and intermediaries to identify, assess and understand the money laundering and terrorist financing risks to which they are exposed, so they can focus resources where the risks are highest.

UK Parliament

Following the House of Commons [report stage and third reading](#), Parliament published the [Commons amendments](#) to the Civil Liability Bill on 24 October 2018. It makes minor corrections to the Bill and adds details of the impact reporting requirements to be covered by the Regulations.

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
27/11/18	<u>Draft ITS amending Commission Implementing Regulation (EU) 680/2014 with regard to securitisations</u>	EBA
27/11/18	<u>Draft Implementing Standards amending Implementing Regulation (EU) No 80/2014 with regard to FINREP</u>	EBA
03/12/18	<u>MS18/1.1: General Insurance Pricing Practices Terms of reference</u>	FCA
06/12/18	<u>CP18/26 Claims management companies: how we propose to apply the SM&CR</u>	FCA
07/12/18	<u>CP18/28: Brexit: proposed changes to the Handbook and Binding Technical Standards – first consultation</u>	FCA
07/12/18	<u>CP18/29: Temporary permissions regime for inbound firms and funds</u>	FCA
07/12/18	<u>Request for Feedback on Methodological Considerations regarding Illiquid Liabilities</u>	EIOPA
10/12/18	<u>GC18/4: SM&CR: Proposed guidance on statements of responsibilities and responsibilities maps for FCA firms</u>	FCA
12/12/18	<u>CP19/18 Regulatory reporting: European Banking Authority Taxonomy 2.9</u>	PRA
14/12/18	<u>CP18/32: Recovering the costs of the Office for Professional Body Anti-Money-laundering Supervision: proposed fee rates for 2018/19</u>	FCA
21/12/18	<u>CP18/31: Increasing the award limit for the Financial Ombudsman Service</u>	FCA
02/01/19	<u>The Bank of England's approach to resolution statements of policy and onshored Binding Technical Standards</u>	BoE
02/01/19	<u>The Bank of England's approach to amending financial services legislation under the European Union (Withdrawal) Act 2018</u>	BoE
02/01/19	<u>CP26/18 UK withdrawal from the EU: Changes to PRA Rulebook and onshored Binding Technical Standards</u>	PRA
02/01/19	<u>Fees for non-UK CCP applications for recognition 2018/19</u>	BoE
02/01/19	<u>UK withdrawal from the EU: Changes to FMI rules and onshored Binding Technical Standards</u>	BoE

Executive summary	Assessing value in investment funds - are firms ready?	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
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Closing date for responses	Paper	Institution
02/01/19	<i>CP27/18 Solvency II: Adjusting for the reduction of loss absorbency where own fund instruments are taxed on write down</i>	PRA
15/01/19	<i>CP23/18: Enhancing banks' and insurers' approaches to managing the financial risks from climate change</i>	PRA
16/01/19	<i>Leverage ratio treatment of client cleared derivatives</i>	Basel Committee
22/01/19	<i>CP24/18 Occasional Consultation Paper</i>	PRA
31/01/19	<i>DP18/8: Climate change and green finance</i>	FCA
31/01/19	<i>CP 18/27: Consultation on illiquid assets and open-ended funds and feedback to Discussion Paper 17/1</i>	FCA
31/01/19	<i>DP18/9: Fair Pricing in Financial Services</i>	FCA

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Forthcoming publications in 2018

Date	Topic	Type	Institution
Accounting			
TBD 2018	RTS on methods of prudential consolidation	Technical standards	EBA
Asset management			
Q1 2019	Asset management market study remedies	Policy statement	FCA
Banking			
Q4 2018	Strategic review of retail banking business models	Consultation paper	FCA
Q4 2018	Improving competition in current accounts	Policy statement	FCA
Q4 2018	Mortgage market study final report	Report	FCA
December 2018	Approach to final RTS and EBA guidelines under PSD2 – PS to CP18/25	Policy statement	FCA
January 2019	General standards and communication rules for the payment services and e-money sectors – PS to CP18/21	Policy statement	FCA
Consumer credit			
Q4 2018	Motor finance review	Final report	FCA
Q1 2019	Consumer Credit Act retained provisions review	Consultation paper	FCA
Q1 2019	Debt management sector review	Review findings	FCA
Q1 2019	Market study on credit information	Terms of reference	FCA
Financial crime, security and market abuse			
Q4 2018	RTS on central contract points under AMLD4	Technical standards	EBA
Insurance			
Q4 2018	Value in the distribution chain review	Review findings	FCA
Q4 2018	Wholesale insurance brokers market study	Interim report	FCA
Q4 2018	Patient Capital investment in authorised funds	Discussion paper	FCA

