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FS regulatory, accounting and audit bulletin

FS Regulatory Insights

October 2019

In this month's edition:

- **Conduct:** FCA reveals MiFID II research review findings
- **Insurance:** PRA sets out expectations for insurers' investments
- **LIBOR:** Working Group checklist aids transition plans
- **Analysis:** Preparing for FRTB



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.

As the pace of regulatory developments picks up after the usual summer lull, in recent weeks we’ve seen important developments on insurance prudential supervision and MiFID II in particular.

Firstly, the FCA published the findings from its supervisory review into the MiFID II research unbundling regime. The review focused on how asset managers and sell-side firms such as investment banks and brokers have embedded the rules since their introduction in January

2018. While the FCA found the rules have had a positive impact so far, it did identify some weaker practices which firms should take steps to address, such as research valuation practices among asset managers.

Turning to the insurance sector, the PRA consulted on draft expectations for insurers’ investment strategies, investment risk management and governance systems in line with the Prudent Person Principle (PPP) under the Solvency II Directive. The PRA sets out its expectation for firms to set internal quantitative investment limits for asset exposures, and to document how these limits are determined and how they are consistent with the firm’s overall risk appetite. It proposes specific areas (such as asset class concentration, valuation risk of non-traded assets and intra-group investments) that it expects firms to consider, to comply with the PPP.

Insurers should also consider the PRA’s supervisory statement on managing liquidity risk. The PRA outlines a framework for how it expects insurers to manage liquidity risk, and recommends a proportionate approach, according to the scale, nature and complexity of firms’ activities. The statement requires significant attention from life and non-life insurers, and is likely to impact how they manage insurance liabilities and investments, as well as raising a number of governance, organisational and operational considerations.

For market participants preparing for the LIBOR transition, a checklist produced by the US Alternative Reference Rates Committee on moving from LIBOR to the SOFR should prove useful. The checklist contains recommendations across ten categories to manage the transition, including the implementation of programme governance and the mitigation of associated risks. While the document is formally focused on banking institutions and SOFR, it provides a good basis for defining a LIBOR transition strategy for all types of financial market participants.

In the banking sector, the PRA consulted on its approach to implementing the EBA’s recent regulatory products relating to Probability of Default and Loss Given Default estimation, and the treatment of defaulted exposures in the IRB approach to credit risk. The consultation clarifies timelines for the implementation of these requirements and segments these by residential mortgages (31 December 2020) and other portfolios (1 Jan 2022). For IRB firms that have been grappling with the suite of regulatory changes, this paper provides clarity on timelines and minimises the need to develop multiple iterations of models. But for firms that were planning to implement the risk parameter estimation changes subsequent to 2020, this change potentially compresses timelines. Additionally, some of the proposed changes may have a sizeable impact on

RWAs, and increase firms’ credit risk capital requirements.

Many banks are also starting to prepare for the implementation of FRTB. This was included in the CRR II for reporting purposes only for large firms, requiring them to start reporting the calculation derived from the revised standardised approach by the end of 2020. On the other hand, firms that use the revised internal model approach will have only three additional years to start reporting the calculation. Given the tight timescales, the FRTB is expected to present many challenges for firms, requiring them to develop the necessary systems infrastructure to meet substantial new data requirements, as well as additional risk sensitivity and complexity in the market risk models. In our feature article this month we discuss these issues in more detail, and consider what firms should be doing to prepare while waiting for the EC to put forward the CRR III legislative proposal to fully implement the FRTB in the EU.

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What does the new market risk framework mean for firms?



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The FRTB is one of the most challenging aspects of the CRR II that firms will be required to implement, when it initially comes into force in January 2021. The implementation of the new regime carries a number of operational complexities requiring a significant amount of resources, regardless of whether firms currently use the standardised approach or the Internal Models Approach (IMA) to calculate their market risk capital requirements. Given large firms have only just over a year to comply with the new reporting requirements, it's important they start preparing now. Those firms that focus on implementation now will find the process less costly and problematic towards the implementation deadline.

For now, the CRR II introduces the FRTB only as a reporting requirement for certain firms. This means that the new market risk regime will apply as a binding regulatory capital requirement in the EU only under the CRR III, which is expected to be finalised towards mid-2022. Although Brexit creates some uncertainties in terms of the UK's implementation of the regime, the UK is still expected to implement it in line with the EU's timescales.

While this may give firms in scope some comfort, they should note that early action to prepare for full compliance would be well advised. This is because it may take more time than planned to implement, particularly given

most technical rules currently remain incomplete or subject to further changes. Some of the key implementation challenges include putting in place infrastructure to satisfy the data quality and completeness requirements, adopting the new risk modelling approaches and setting roles and responsibilities across risk, finance, and treasury functions, as well as the trading desks.

The new market risk reporting requirement will initially apply from January 2021 to only those firms with a large trading book, which the CRR II defines as the on- and off-balance sheet business subject to market risks above €500m or 10% of the firm's total assets. Firms with small or medium-sized trading books, on the other hand, will be exempt from the FRTB's reporting requirements for now.

In this article, we focus on the most challenging aspects of the FRTB and discuss what firms should be doing to prepare while waiting for the Commission to put forward the CRR III legislative proposal to fully implement FRTB in the EU.

System implementation and operating model readiness

Those firms in scope need to start reporting their market risk capital requirements derived from the revised standardised approach, which the regime refers to as the Alternative Standardised Approach (ASA). Firms should

note that they will have to comply with this requirement within one year from the adoption of the Commission's delegated act (DA), which is currently expected by 31 December 2019.

For firms that wish to apply the internal models approach, which the regime refers to as the Alternative Internal Model Approach, reporting requirements under this method will start within three years of the adoption of the DA. However, such firms will also need to report on ASA as per the CRR reporting timelines. This will act as a floor, although the capital floor requirements do not feature in CRR II and are expected to be implemented as part of the forthcoming CRR III legislation.

Those firms that are in scope of the CRR II reporting requirement will also be required to continue calculating their regulatory market risk capital requirements using the current CRR framework until FRTB becomes binding for regulatory capital adequacy ratio purposes under CRR III. This means that firms will have to run parallel processes under two frameworks until CRR III supersedes CRR II.

A major challenge will be the quality and availability of data at the required level of granularity and aggregation, as well as enhancements to the existing technological infrastructures and calculation platforms. This requires impacted firms to develop a clear roadmap to deliver on their system

implementation and operating model readiness ahead of the regulatory reporting and business requirements. This will require them to conduct a cost benefit analysis across alternative options, taking into account not only financial costs but also other factors such as flexibility, complexity and ease of use.

ASA implementation remains challenging

The FRTB requirements under CRR II are not complete as they require additional 'technical adjustments' which will be part of the DA by 31 December 2019 and the 'rules-based' RTS from the EBA by June 2021, which will make an implementation by January 2021 more challenging. On the other hand, the EBA is expected to complete additional 'principles-based' RTS by June 2024. These will include the IMA-related technical standards with respect to material extensions and changes and the assessment methodology, as well as the rules on the extraordinary circumstances under which firms will be permitted to continue using the IMA and to limit the backtesting add-on.

Firms should note that there are 13 technical adjustments for ASA, three of which will provide end-to-end requirements for the treatment of curvature risk, index instruments and multi-underlying options, and collective investment undertakings. Other adjustments will mainly focus on clarifying the specific risk weights to apply by asset class, e.g. the shocks to apply for general interest rate risk.

In addition, there are 12 RTS that the EBA has been mandated to produce, out of a total of about 30 under CRR II. This shows that the FRTB, as a whole, has the highest concentration of pending additional technical standards compared with other CRR II requirements. Firms should particularly note that four of these RTS will provide further clarifications on the ASA method, with two of those being particularly significant: (i) to provide a range of methods for the calculation of jump-to-default (JTD) and (ii) to define what an exotic underlying is.

