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Consensus no more?

Financial Markets
Regulatory Outlook 2020

CENTRE *for*
REGULATORY STRATEGY
EMEA

"At the heart of our work is the need to address the changes in climate, technology and demography that are transforming our societies and way of life."

Ursula von der Leyen, President of the European Commission

"...the job of a supervisor is to be slightly less optimistic than the average person."

Sabine Lautenschläger, former Member of the Executive Board and Governing Council of the ECB

Global foreword

After a decade of global regulatory reforms defined by the financial crisis and misconduct issues, the regulatory environment is now changing profoundly. The international consensus on regulatory reform is fraying. Political appetite for globalisation is retreating, and trade tensions are mounting. Technological change and social concerns, including environmental sustainability, are rising on regulators' agendas. Financial services firms need to be prepared to respond to these trends.

A darkening economic outlook

We are likely to see weak growth in all regions in 2020, with significant downside risks.[1] Regulators' and supervisors' work programmes are likely to be heavily influenced by their assessment of the economic conditions under which firms will be operating.

Increased trade tensions, especially between the US and China, are likely to fragment markets further, dampen growth and create a harsher business environment for financial services firms.

In the US, the yield curve on Treasury bonds was inverted until recently, which has in the past been a harbinger of recession. Equity valuations are high due, in large part, to monetary easing: the US equity market is more overvalued on some measures than at any point since the dotcom bubble.

Meanwhile in China, growth has continued to slow and gross debt surged from 171% of Gross Domestic Product in 2008 to 299% in 2018.[2] High debt levels could become unsustainable if growth slows further.

In our view, the risk of a recession is highest in Europe. Growth in Germany is expected to be as low as 0.5% in 2019, partly due to its manufacturing sector's vulnerability to poor export markets, although some recovery is expected in 2020.[3] Italy is facing political uncertainty, economic stagnation and resurging financial turbulence, while servicing high public debt.[4] And the UK faces an uncertain outlook, in part due to Brexit. Therefore, while growth for the Eurozone in 2020 is projected at 1.4%, which is similar to its post-crisis trend rate, significant downside risks remain.[5]

Central bankers are likely to respond with further monetary easing, with the US Federal Reserve Board and the European Central Bank having already cut rates further and renewed their asset purchase programmes. However, with interest rates at an unprecedented low, and with a record amount of sovereign and even corporate bonds trading at negative nominal rates, the effectiveness of such measures in isolation is debatable.[6] Authorities may consider using macroprudential measures, such as allowing banks to run down countercyclical buffers. Governments are also likely to face pressure to increase spending to stimulate growth, especially given the backlog of infrastructure spending in some countries.

These macroeconomic trends and conditions will put even more pressure on financial services firms' business models, at a time when competition from new entrants and major digital players is also increasing.

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We expect supervisors to have a heightened focus on business model resilience, through stress testing, and on the quality of risk governance and oversight.

Banks may struggle to regain profitability, and even to maintain margins, through their traditional business model in a low, or negative, interest rate environment. For example, Japan has had a zero or negative interest rate policy for nearly two decades. Japanese banks have struggled with low interest margins and face increasing supervisory scrutiny on business model sustainability.[7] A reduction in cross-border financial flows as risk appetites reduce may also narrow banks' growth opportunities. Banks will need to redouble their efforts to control costs and refocus on more profitable business lines. However, they will need to be mindful of conduct risk. Supervisory focus on credit risk is also likely to intensify. For example, the Bank of England estimates that global banks retain exposures to over half of the leveraged loan market, and that the global stock of leveraged loans has reached an all-time high.[8]

Insurers, particularly those providing long-term guarantees, are also likely to find it harder to be profitable in a persistently low interest rate environment. In Asia however, the potential for the insurance market to grow in China may help insurers to generate more off-setting revenue.[9]

Investment managers too will likely struggle to perform well in an environment characterised by high asset prices and low growth potential.

The increasing scrutiny by investors and regulators of the value generated by active management is likely to drive a continued "search for yield" and encourage investment in more exotic and less liquid markets. We expect supervisors to focus increasingly on how investment managers and distributors satisfy themselves that funds holding higher risk assets meet the needs and risk appetite of their target market.

The fraying international consensus

With the post-crisis reforms near completion and the political environment becoming less supportive of international cooperation, global standard-setting bodies – particularly the Basel Committee on Banking Supervision and the Financial Stability Board - have less ambitious plans to introduce new standards than in previous years. Work to implement the remaining aspects of the G20 financial regulatory reforms has slowed, with many jurisdictions behind in implementing Basel III ("Basel IV" to industry).[10]

Given the current economic conditions, political concerns will grow if regulation is seen to impede competition, new lending or investment. We are already seeing a deregulatory stance from the US authorities, including a limited relaxation of the Volcker Rule.[11] Other countries may follow, and we might even see competitive deregulation.