Date	Topic	Type	Institution
<i>Pensions</i>			
Q4 2018	Non-workplace pensions	Feedback statement	FCA
Q1 2019	Savings adequacy	Occasional paper	FCA
<i>Securities and markets</i>			
Q4 2018	Technical standards under EuSEF, EuVECA, ELTIF and SFTR	Technical standards	ESMA
Q4 2018	Technical standards on revised Short Selling Regulation	Technical standards	ESMA
Q1 2019	Approach to market integrity	Report for consultation	FCA
Q2 2019	Money laundering in capital markets	Report	FCA
<i>Supervision, governance and reporting</i>			
November 2018	Regulatory fees and levies: policy proposals for 2019/20	Consultation paper	FCA
December 2018	How we will regulate claims management companies – PS to CP18/15 and CP18/23	Policy statement	FCA

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

Glossary

ABI	Association of British Insurers	CCA	Consumer Credit Act 1974 (as amended)
ABS	Asset Backed Security	CCB	Countercyclical capital buffer
AIF	Alternative Investment Fund	CCD	Consumer Credit Directive 2008/48/EC
AIFM	Alternative Investment Fund Manager	CCPs	Central Counterparties
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU	CDS	Credit Default Swaps
AML	Anti-Money Laundering	CET1	Common Equity Tier 1
AMLD3	3rd Money Laundering Directive 2005/60/EC	CFTC	Commodities Futures Trading Commission (US)
AMLD4	4 th Money Laundering Directive 2015/849/EU	CGFS	Committee on the Global Financial System (of the BIS)
AMLD5	5 th Money Laundering Directive	CIS	Collective Investment Schemes
AQR	Asset Quality Review	CMA	Competition and Markets Authority
ASB	UK Accounting Standards Board	CMU	Capital markets union
Banking Reform Act (2013)	Financial Services (Banking Reform) Act 2013	COBS	FCA conduct of business sourcebook
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework	COCON	FCA code of conduct sourcebook
Basel III	Basel III: International Regulatory Framework for Banks	CoCos	Contingent convertible securities
Basel Committee	Basel Committee of Banking Supervision (of the BIS)	CONC	FCA consumer credit sourcebook
BBA	British Bankers' Association	COREP	Standardised European common reporting
BCR	Basic capital requirement (for insurers)	Council	Generic term representing all ten configurations of the Council of the European Union
BIS	Bank for International Settlements	CPMI	Committee on Payments and Market Infrastructures
BoE	Bank of England	CRA1	Regulation on Credit Rating Agencies (EC) No 1060/2009
BMR	EU Benchmarks Regulation	CRA2	Regulation amending the Credit Rating Agencies Regulation (EU) No 513/2011
BRRD	Bank Recovery and Resolution Directive 2014/59/EU	CRA3	Proposal to amend the Credit Rating Agencies Regulation and directives related to credit rating agencies COM(2011) 746 final
CASS	Client Assets sourcebook	CRAs	Credit Rating Agencies