The RTS on JTD is important from an implementation perspective as it will provide a range of methods to calculate JTD for the default risk charge, rules that currently remain too generic. On the other hand, the RTS on exotic underlying will provide a definition of what constitutes an exotic underlying for the purpose of the residual risk add-on calculation. Depending on the scope of the definition, this may have implications for firms actively trading in exotic products as the RRAO charge is currently 1% of the sum of the gross notional amount, with an exemption for perfectly offsetting, back-to-back positions.

As per the EBA's June 2019 roadmap on FRTB, these RTS are expected to be finalised by June 2021. Given this challenging timescale, FRTB may present additional difficulties for some firms, requiring them to develop the necessary system infrastructure to meet substantial new regulatory classifications, modelling and data requirements. These will also be fundamental to producing timely and

accurate market risk calculations. So firms would be well advised to start implementing requirements while awaiting further clarifications and technical standards.

IMA approval requires early preparation

It's unclear how many firms that have IMA approval under the current framework will opt for the model approach. But those firms with an IMA approval should note that they will not be allowed to grandfather their existing permission into the new framework. This means that firms will need to make significant updates to their risk modelling to meet the new IMA requirements.

The key IMA requirements include the shift from Value-at-Risk to Expected Shortfall, stress scenario risk measures that need to be produced daily instead of weekly, and the move from a single holding period of ten days to liquidity horizons that vary depending on the asset class. Firms should also take into account the costly capital add-ons that they may have to meet for their non-modellable risk factors. Further challenges will include stricter qualitative and quantitative modelling requirements such as the IMA approval with Profit and Loss attribution tests and backtesting requirements at a trading desk level.

Given that the timelines for implementation remain tight, firms that seek IMA approval would be well advised to start now, in parallel with their standardised approach implementation under the dual reporting

regime. This requires firms to take steps to better align their front office, risk, treasury and finance functions, as well as to ensure they have a consistent firm-wide infrastructure in place to store, process and maintain market risk data.

Trading book-banking book boundary awaiting clarification

While the FRTB implements a clear and strict boundary between the trading and banking books, the CRR II includes a provision for those 'exceptional circumstances' which justify a reclassification of positions between the two books, subject to the approval of the NCAs. But firms should note that the DA is expected to further refine the definition of the trading book, which may lead to significant changes in their capital requirements. Given this may require them to change their trading strategies and business models, they should start reviewing their asset portfolios sooner rather than later.

The way forward

Increased operational complexity of market risk processes and requirements require firms to act fast. For some firms the FRTB will require a significant investment in technology, risk modelling and new staff, with a subsequent increase in costs. Those firms acting quickly will not only be able to meet implementation challenges but also to capture associated synergies from data quality improvements, risk modelling enhancements, adoption of an integrated ecosystem and alignment of internal functions.

The June 2019 EBA roadmap provides a rough timeline for the FRTB deliverables. But given some of these timelines take effect after the start of the regulatory reporting period, firms might have to rely on consultation papers or informal guidance for the first two to three quarters of the reporting regime. The timeline for additional standards to clarify reporting requirements will add multiple layers of complexity to the existing implementation challenges for both the standardised approach and IMA.

Firms should note that in the case of a no-deal Brexit, the UK is expected to implement the FRTB in line with the EU implementation timeframe as per the Government's Statutory Instrument which onshores the provisions of CRR II into UK law.

The Commission is expected to put forward a legislative proposal to fully implement FRTB at EU level in mid-2020, which will include FRTB as capital requirements. This finalised version of FRTB is expected to be integrated into the CRR III legislative proposal, which is due to be finalised in the second half of 2020 and to implement the remaining elements of Basel III in the EU. Uncertainty remains as to whether the UK would follow the same timelines for CRR III in case of a no-deal Brexit, i.e. with no transitional agreement.

So firms should remain vigilant for any new developments in the EU legislative process, while ramping up their FRTB implementation. At the very least, firms should start assessing the impact of the FRTB recalibrations on their trading and risk infrastructure, reviewing new

data and reporting requirements and evaluating which approaches to adopt for their trading book portfolios as well as rethinking their business strategies, where needed. The benefits of early engagement and action are clear.

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Regulation

Advice

[FCA shares learnings on suitability of advice](#)

Debbie Gupta, Director of Life Insurance and Financial Advice Supervision at the FCA, gave a [speech](#) on 12 September 2019 highlighting how financial advisers can improve the suitability of their advice and mitigate the risk of complaints. The speech touched on four broad areas of advice where the FCA plans to focus its efforts:

- improving standards
- targeting firms that cause the most harm
- supporting consumers
- helping advisers by signposting best practice.

Gupta implored advisers to spend time building a clear picture of the client's needs and objectives, capturing and recording essential information (including 'soft' facts such as personal health) and challenging clients where they may have misunderstandings and misconceptions. Interestingly, she appeared to signal a change in regulatory approach by suggesting firms may wish to record client interactions as the most robust form of evidence. This could create issues from a GDPR perspective, and advisers would need to ensure client consent was obtained.

In relation to matching recommendations to the client's risk profile, Gupta said the key consideration for advisers is to clearly document how a recommendation aligns with the client's attitude to risk. For clients considering a defined benefit pension transfer, she argued a risk assessment should be binary rather than graduated (either they have the capacity and attitude to accept the transfer or they do not). She also urged firms to carry out appropriate due diligence on any third-party tools they use as part of their risk profiling activity to prevent the risk of miscalibration.

Benchmarks

[ISDA consults on IBOR fallbacks](#)

ISDA published a [Consultation on final parameters for the spread and term adjustments in derivatives fallbacks for key Interbank Offered Rates \(IBORs\)](#) on 18 September 2019. It is the third consultation organised by ISDA to amend its derivatives documentation ('2006 definitions') to determine what fallback rate should be used were an IBOR to cease to be published. ISDA seeks final industry views on the length of the period which should be used to calculate the price difference (spread) between an IBOR and an RFR ('lookback period'). Respondents should highlight whether or not a consistent approach across IBORs would be important. ISDA also seeks views on the benefits of a transitional period of one year after the implementation of

a fallback, during which a temporary spread would be applied to contracts. This spread would help mitigate the cliff-edge effect between the cessation of an IBOR and the application of the fallback.

Finally, ISDA explains that it continues to work on 'pre-cessation' events, i.e. events that would determine whether or not market participants should no longer rely on an IBOR and activate the fallback rate in ISDA definitions. A consultation conducted by ISDA in May 2019 revealed significant differences of views on this.

The consultation is open until 23 October 2019. Market participants expect ISDA to deliver its first fallbacks by the end of this year. Further consultations on EURIBOR and EUR LIBOR fallbacks are expected in October 2019.

US Working Group checklist to aid LIBOR transition

The US Alternative Reference Rates Committee (ARRC) published a [Practical implementation list for SOFR adoption](#) on 19 September 2019. The checklist contains recommendations across ten categories to manage the transition from LIBOR to the SOFR. The SOFR is the risk-free rate recommended by the ARRC as an alternative to USD LIBOR.

The recommendations include:

- implementing programme governance
- developing a process to identify LIBOR exposure
- creating new SOFR products

- producing a technology and operational readiness plan.

While the document is formally aimed at banking institutions and focused on SOFR, it will be useful for all market participants involved in the LIBOR transition. The checklist comes as regulators across jurisdictions are increasing their expectations on market participants to prepare for the LIBOR cessation. Financial institutions may find it challenging to identify all the workstreams they need to establish. The ARRC checklist seeks to facilitate this work.

Financial crime

PRA recognises financial crime risks

The PRA issued a [Dear CEO letter](#) about money laundering and terrorist financing risks in prudential supervision on 5 September 2019. The PRA supports the EBA's [opinion](#) on the topic, recognising the risks posed by money laundering and terrorist financing upon its own prudential objectives and the safety and soundness of firms. It's likely the PRA will now focus more on financial crime risks during authorisation, the SREP and when taking corrective measures, as per the EBA opinion.

The PRA reminds firms that senior management need to maintain sufficient knowledge, skills and experience to fulfil their duties. This includes an understanding of how financial crime risks can impact the business and the internal control mechanisms in place to mitigate them. It also reinforces the need for firms to assign the senior management

responsibility for financial crime to a sufficiently senior individual.

Operational resilience

BoE publishes findings from cyber simulation

The BoE published the [high level findings](#) of the November 2018 financial sector cyber simulation exercise on 27 September 2019. The Cross Market Operational Resilience Group commissioned the exercise involving 29 of the most systemically important firms and FMs alongside the financial authorities, to explore the sector's resilience to a severe but plausible cyber-attack scenario impacting the UK.

The BoE concluded that recommendations from previous exercises had been implemented, and it identified further opportunities for improvements on matters such as cross-firm co-ordination, and effective and consistent communications. The Bank found significant variation in the risk tolerance for suspending services during an incident which has prompted a commitment to produce industry guidelines for managing a controlled suspension of service. It also found that differences in the way firms store data could inhibit the ability of the sector to support an operationally paralysed bank, which could lead to wider systemic impacts. As a result, work will be undertaken to scope requirements for providing services via alternative channels which will sit within a wider playbook for use in future incidents.

Sustainability

EU reports on low-carbon benchmarks

The EC's Technical Expert Group on Sustainable Finance (TEG) published its final report on [EU climate benchmarks and benchmarks' ESG disclosures](#) on 30 September 2019. The TEG proposes technical detail to support the EC's formal legislative proposal on low-carbon benchmarks, which reached political agreement earlier in 2019.

The TEG recommends a series of minimum technical requirements for the methodology of low-carbon benchmarks in order to qualify as an EU Climate Transition Benchmark or an EU Paris-Aligned Benchmark. For example, such benchmarks must demonstrate their ability to reduce their own greenhouse gas emissions intensity on an annual basis, and EU Paris-Aligned Benchmarks would need to exclude companies that derive specified proportions of their revenues from higher carbon-emitting activities.

The report also sets out disclosure requirements for benchmark providers in relation to ESG factors and their alignment with the Paris Agreement.

These recommendations will serve as a basis for draft delegated acts, which would then be subject to a formal public consultation and are expected to be adopted in early 2020.

Accounting

PwC publications

Reporting on Companies Act Section 172

Our publication [Navigating the stakeholder agenda – Reporting on Section 172](#) considers

a number of issues emerging from our latest annual review of FTSE 350 reporting ahead of the new Section 172 reporting requirements applying. We have also prepared a [brief guide for boards](#) on how they can tackle s.172 to complement this paper.

IBOR reform – IASB amends IFRS 9, IAS 39 and IFRS 7

The IASB has amended some of its requirements for hedge accounting. The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates. The amendments impact IFRS 9, IAS 39 and IFRS 7. The amendments come into effect from 1 January 2020 subject to EU endorsement. See our [in brief - Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform](#) for further details.

PwC IFRS Talks – IAS 12 income taxes

In the [58th episode](#) of our IFRS Talks podcast series, Tony Debell discusses whether the changing landscape for global taxation makes IAS 12 harder to apply. He considers what's changed recently, what has stayed the same and what are the key areas of regulatory focus.

Also this month

BoE

The BoE published [two speeches](#) on climate risk given by Mark Carney on 22/23 September 2019. The Governor stressed the importance of climate risk and resilience playing a central

role in the decision-making of financial market participants. He suggested that a universal effort is necessary to make climate-related disclosures mandatory, and urged regulators and firms to improve their understanding and management of climate-related financial risks. Finally, the Governor called for ESG investment strategies to become mainstream, but recognised that the inconsistent definition and measurement of ESG acts as a barrier to this.

Council

The Council reached an [agreement](#) on the EU legislative proposal on the sustainability taxonomy on 25 September 2019, which provides the basis for negotiations between the Council and the EP. The taxonomy creates a unified classification system on what can be considered an environmentally sustainable economic activity, which is intended to underpin efforts to channel investments into sustainable activities. The EC originally published its [proposal](#) in May 2018 as part of a package of measures under its Sustainable Finance Action Plan.

FCA

- The FCA [announced](#) it has delayed its call for input on accessing and using data in wholesale markets, in an update on 9 September 2019. This exercise, focusing on innovation in data, will be delayed from Q3 2019 to an unspecified future date to allow firms to focus on Brexit. The regulator says it remains committed to carrying out work in this area, as innovation may create

risks such as barriers to accessing data, and weakening competition.

- The FCA proposed minor changes to its Handbook, in [CP19/27: Quarterly Consultation No 25](#) on 6 September 2019. The changes relate to AIFMD forms, the Disclosure Guidance and Transparency Rules sourcebook, EMIR and Brexit. The consultation closed on 4 October 2019 for some of the proposals, and closes on 1 November 2019 for others.
- The FCA [updated](#) its draft directions for its Brexit Temporary Transitional Power and related guidance, on 26 September 2019. The update extends the proposed length of the directions from 30 June 2020 to 31 December 2020, as well as revoking directions where rule changes elsewhere make these unnecessary. The FCA also reminds firms to continue taking any steps needed to comply with changes in their regulatory obligations following Brexit where no transitional relief applies.
- The FCA published retirement income market data on how consumers are using the pension freedoms, in an [update](#) on 25 September 2019. The data covers the year to March 2019, and includes the value of pension pots accessed during the period, the number of pots used to buy an annuity, the number that were fully withdrawn, and the number of plans that were accessed with regulated advice.

EP

The EP published in-depth analysis [Anti-money laundering – reinforcing the supervisory and regulatory framework](#) on 2 September 2019. The EP outlines the responsibilities of various EU institutions in applying money laundering legislation, explores ways in which the EU's financial crime framework is being improved, and presents ideas for a more harmonised supervisory approach.

ESMA

- ESMA updated its [public register](#) with the latest double volume cap (DVC) data under MiFID II on 6 September 2019. This includes DVC data for the period of 1 August 2018 to 31 July 2019, together with updates to historic data which had already been published. The data shows there have been 59 breaches in equities at the 8% cap, applicable to all trading venues, and 21 breaches in equities at the 4% cap that applies to individual trading venues.
- ESMA [Called for evidence on: effects of product intervention measures regarding CFDs and binary options on market participants and clients](#) on 30 September 2019. ESMA has been asked by the EC to report on its experience of using, and the effect of, product intervention powers. The call for evidence closes on 4 November 2019, after which ESMA will draft its response to the EC.

ISDA

- ISDA published [ISDA SIMM Methodology, version 2.2](#) on 3 September 2019.

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<p>Applicable from 1 December 2019, this version updates the full recalibration and industry backtesting of the methodology and adds additional granularity for certain elements.</p> <ul style="list-style-type: none"> ISDA issued a communication in relation to the uncleared initial margin rules on 6 September 2019. It's created a voluntary self-disclosure template to allow in-scope firms to disclose early whether they expect to meet the 1 September 2020 (Phase 5) and 1 September 2021 (Phase 6) regulatory margin level thresholds. ISDA plans to collate all data submitted by 27 September 2019 and share with all participating firms. ISDA published Frequently Asked Questions on EURIBOR reforms on 10 September 2019. The document explains the main changes brought to EURIBOR by its administrator and how they will impact derivatives markets. ISDA published a Supplement to the 'Plain English' Disclosures for Derivatives Referencing LIBOR and other IBORs on 10 September 2019. The supplement includes information about IBORs and their replacements and should be used in derivatives contracts which reference these rates. ISDA released a Pre-publication of EuroSTR and Revised EONIA Floating Rate Options (FROs) on 20 September. The rates will be included in ISDA FROs 		<p>documentation to provide fallback rates when EONIA ceases to be published.</p> <ul style="list-style-type: none"> ISDA released Legal Guidelines for Smart Derivatives Contracts: Collateral on 12 September 2019. The Guidelines aim to help firms develop and apply technology in how they automate the collateral management process, in a way that is consistent with existing legal and regulatory standards. It also highlights areas that require further industry collaboration to identify and resolve existing legal and regulatory uncertainty. <p>PRA</p> <p>The PRA published policy statement, PS21/19 – Responses to CP13/19 Occasional Consultation Paper on 30 September 2019. The changes include minor amendments to Solvency II related supervisory statements and the discontinuance of the FSA006 market risk supplementary return applicable to certain banks with internal model approach permissions. These changes took effect from 30 September 2019.</p>					