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CRD	‘Capital Requirements Directive’: collectively refers to Directive 2006/48/EC and Directive 2006/49/EC			ECON	Economic and Monetary Affairs Committee of the European Parliament		
CRD II	Amending Directive 2009/111/EC			ECP	Eligible counterparty		
CRD III	Amending Directive 2010/76/EU			EDIS	European Deposit Insurance Scheme		
CRD IV	Capital Requirements Directive 2013/36/EU			EEA	European Economic Area		
CRR	Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms			EEC	European Economic Community		
CSD	Central Securities Depository			EIOPA	European Insurance and Occupations Pension Authority		
CSDR	Central Securities Depositories Regulation (EU) 909/2014			ELTIF	European long-term investment fund		
CSMAD	Criminal Sanctions Market Abuse Directive 2014/57/EU			EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EU) No 648/2012		
CTF	Counter Terrorist Financing			EP	European Parliament		
DEPP	The FCA’s Decision Procedure and Penalties Manual			EPC	European Payments Council		
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union			ESA	European Supervisory Authority (i.e. generic term for EBA, EIOPA and ESMA)		
DG MARKT	Internal Market and Services Directorate General of the European Commission			ESCB	European System of Central Banks		
DGS	Deposit Guarantee Scheme			ESEF	European Single Electronic Format		
DGSD	Deposit Guarantee Schemes Directive 2014/49/EU			ESMA	European Securities and Markets Authority		
DLT	Distributed ledger technology			ESRB	European Systemic Risk Board		
D-SIBs	Domestic Systemically Important Banks			ESTER	Euro short-term rate		
EBA	European Banking Authority			ETC	Exchange-traded commodity		
EC	European Commission			ETN	Exchange-traded note		
ECB	European Central Bank			EU	European Union		
ECJ	European Court of Justice			EURIBOR	Euro Interbank Offered Rate		
ECOFIN	Economic and Financial Affairs Council (configuration of the Council of the European Union dealing with financial and fiscal and competition issues)			Eurosystem	System of central banks in the euro area, including the ECB		
				EuVECA	European Venture Capital Funds Regulation (EU) 345/2013		
				FAMR	Financial Advice Market Review		
				FATF	Financial Action Task Force		

FC	Financial counterparty under EMIR	G-SIFIs	Global Systemically Important Financial Institutions
FCA	Financial Conduct Authority	G-SIIs	Global Systemically Important Institutions
Fiat currency	Currency whose value is underpinned by the strength of the issuing government, e.g. USD, GBP, euro and other major world currencies	HCSTC	High Cost Short Term Credit
FICC	Fixed income, currencies and commodities	HMRC	Her Majesty's Revenue and Customs
FICOD1	Amending Directive 2011/89/EU of 16 November 2011	HMT	Her Majesty's Treasury
FICOD	Financial Conglomerates Directive 2002/87/EC	IA	Investment Association
FMI	Financial Market Infrastructure	IAIS	International Association of Insurance Supervisors
FMLC	Financial Markets Law Committee	IASB	International Accounting Standards Board
FMSB	FICC Markets Standard Board	IBA	ICE Benchmark Administration
FOS	Financial Ombudsman Service	ICAAP	Internal Capital Adequacy Assessment Process
FPC	Financial Policy Committee	ICAS	Individual Capital Adequacy Standards
FRC	Financial Reporting Council	ICO	Initial coin offering
FSA	Financial Services Authority	ICOBs	Insurance: Conduct of Business Sourcebook
FSB	Financial Stability Board	IDD	The Insurance Distribution Directive (EU) 2016/97
FSBRA	Financial Services (Banking Reform) Act 2013	IFRS	International Financial Reporting Standards
FS Act 2012	Financial Services Act 2012	ILAA	Internal Liquidity Adequacy Assessment
FSCP	Financial Services Consumer Panel	ILAAP	Internal Liquidity Adequacy Assessment Process
FSCS	Financial Services Compensation Scheme	ILS	Insurance-Linked Securities
FSI	Financial Stability Institute (of the BIS)	IMAP	Internal Model Approval Process
FSMA	Financial Services and Markets Act 2000	IMCO	The European Parliament's Committee on Internal Market and Consumer Protection
FTT	Financial Transaction Tax	IMD	Insurance Mediation Directive 2002/92/EC
G30	Group of 30	IMF	International Monetary Fund
GAAP	Generally Accepted Accounting Principles	IORP	Institutions for Occupational Retirement Provision
GDPR	General Data Protection Regulation	IOSCO	International Organisations of Securities Commissions
G-SIBs	Global Systemically Important Banks	IRB	Internal Ratings Based