Banking and capital markets

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Regulation

Capital and liquidity

Implementing the IRB roadmap - second phase

The PRA published [CP21/19 Credit risk: Probability of Default \(PD\) and Loss Given Default \(LGD\) estimation](#) on 18 September 2019. This is the second phase of the implementation of the EBA's [IRB roadmap](#), reducing undue variability in IRB models, after the first phase, [PS7/19](#) that covered the definition of default aspects of the roadmap. The PRA proposes changes to the supervisory statement on IRB approaches (SS11/13) that address elements of:

- the EBA guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures
- the final draft RTS on the specification of the nature, severity and duration of an economic downturn
- the EBA guidelines for the estimation of LGD appropriate for an economic downturn.

The amendments relate to: cyclicity of downturn LGD estimates, discount rates, modelling approaches for downturn LGD, identification of economic downturns, LGD exposure level floors for residential mortgages, the treatment of defaulted exposures together

with rating and calibration philosophy for non-mortgage exposure classes.

The PRA also sets out its implementation deadlines for all aspects of the IRB roadmap. This includes 31 December 2020 for residential mortgage portfolios and 1 January 2022 for all other IRB exposure classes. This defers the definition of default deadlines for other exposures put in place by PS7/19 and in part reflects the one-year extension to the end of 2021 that the EBA announced in its July 2019 [IRB roadmap progress report](#). The consultation closes on 18 December 2019.

Finance

Contemplating a STS synthetic securitisation framework

The EBA published a discussion paper, [Draft Report on STS Framework for Synthetic Securitisation under Art 45 of Regulation \(EU\) 2017/2402](#) on 25 September 2019. It examines the feasibility of developing a framework alongside that which already exists for traditional securitisations, including the scope for a corresponding differentiated regulatory capital treatment.

The EBA sets out a list of STS criteria that follow the structure of those already in place for traditional securitisations, adapted for the characteristics of synthetic securitisations, where appropriate. There are also a further eight synthetic-specific criteria addressing

issues such as mitigating counterparty credit risk inherent in synthetic securitisations. These include requirements on eligible protection contracts, counterparties and collateral, certain structural features of these transactions as well as ensuring the framework applies only to balance sheet synthetic securitisation.

Based on the data examined, the EBA suggests there is no evidence that the current performance of synthetic instruments is any worse than traditional securitisations. But it acknowledges its 'very limited experience' with the STS traditional framework so far and the limitations of the performance data used in its analysis. The EBA also makes clear that a preferential regulatory treatment is not currently compliant with Basel Standards.

The EBA makes no recommendation on any potential differentiated regulatory capital treatment. But it invites stakeholder input about this possibility and its potential impact, via a public hearing on 9 October 2019. The comment period closes on 25 November 2019.

Payments

FCA delays SCA compliance under PSD2

The FCA updated the SCA requirements under PSD2 on 2 September 2019. The update:

- sets out expectations for how firms should prepare to implement the SCA requirements
- delays any enforcement action on SCA compliance to give firms extra time for the implementation of SCA in certain areas.

Acknowledging the difficulties in complying with the SCA rules as of 14 September 2019, the FCA says it will adopt a flexible supervisory approach by giving firms more time to implement SCA for online banking services and e-commerce transactions. After 14 March 2020, the FCA says it will start using its supervisory and enforcement powers towards any firms that fail to comply with the SCA requirements for online banking. For firms involved in card-not-present e-commerce transactions, the FCA requires them to implement and comply with SCA fully by 14 March 2021.

Finally, the FCA confirms that Brexit won't affect the implementation of SCA. That's because PSD2 was implemented in the UK through the Payment Services Regulation 2017, with which FCA-regulated entities still have to comply regardless of Brexit.

BoE wants more innovation in payments

Victoria Cleland, Executive Director at BoE, talked about Payments: A platform for innovation on 24 September 2019. The BoE wants to support a more resilient, innovative and competitive payments system that delivers cheaper, prompt and more seamless payments. It plans to contact key firms and users of payment systems over the next two months to understand their needs and the existing barriers to competition and innovation. This will inform the Bank's intention to open access to central bank money to more firms.

Cleland also referred to the renewal of the RTGS service, the adoption of LEI as a

globally recognised and unique identifier for all businesses, and how to make cross-border payments more efficient.

Also this month

CMA

The CMA published a provisional view on Part 6 of the Retail Banking Market Investigation 2019 on 12 September 2019. The CMA wants to remove Part 6 of the review which relates to unarranged overdrafts because the FCA's recent policy intervention and subsequent closer supervision make it redundant. Views on the decision can be submitted until 15 October 2019.

EBA

- The EBA published its 2020 work programme on 27 September 2019. The EBA's key strategic areas of focus in 2020 include supervisory convergence, stress testing, regulatory reporting and sustainability. The programme also highlights good governance and effective cooperation with third countries as the EBA's policy priorities.
- The EBA launched a consultation on the guidelines on the weighted average maturity (WAM) of the contractual payments due under the tranche on 31 July 2019. The guidelines set out the principles on the calculation of the WAM with respect to securitisation transactions. The consultation closes on 31 October 2019.

- The EBA launched its 2019 EU-wide transparency exercise on 23 September 2019. This year the EBA plans to disclose data on a quarterly rather than semi-annual frequency, to provide users with more granular supervisory data for time series analysis. The EBA also plans to provide a more detailed overview of banks' financial assets and RWAs

EC

The EC published FAQs on PSD2 on 13 September 2019, covering the role and implementation timing of SCA, the exemptions from SCA, and personal data protection under PSD2 and GDPR.

ECB

- The ECB introduced a two-tier system for reserve remuneration on 12 September 2019. The system exempts part of credit institutions' excess liquidity holdings from negative remuneration at the rate applicable on the deposit facility. The system will take effect from 30 October 2019.
- The EBA announced its plan to provide clarity on the appropriate treatment of legacy capital instruments on 9 September 2019. The EBA intends to provide information on the end-treatment of the grandfathered instruments by mid-2020 but plans to publish the final clarifications by 31 December 2021.

EPC

The EPC issued a [communication](#) on the operational implications of a no-deal Brexit on SEPA Credit Transfer and SEPA Direct Debit payment transactions on 2 September 2019. The Council recommends all SEPA PSPs to include in their cross-border SEPA payments, involving a UK-based SEPA PSP, certain instructions to ensure a continued smooth processing of these payments as of 1 November 2019.

FCA and PRA

The FCA and PRA published a [joint policy statement](#) on mortgage reporting requirements on 30 September 2019. The statement sets out various changes to the Mortgage Lenders and Administrators Return for regulated mortgage lenders and home finance administrators. The changes take effect on 1 October 2020, 1 January 2021 and 1 April 2021.

PRA

- The PRA published [Supervisory Statement SS34/15 Guidelines for completing regulatory reports](#) on 12 September 2019. The statement sets out the PRA's expectations for how firms should complete the data items and returns required under the Regulatory Reporting, Close Links and Change in Control sections of the PRA Rulebook.
- The PRA issued [Consultation Paper CP20/19: Regulatory capital instruments – update to pre-issuance notification requirements](#) on 9 September 2019. The paper sets out the PRA's proposals to

make the Pre-Issuance Notification regime applicable to CRR firms more risk-sensitive and proportionate. The PRA proposes to implement the requirements on 1 April 2020. The consultation closes on 9 December 2019.

- The PRA published a [waiver by consent](#) of the Continuity of Access (CoA) rules in the Depositor Protection Part of its Rulebook on 13 September 2019. The waiver exempts firms from the CoA rules and the related reporting requirements. The waiver will expire on 1 December 2022.
- The PRA published [Policy Statement PS17/19: Supervising international banks: Revision of the Branch Return](#) on 12 September 2019. The statement amends the Regulatory Reporting and Incoming Firms and Third Country Firms parts of the PRA Rulebook. It also revises the Branch Return template. The changes will take effect from 30 June 2020.
- The PRA published a [letter for category 5 credit unions](#), those with total assets below £15m and fewer than 10,000 members, on 17 September 2019. The PRA highlights a number of weaknesses as part of its annual assessment for senior management to consider. These weaknesses include accurate single customer view files, operational and cyber security risks, internal fraud detection and adequate provisioning for bad debts.
- The PRA issued [PS20/19: Strengthening individual accountability: Resolution](#)

[assessments and reporting amendments](#), and an updated version of the relevant supervisory statement, [SS28/15: Strengthening individual accountability in banking](#), on 27 September 2019. PS20/19 confirms an amendment to the prescribed responsibility under SM&CR for recovery plans and resolution packs, to include a responsibility for oversight of resolution assessments. This takes effect from 9 December 2019, for banks and building societies with £50bn or more in retail deposits.

- The PRA consulted on [CP 24/19: Asset encumbrance](#) on 30 September 2019. The PRA sets out its expectations regarding asset encumbrance in the contexts of managing liquidity and funding risks, recovery planning, and resolution. The consultation closes on 17 January 2020.
- The PRA updated its [Supervisory Statement \(SS34/15\) Guidelines for completing regulatory reports](#) on 30 September 2019. The changes reflect the PRA's recent Policy Statements [PS 21/19 'Responses to CP13/19](#) and [PS17/19 Supervising international banks: Revision of the Branch Return](#), setting out the PRA's expectations on how firms should complete the relevant data items and returns.

PSR

The PSR [confirmed](#) on 12 September 2019 that the Current Account Switch Service (CASS) continues to meet the criteria for designation as an alternative switching under

the Payment Accounts Regulations 2015. The PSR found that CASS serves the interests of consumers and it ensures the procedure for switching is completed within 12 working days.

Asset management

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Regulation

Fund liquidity

ESMA finalises guidance on fund liquidity

ESMA published [Final Report: Guidelines on liquidity stress in UCITS and AIFs](#) on 2 September 2019. While AIFMD and the UCITS directive both already contain provisions on liquidity management in investment funds, risks in this area have in recent years attracted significant attention by various regulatory bodies, notably FSB, IOSCO and the ESRB. The EU regulator also published [Stress simulation for investment funds](#) on 5 September 2019, which sets out a stress simulation framework for regulators to use when monitoring risks (e.g. liquidity, credit, market or counterparty risk) in investment funds and to assess the impact of possible scenarios on the asset management sector.

The new guidelines, which apply to UCITS and AIFs and will take effect from 30 September 2020, set out a series of principle-based criteria for asset managers to consider when executing liquidity stress tests on their funds. This includes tailoring the stress tests towards the individual funds and their specific risks, being clear on how a fund manager would act in times of stressed market conditions, and embedding the tests into the fund's overall risk management framework. Notably, firms will need to stress test redemption requests by

investors, which ESMA describes as the most common and important source of liquidity risk. One guideline would apply to depositaries, providing clarity on their responsibilities for verifying that a fund has documented its procedures for stress tests.

While AIFMD requires that liquidity stress tests are performed at least annually, ESMA's guidelines suggest that firms do this quarterly. Firms will need to justify in their liquidity stress test policy any decisions to conduct the test less frequently.

The new guidelines follow earlier recommendations by the ESRB published in April 2018, which led to ESMA proposals in February 2019.

FCA finalises fund liquidity rules

The FCA published [PS19/24: Illiquid assets and open-ended funds and feedback to Consultation Paper CP18/27](#) on 30 September 2019. The regulator is seeking to reduce the potential harm to investors in non-UCITS retail schemes (NURSs) that hold illiquid assets, by improving investors' understanding of liquidity risks and strengthening liquidity management by asset managers.

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

proceeding with requirements for NURSSs investing in inherently illiquid assets (FIAs) to produce contingency plans in case of a liquidity crisis, to enhance depositaries' oversight of liquidity management processes, and increase transparency for retail investors.

It also confirms a requirement for NURSSs holding 'immovables' such as property and infrastructure to suspend trading when the Standing Independent Valuer (SIV) expresses 'material uncertainty' about the value of the assets that account for at least 20% of the scheme. An AFM can, however, continue to deal if it has agreed with the depositary that fund suspension is not in the investor's best interests.

The regulator is not, at this stage, applying these rules or additional measures to UCITS funds in light of the Woodford fund suspension in June 2019. It is, however, carrying out work to look at this in further detail. The rules on NURSSs will take effect from 30 September 2020.

Supervision

FCA reveals MiFID II research review findings

The FCA published [Implementing MiFID II – multi-firm review of research unbundling reforms](#) on 19 September 2019. This sets out the findings from its supervisory review into the MiFID II research unbundling regime. Overall, the regulator found that, so far, the rules have had a positive impact by increasing the discipline of research consumption and costs across the buy-side, improving outcomes for clients. However, some weaker practices were

identified among asset managers, signalling some clear areas of focus going forward.

The FCA found that most asset managers have chosen to absorb research costs, rather than passing them onto clients using a Research Payment Account. Some weak practices relating to research valuation were identified among asset managers. The FCA cautions against firms neglecting their assessments of the quality and value of research, and expects clear rationale for judgements. The regulator also provides 'best practice' guidance on valuation models adopted across the buy-side.

Sell-side pricing models were found to vary considerably. A common approach is for producers of research to charge a low baseline fee for written research, supplemented by explicit pricing for additional services. While acknowledging that this model is not necessarily unreasonable, the FCA intends to examine this further in 2020/21, once practices have evolved.

Further clarity is provided over the scope of the rules, including on marketing material, ad hoc meetings promoting research, trade association events, trial periods, and 'consensus' forecasts without necessarily being caught by the rules.

The regulator has not found evidence that research coverage has declined, including on small and mid-tier stocks. It intends to keep this under review.

The FCA plans to carry out further work to examine firms' approaches to implementing the

rules and the wider impacts on the market in 12-24 months' time. It will also continue to monitor and carry out periodic reviews of levels of research on small and mid-tier stocks.

Insurance

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Regulation

Capital and liquidity

PRA sets liquidity risk expectations for insurers

The PRA published [SS5/19 Liquidity risk management for insurers](#) on 24 September 2019, which provides a framework for how the PRA expects insurers to manage liquidity risk. The supervisory statement adopts proposals included in CP4/19 and comes into immediate effect. The PRA focuses on six key areas: overall liquidity risk management framework; sources of liquidity risk; stress testing; liquidity buffers; risk monitoring and reporting; and liquidity contingency planning.

The PRA recommends a proportionate approach to liquidity and notes that for some firms this is not a major risk. However, for some business models, particularly where firms are using derivatives, the PRA expects firms to pay significant attention to liquidity risk. It expects insurers to establish and maintain a clearly defined liquidity risk appetite statement and for senior management to identify the drivers of liquidity risk. Therefore, the PRA requires insurers to produce liquidity risk monitoring metrics, along with stress test results and information on the insurer's liquidity position to facilitate effective identification, measurement and management of liquidity risk on an ongoing basis.