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ISDA	International Swaps and Derivatives Association			MoJ	Ministry of Justice		
ITS	Implementing Technical Standards			MoU	Memorandum of Understanding		
JCESA	Joint Committee of the European Supervisory Authorities			MPC	Monetary Policy Committee		
JMLSG	Joint Money Laundering Steering Committee			MREL	Minimum requirements for own funds and eligible liabilities		
KID	Key Information Document			MTF	Multilateral Trading Facility		
KYC	Know your client			NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution		
LCR	Liquidity coverage ratio			NCA	National competent authority		
LEI	Legal Entity Identifier			NDF	Non-Directive Firms – firms that do not fall within Solvency II		
LIBOR	London Interbank Offered Rate			NFC	Non-financial counterparty under EMIR		
MA	Matching Adjustment			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		
MAD	Market Abuse Directive 2003/6/EC			NSFR	Net Stable Funding Ratio		
MAR	Market Abuse Regulation (EU) 596/2014			NST	National specific template		
Material Risk Takers Regulation	Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the EP and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile			NURS	Non-UCITS Retail Scheme		
MCD	Mortgage Credit Directive 2014/17/EU			OECD	Organisation for Economic Cooperation and Development		
MCOB	Mortgages and Home Finance: Conduct of Business sourcebook			Official Journal	Official Journal of the European Union		
MCR	Minimum Capital Requirement			OFT	Office of Fair Trading		
Member States	Countries which are members of the European Union			Omnibus II	Second Directive amending existing legislation to reflect Lisbon Treaty and new supervisory infrastructure (2014/51/EU). Amends the Prospectus Directive (Directive 2003/71/EC) and Solvency II (Directive 2009/138/EC)		
MiFID	Markets in Financial Instruments Directive 2004/39/EC			ORSA	Own Risk Solvency Assessment		
MiFID II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MiFIR			O-SIIs	Other systemically important institutions		
MiFIR	Markets in Financial Instruments Regulation (EU) No 600/2014			OTC	Over-The-Counter		
MLRO	Money Laundering Reporting Officer			OTF	Organised trading facility		
MMF	Money Market Fund			PAD	Payment Accounts Directive 2014/92/EU		

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PIFs	Personal investment firms			SCV	Single customer view		
PPI	Payment Protection Insurance			SEC	Securities and Exchange Commission (US)		
P2P	Peer to Peer			Securitisation Regulation	Proposal for a Regulation of the EP and Council laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (COM(2015)472/F1)		
PERG	Perimeter Guidance Manual			SEPA	Single Euro Payments Area		
PRA	Prudential Regulation Authority			SFP	Structured finance product		
Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis			SFT	Securities financing transaction		
PRIIPs	Packaged retail and insurance-based investment products			SFTR	Securities Financing Transactions Regulation (EU) 2015/2365		
PSD2	The revised Payment Services Directive (EU) 2015/2366			SFO	Serious Fraud Office		
PSP	Payment service provider			SI	Systematic internaliser		
PSR	Payment Systems Regulator			SIMF	Senior Insurer Manager Function		
QIS	Quantitative Impact Study			SIMR	Senior Insurer Managers Regime		
QRT	Quantitative Reporting Template			SM&CR	Senior Managers and Certification Regime		
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)			SME	Small and Medium sized Enterprises		
RDR	Retail Distribution Review			SMF	Senior Manager Function		
REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011			SOCA	Serious Organised Crime Agency		
RFB	Ring-fenced bank			SOFR	Secured Overnight Financing Rate		
RFQ	Request for quote			Solvency II	Directive 2009/138/EC		
RFRs	Risk-free rates			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			SRB	Single Resolution Board		
RWA	Risk-weighted assets			SRF	Single Resolution Fund		
SARON	Swiss Average Rate Overnight			SRM	Single Resolution Mechanism		
SCR	Solvency Capital Requirement (under Solvency II)						

SSM	Single Supervisory Mechanism
SSR	Short Selling Regulation (EU) 236/2012
SUP	FCA supervision manual
SYSC	The part of the FCA handbook titled senior management arrangements, systems and controls
T2S	TARGET2-Securities
TC	Treasury Committee
TLAC	Total Loss Absorbing Capacity
TMTP	Transitional Measure on Technical Provisions
TONA	Tokyo Overnight Average Rate
TR	Trade Repository
TPR	The Pensions Regulator
UCITS	Undertakings for Collective Investments in Transferable Securities
UCITS V	UCITS V Directive 2014/91/EU
UKLA	UK Listing Authority
UTI	Unique Trade Identifier
XBRL	eXtensible Business Reporting Language

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