Definition, composition and magnitude of liquidity buffers is a particular focus. The PRA expects insurers to be able to monetise the assets in their liquidity buffer to meet their excess cash flow needs in the chosen time horizon, without directly conflicting with any existing business or risk management strategies. The regulator states that assets included in the liquidity buffer should be unencumbered, of a high credit quality, readily marketable, and have a proven record as a reliable source of liquidity during stressed market conditions. As a result, the supervisory statement requires insurers to cover stressed outflows up to 90 days with assets of primary and secondary liquidity. This could have far reaching implications, impacting insurers' asset allocation and investment management strategies.

Data

Big data – IAIS investigates consumer implications

Building on its [Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes](#) (adopted November 2018), the IAIS published a [Draft Issues Paper on the Use of Big Data Analytics in Insurance](#) on 2 September 2019. It focuses on insurers' increased use of 'big data analytics', including the use of algorithms and advanced analytics to make decisions based

on patterns, trends and linkages and the availability of new alternative data sources.

To understand the implications of the use of big data analytics, for both consumers and supervisors, the IAIS is investigating how insurers collect, process and use data across various stages of the insurance product lifecycle, namely product design, marketing, sales and distribution, pricing and underwriting, and claims handling. The comment period ends on 16 October 2019.

Governance

FCA reviews unit-linked funds' governance

The FCA published the findings of its [unit-linked funds' governance review](#) on 24 September. The review looked at whether insurers offering unit-linked funds showed similar issues to those found in authorised fund managers during the FCA's Asset Management Market Study around delivering good value to policyholders.

The FCA concludes that insurers do not fully consider the value of their unit-linked proposition to consumers. It says that insurers' fund governance does not include considerations likely to be important in assessing value, and found limited consideration of unit holders' interests in decision-making around levels of fees and charges. Although firms benchmark their costs against competitors to make sure they are not an outlier, there is little evidence that they then compete on the basis of fees and charges. The regulator found that Independent Governance

Committees (IGCs) have had a positive but only limited impact.

In the next stage the FCA plans to assess these findings alongside work on non-workplace pensions, IGCs and the governance of unit-linked mirror funds. It will then decide whether further remedies are needed.

Operational resilience

EIOPA recommends cyber risk measures

EIOPA published [Cyber Risk for Insurers – Challenges and Opportunities](#) on 17 September 2019. Following on from its report [Understanding Cyber Insurance – A Structured Dialogue with Insurance Groups](#) (August 2018), EIOPA considers cybersecurity threats to insurers and the confidential policyholder information they hold. It also looks at the practices of cyber underwriters and their role in managing cyber risks for other businesses and organisations.

In general, EIOPA finds the insurers in its sample are aware of potential cyber threats and have incorporated cyber risk explicitly in their risk management frameworks. But, it believes further action to strengthen the resilience of the sector against cyber vulnerabilities is essential, especially given the dynamic nature of cyber threats.

Based on this analysis, EIOPA recommends introducing a sound cyber resilience framework for insurers to assist dialogue between the industry, supervisors and policymakers. It wants this to include a clear, comprehensive set of common requirements on the

governance of cybersecurity, as well as consistent definitions and terminology.

EIOPA reports that although presently small, cyber insurance is growing rapidly. But, it's also concerned that insurers may face 'non-affirmative cyber exposures' from insurance policies that neither explicitly include nor exclude cyber risk. It wants insurers to actively tackle this issue to address potential accumulation risk and give policyholders clarity.

Finally, to help cyber insurers manage and price their risk exposures more effectively, EIOPA recommends introducing common, harmonised standards for both cyber risk measurement and cyber incident reporting. It suggests this could be achieved by creating an EU-wide cyber incident-reporting database, based on a common taxonomy.

Solvency II

PRA refines ISPV requirements

The PRA published [CP19/19 Insurance special purpose vehicles \(ISPVs\): Updates to authorisation and supervision](#) on 3 September 2019. The regulator proposes to refine its requirements for ISPVs on account of experience gained since the launch of the UK ILS regime in 2017.

While the Solvency II requirements remain unchanged, the PRA aims to encourage the issuance of ILS through ISPVs, by clarifying requirements for applicants and elaborating on its approach to authorisation and supervision of ISPVs. The comment period ends on 3 December 2019.

PRA sets out expectations for insurers' investments

The PRA published [CP22/19 Solvency II: Prudent Person Principle](#) on 18 September 2019, setting out its expectations for insurers' investment strategies, investment risk management and governance systems in line with the Prudent Person Principle (PPP) under the Solvency II Directive. The regulator aims to address concerns that have emerged in the context of recent changes in the insurance sector, such as insurers increasing their exposures to non-traded assets and searching for new ways to achieve yield in a prolonged low interest rate environment. Moreover, through its supervisory engagement with firms, the PRA has observed inconsistencies in the way the PPP is applied in the insurance sector.

To address these concerns, the PRA sets out specific areas it expects firms to consider to comply with the PPP. Firstly, the PRA proposes that firms have a clear, documented investment strategy aligned to board risk appetite, and set internal investment limits for individual asset classes. Firms should be able to show how their quantitative investment limits and investment strategy would prevent solvency from being threatened under stress scenarios, and quantify the maximum amount of capital that can be lost as a result of a risk crystallising.

The PRA is also concerned that exposure to non-traded assets can lead to higher valuation uncertainty and give rise to new concentration and liquidity risks. The PRA expects firms to have specific expertise and sophisticated

systems to properly identify, measure and manage investment risks from non-traded assets.

Further, the PRA sets out that assets backing technical provisions (TPs) should be invested in the policyholders', not the shareholders' best interests. The PRA expects it to be difficult for firms to demonstrate that intra group loans and participations are in the best interests of policyholders and therefore appropriate for covering TPs. Finally, in terms of supervisory scrutiny, the PRA says it will exercise its independent judgement, and where necessary, will expect a firm's senior managers responsible for investment to take appropriate action.

The consultation closes on 18 December 2019.

PRA invites insurers to recalculate TMTP

On 16 September 2019, the PRA invited insurers with current TMTP approval to apply to recalculate their TMTP as at 30 September 2019. The TMTP provides relief from the increase in technical provisions under Solvency II (including the introduction of the risk margin) for business written before the start of the regime.

As outlined in [SS6/16](#), the PRA monitors changes in market conditions (such as significant changes in EIOPA's risk-free rate) to identify if they are likely to create a material change in firms' risk profiles. If so, insurers are invited to apply for a TMTP recalculation, demonstrating to the PRA that the changes in market conditions have caused a material change in their risk profile.

In addition, the PRA still requires firms to update their TMTP calculation biennially in accordance with Solvency II and the next update is expected as at 31 December 2019. At other times, insurers can also apply to the PRA to recalculate their TMTP following any material changes in their risk profile.

PRA consults on illiquid and unrated assets

The PRA published [CP23/19 Solvency II: Income producing real estate \(IPRE\) loans and internal credit assessments for illiquid, unrated assets](#) on 27 September 2019. The regulator sets out its expectations for how firms assess the risks and develop internal models in respect of IPRE loans, and clarifies its expectations on the use of internal ratings.

Insurance firms are increasingly investing in IPRE loans, and the PRA recognises that these loans can be a particularly challenging asset class to develop internal models for, due to lack of observable market prices and external credit ratings. Therefore, the PRA proposes that firms should complete a comprehensive risk identification exercise for IPRE loans to capture all systemic and idiosyncratic risks inherent in this asset class and evidence that the SCR captures all quantifiable risks to which they are exposed.

IPRE loans are generally held within insurers' MA portfolios. Due to the illiquid nature of these loans and the timescales involved in executing IPRE transactions, the PRA expects firms not to rely on the ability to sell or source new IPRE loans to rectify a breach in MA eligibility requirements.

The PRA is concerned that inappropriate credit quality mapping for assets can lead to a lower SCR than desired. So, building on [SS3/17 MA - illiquid unrated assets and equity release mortgages](#), the regulator sets out in greater detail the breadth of issues it expects firms to consider in order to evidence the robustness of internal credit assessments (ICAs). Key considerations include:

- firms should clearly demonstrate the independence of the ICA function and avoid any conflicts of interest
- firms should maintain a well-documented and structured process around the use of expert judgements and the validation process should review these judgments
- the credit quality step (CQS) to which an ICA maps should lie within the plausible range of CQSS that could have resulted from an issue rating given by an external rating agency.

The consultation period ends on 27 December 2019.

ERMs – PRA expands on effective value test

The PRA published [PS19/19 Solvency II: Equity release mortgages \(ERMs\) – Part 2](#) with updated [SS3/17 Solvency II: MA – illiquid unrated assets and ERMs](#) on 27 September 2019. It includes feedback to [CP7/19](#) and additional guidance in [SS3/17](#) including:

- in some circumstances it may be appropriate for firms to reach agreement with their supervisors on how to value

certain assets other than ERMs for the purpose of the Effective Value Test (EVT)

- there is no expectation for firms to allow for the impact on existing lending from discretionary future lending that is not part of a pre-agreed facility
- more information on the inputs to the PRA's analysis of real interest rates
- its expectations on the scenarios that firms are expected to consider when using the EVT in stress as a validation technique.

The PRA requires firms to report the results and calculations of the EVT to their supervisor. It expands on this by explaining it expects firms to submit written statements for each separate securitisation, covering the effective date and specified information about the test, as well as whether or not the test has been met and any relevant commentary.

The PRA has also created a webpage on the [Solvency II EVT parameters](#). It gives details of the minimum deferment rate parameter and the volatility parameter, which are used in the EVT, alongside other inputs, to assess the risks from the no negative guarantee feature of ERMs. In general the PRA plans to review the minimum deferment rate parameter twice a year (end-March and end-September) and the volatility parameter once a year (by end-September).

All insurers holding or intending to hold ERMs in a MA portfolio should consider these additional clarifications from the PRA. Where appropriate, insurers should ensure they address the clarifications in their preparations.

to implement the updated SS3/17 from 31 December 2019.

EIOPA issues opinion on sustainability

EIOPA published its [Opinion on Sustainability and Solvency II](#) and [covering letter](#) on 30 September 2019. In response to a [request from the EC](#), it considers the integration of climate-related risks in Solvency II Pillar I capital requirements, including:

- the extent to which the valuation of assets and liabilities under Solvency II captures sustainability factors
- how insurers can account for sustainability considerations, through their investment and underwriting practices
- how/w hether sustainability risks are reflected in Solvency II capital charges for market and natural catastrophe risks
- the extent to which internal models currently capture sustainability risks and factors
- how sustainability could best be taken into account across the three pillars in Solvency II.

While EIOPA believes it is important for insurers to assess their exposure to sustainability risks, it finds the current Solvency II capital requirements do not fully capture the medium to long-term impacts of climate change. Rather than changing the Solvency II capital requirements, EIOPA suggests the best approach is to use complementary tools such as scenario analysis and stress testing. It

recommends defining a consistent set of quantitative parameters. Insurers could then use these in climate change-related scenarios (alongside any other parameters specific to the business) as appropriate to their ORSA, risk management and governance practices.

Regarding reporting, EIOPA is of the view that in the near future, further consideration should be given to mandatory requirements for public disclosure on sustainability risks on both sides of the balance sheet.

The EC intends to consider this Opinion in its Solvency II report due by 1 January 2021.

Accounting

PwC publications

Facing IFRS 17 with confidence

On 5 September, IASB Board member Nick Anderson joined a panel of PwC experts to discuss the latest IFRS 17 developments over the last 6 months. Watch our on [demand recording – Facing IFRS 17 with confidence](#).

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
16/10/19	Draft Issues Paper on Use of BDA in Insurance For Public Consultation	IAIS
18/10/19	Consultation Paper on Proposals for Solvency II 2020 Review Harmonisation of National Insurance Guarantee Schemes	EIOPA
18/10/19	Consultation Paper on proposals for Solvency II 2020 Review Cover Note - Package on Supervisory Reporting and Public Disclosure	EIOPA
23/10/19	Consultation on Final Parameters for the Spread and Term Adjustments in Derivatives Fallbacks for Key IBORs	ISDA
31/10/19	ESMA consults on MiFID II compliance function requirements	ESMA
31/10/19	Consultation Paper - Guidelines on performance fees in UCITS	ESMA
04/11/19	Effects of product intervention measures regarding CFDs and binary options on market participants and clients	ESMA
25/11/19	EBA consults on its proposals to create a STS framework for synthetic securitisation	EBA
03/12/19	CP19/19 Insurance special purpose vehicles: Updates to authorisation and supervision	PRA
09/12/19	CP20/19 Regulatory capital instruments: update to Pre-Issuance Notification requirements	PRA
18/12/19	CP21/19 Credit risk: Probability of Default and Loss Given Default estimation	PRA
18/12/19	CP22/19 Solvency II: Prudent Person Principle	PRA
27/12/19	CP23/19: Solvency II: Income producing real estate loans and internal credit assessments for illiquid, unrated assets	PRA
17/01/19	CP24/19: Asset encumbrance	PRA

Forthcoming publications

Date	Topic	Type	Institution
Asset management			
Q3 2019	Proposed amendment of permitted links rules	Policy statement	FCA
Q3 2019	Amendments to bond market liquidity and size specific to the instrument thresholds under MiFIR	Amendment to RTS	ESMA
Q4 2019	Functioning of the consolidated tape equity under MiFID II	Report	ESMA
Q4 2019	Prices for pre and post-trade data under MiFIR	Report/technical advice	ESMA
Q4 2019	EU investment firm prudential regime implementation	Consultation paper	FCA
Banking			
Q3 2019	Review of the disclosure requirements for the LCR	Review	EBA
Q3 2019	ITS on MREL disclosure and reporting	Consultation	EBA
Q3 2019	Guidelines on credit risk mitigation	Guidelines	EBA
Q4 2019	Feedback on cash savings market discussion	Feedback statement/consultation paper	FCA
Q4 2019	Draft ITS on Pillar 3 disclosures	Draft ITS	EBA
Q1 2020	Mortgage market study	Final report	FCA
Cross-sector conduct			
Q1 2020	Treating customers fairly and data	Discussion paper	FCA
Insurance			
Q2-Q4 2019	Solvency II outstanding issues (Inc. ongoing assessment of the effective value test)	Consultation paper	PRA
Q1 2020	General insurance value measures reporting	Policy statement	FCA
Q1 2020	General insurance pricing practices market study	Final report	FCA
Operational resilience			
Q4 2019	Building the financial sector's operational resilience	Consultation paper	PRA/FCA
Q1 2020	Cyber multi-firm review findings	Review findings	FCA
Pensions			
Q4 2019	Independent governance committees remit extension	Policy statement	FCA

Executive summary	What does the new market risk framework mean for firms?	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
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Date	Topic	Type	Institution
Supervision			
Q1 2020	FCA principles review	Discussion paper	FCA

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

Glossary

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

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

Executive summary	What does the new market risk framework mean for firms?	Cross sector announcements	Banking and capital markets	Asset management	Insurance	Monthly calendar	Glossary
ESEF	European Single Electronic Format			FMSB	FICC Markets Standard Board		
ESMA	European Securities and Markets Authority			FOS	Financial Ombudsman Service		
ESRB	European Systemic Risk Board			FPC	Financial Policy Committee		
€STR	Euro short-term rate			FRC	Financial Reporting Council		
ETC	Exchange-traded commodity			FRTB	Basel Committee fundamental review of the trading book market risk capital requirements		
ETN	Exchange-traded note			FSA	Financial Services Authority		
EU	European Union			FSB	Financial Stability Board		
EU Securitisation Regulation	Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012			FSBRA	Financial Services (Banking Reform) Act 2013		
EURIBOR	Euro Interbank Offered Rate			FS Act 2012	Financial Services Act 2012		
Eurosystem	System of central banks in the euro area, including the ECB			FSCP	Financial Services Consumer Panel		
EuSEF	The European social Entrepreneurship Funds Regulation			FSCS	Financial Services Compensation Scheme		
EuVECA	European Venture Capital Funds Regulation (EU) 345/2013			FSI	Financial Stability Institute (of the BIS)		
FAMR	Financial Advice Market Review			FSMA	Financial Services and Markets Act 2000		
FATF	Financial Action Task Force			FTT	Financial Transaction Tax		
FC	Financial counterparty under EMIR			G30	Group of 30		
FCA	Financial Conduct Authority			GAAP	Generally Accepted Accounting Principles		
Fiat currency	Currency whose value is underpinned by the strength of the issuing government, e.g. USD, GBP, euro and other major world currencies			GDPR	General Data Protection Regulation		
FICC	Fixed income, currencies and commodities			G-SIBs	Global Systemically Important Banks		
FICOD1	Amending Directive 2011/89/EU of 16 November 2011			G-SIFIs	Global Systemically Important Financial Institutions		
FICOD	Financial Conglomerates Directive 2002/87/EC			HCSTC	High Cost Short Term Credit		
FMI	Financial Market Infrastructure			HMRC	Her Majesty's Revenue and Customs		
FMLC	Financial Markets Law Committee			HMT	Her Majesty's Treasury		
				IA	Investment Association		
				IAIS	International Association of Insurance Supervisors		

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IASB	International Accounting Standards Board			JMLSG	Joint Money Laundering Steering Committee		
IBA	ICE Benchmark Administration			KID	Key Information Document		
ICAAP	Internal Capital Adequacy Assessment Process			KIID	Key Investor Information Document		
ICAS	Individual Capital Adequacy Standards			KYC	Know your customer		
ICO	Initial coin offering			LCR	Liquidity coverage ratio		
ICOBS	Insurance: Conduct of Business Sourcebook			LEI	Legal Entity Identifier		
ICPs	Insurance Core Principles			LIBOR	London Interbank Offered Rate		
ICT	Information and Communication Technology			MA	Matching Adjustment		
IDD	The Insurance Distribution Directive (EU) 2016/97			MAD	Market Abuse Directive 2003/6/EC		
IFRS	International Financial Reporting Standards			MAR	Market Abuse Regulation (EU) 596/2014		
ILAA	Internal Liquidity Adequacy Assessment			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		
ILAAP	Internal Liquidity Adequacy Assessment Process			MCD	Mortgage Credit Directive 2014/17/EU		
ILS	Insurance-Linked Securities			MCOB	Mortgages and Home Finance: Conduct of Business sourcebook		
IMAP	Internal Model Approval Process			MCR	Minimum Capital Requirement		
IMCO	The European Parliament's Committee on Internal Market and Consumer Protection			Member States	Countries which are members of the European Union		
IMD	Insurance Mediation Directive 2002/92/EC			MIFID	Markets in Financial Instruments Directive 2004/39/EC		
IMF	International Monetary Fund			MIFID II	Markets in Financial Instruments Directive (recast) 2014/65/EU – also used to refer to the regime under both this directive and MIFIR		
IORP	Institutions for Occupational Retirement Provision			MIFIR	Markets in Financial Instruments Regulation (EU) No 600/2014		
IOSCO	International Organisation of Securities Commissions			MLRO	Money Laundering Reporting Officer		
IRB	Internal Ratings Based			MMF	Money Market Fund		
IRRBB	Interest rate risk in the banking book			MoJ	Ministry of Justice		
ISDA	International Swaps and Derivatives Association						
ITS	Implementing Technical Standards						
JCESA	Joint Committee of the European Supervisory Authorities						

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MoU	Memorandum of Understanding			PERG	Perimeter Guidance Manual		
MPC	Monetary Policy Committee			PIFs	Personal investment firms		
MREL	Minimum requirements for own funds and eligible liabilities			PPI	Payment Protection Insurance		
MTF	Multilateral Trading Facility			PRA	Prudential Regulation Authority		
NBNI G-SIFI	Non-bank non-insurer global systemically important financial institution			Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis		
NCA	National competent authority			PRIIPs	Packaged retail and insurance-based investment products		
NDF	Non-Directive Firms – firms that do not fall within Solvency II			PSD2	The revised Payment Services Directive (EU) 2015/2366		
NFC	Non-financial counterparty under EMIR			PSP	Payment service provider		
NIS Directive	Proposal for a directive of the EP and Council concerning measures to ensure a high common level of network and information security across the EU			PSR	Payment Systems Regulator		
NPE	Non-performing exposure			P2P	Peer to Peer		
NSFR	Net Stable Funding Ratio			QIS	Quantitative Impact Study		
NST	National specific template			QRT	Quantitative Reporting Template		
NURS	Non-UCITS Retail Scheme			RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)		
OECD	Organisation for Economic Cooperation and Development			RDR	Retail Distribution Review		
Official Journal	Official Journal of the European Union			REMIT	Regulation on wholesale energy markets integrity and transparency (EU) 1227/2011		
OFT	Office of Fair Trading			RFB	Ring-fenced bank		
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)			RFQ	Request for quote		
ORSA	Own Risk Solvency Assessment			RFRs	Risk-free rates		
O-SIs	Other systemically important institutions			RFRWG	The Risk-free Rate Working Group of the BoE		
OTC	Over-The-Counter			RONIA	Repurchase Overnight Index Average		
OTF	Organised trading facility			RRPs	Recovery and Resolution Plans		
PAD	Payment Accounts Directive 2014/92/EU			RTS	Regulatory Technical Standards		
				RWA	Risk-weighted assets		

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SARON	Swiss Average Rate Overnight			SRMR	Single Resolution Mechanism Regulation (EU) No 806/2014		
SCA	Strong Customer Authentication (rules under PSD2)			SRMR II	Single Resolution Mechanism Regulation (EU) 2019/877 amending SRMR		
SCR	Solvency Capital Requirement (under Solvency II)			SSM	Single Supervisory Mechanism		
SCV	Single customer view			SSR	Short Selling Regulation (EU) 236/2012		
SEC	Securities and Exchange Commission (US)			STS	Simple Transparent and Standardised (concerning securitisations)		
SEPA	Single Euro Payments Area			SUP	FCA supervision manual		
SFP	Structured finance product			SYSC	The part of the FCA handbook titled senior management arrangements, systems and controls		
SFT	Securities financing transaction			T2S	TARGET2-Securities		
SFTR	Securities Financing Transactions Regulation (EU) 2015/2365			TC	Treasury Committee		
SFO	Serious Fraud Office			TLAC	Total Loss Absorbing Capacity		
SI	Systematic internaliser			TMTP	Transitional Measure on Technical Provisions		
SIMF	Senior Insurer Manager Function			TONA	Tokyo Overnight Average Rate		
SIMR	Senior Insurer Managers Regime			TPR	The Pensions Regulator		
SM&CR	Senior Managers and Certification Regime			TR	Trade Repository		
SME	Small and Medium sized Enterprises			UCITS	Undertakings for Collective Investments in Transferable Securities		
SMF	Senior Manager Function			UCITS V	UCITS V Directive 2014/91/EU		
SOCA	Serious Organised Crime Agency			UKLA	UK Listing Authority		
SOFR	Secured Overnight Financing Rate			UK Finance	Trade body representing the banking and finance industry, formed by a merger of a number of associations including the British Bankers' Association		
Solvency II	Directive 2009/138/EC			UTI	Unique Trade Identifier		
SONIA	Sterling Overnight Index Average			XBRL	extensible Business Reporting Language		
SPV	Special purpose vehicle						
SREP	Supervisory Review and Evaluation Process						
SRF	Single Resolution Fund						
SRM	Single Resolution Mechanism						

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