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While deregulation might reduce some compliance costs, global firms will face more complexities and expenditure as regulatory standards across jurisdictions diverge in timing and substance. The G20 highlighted market fragmentation as an area of concern in 2019, and the Financial Stability Board has an ongoing work programme in this area.[12] It is unlikely that global standard-setters will be able to reverse fragmentation that has already happened, but their efforts could reduce future divergence.

More accountability for senior individuals

In contrast, regulators are increasingly holding senior individuals to account for the compliance, professional standards and culture of their firms. Following the introduction of the UK's Senior Managers and Certification Regime, similar regimes have emerged, or are emerging, in several other jurisdictions including Ireland, Australia, Hong Kong Special Administrative Region, Singapore and South Africa. Other jurisdictions are driving increased accountability through different mechanisms. The US Federal Reserve Board has proposed guidance which seeks to delineate the roles, responsibilities and accountabilities of senior management and the board better.[13] The Belgian Parliament recently announced the introduction of a "Bankers Oath" similar to that which the Netherlands introduced in 2015.[14] In response to these initiatives, firms will need to foster a culture of accountability through measures such as balanced incentive plans; strong governance and controls; and appropriate monitoring, reporting, escalation and disciplinary action.

Regulating technological innovation

Policymakers and regulators will continue to be challenged by the need to respond to the pace and scale of technological change. The financial services regulatory debate will be characterised by issues such as whether to expand the regulatory perimeter, risks associated with increasing use of artificial intelligence, the impact of innovation on operational resilience and cyber security, and digital ethics. These are global issues, but a lack of political will and adequate international bodies in some policy domains will likely hinder efforts to align regulatory approaches.

Cross-sector policies will increasingly affect financial services firms, although these will differ across regions. For example, in relation to data protection, the EU is taking a stricter stance on individuals' right to access and control personal data than the US and China.[15] Globally, the emergence of tighter data localisation requirements will also introduce additional obstacles to cross-border data flows.

The growing evidence that ineffective implementation of technological change can increase cyber and operational risk is also attracting regulatory scrutiny. International standard-setters will likely try to establish baseline common approaches for operational resilience, but we expect progress on cyber resilience to be made mostly at the G7 and European levels.

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These trends will affect firms' ability to use and share data to innovate, enhance their cross-border resilience, and deliver value and security to their clients.

Regulators and supervisors will also need to accelerate their own digital transformation. Well-resourced regulatory data science and analytics capabilities will be essential to understand and supervise a financial sector characterised by an increasingly blurred regulatory perimeter and greater technological complexity. Part of the solution may be for financial, security and data protection authorities to share resources, capabilities and insights more effectively. We see efforts in this direction, but more work is needed before regulators and firms can reap the benefits. Progress will more likely be achieved at national than at international level, mainly because of the absence of cross-sectoral global standard-setting bodies.

Responding to social concerns

Environmental sustainability is a rising social concern, and in Europe and Asia, a major focus for financial services regulators.[16] In the US, it is not - at least not at federal level. However, even where regulators do not introduce specific requirements, firms will need to consider how climate change and unsustainable business models will affect their asset and liability exposures, as well as the new opportunities that may arise from the increasing customer demand for "green" products, including green investment funds.

Financial inclusion is another area of focus globally. The World Bank Group estimates that in 2017 there were still 1.7 billion adults without a basic transaction account, primarily in Asia and Africa.[17] It has a goal for all adults to have access to an account to store money and make payments by 2020. In developed countries, regulators are focused on barriers to financial inclusion such as overly complex processes, lack of accessibility for "non-standard" customers, including the elderly or people with disabilities. Firms should expect to be challenged by regulators if their services are unduly hard for certain groups to access.

Conclusion

Although the post-crisis wave of regulatory change is subsiding, there is much to attract regulatory and supervisory attention in 2020 and firms should not expect scrutiny to abate. Against a darkening economic background, there will be increased focus on firms' financial and operational resilience, how they adapt to technological change and innovation, and how they respond to political and social pressures in areas such as sustainability and financial inclusion. In an environment where boards and individual senior managers are increasingly being held to account for their actions, financial services firms will need to ensure they have the foresight, governance, skills and operational capabilities to adapt and respond effectively.

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14. Moniteur Belge N. 96, May 2019; Foundation for Banking Ethics Enforcement (Netherlands), The Banker's Oath
15. The EU General Data Protection Regulation introduced rules on the collection and use of personal data, including, for example, the obligation to limit the amount of data held to that which is necessary for the stated purpose, and the right of individuals to have their personal data erased in certain circumstances.
16. In the EU, the European Commission has adopted an action plan on financing sustainable growth. In Asia, regulators in several countries (including Australia, Hong Kong Special Administrative Region, Japan and Singapore) have also released goals to promote sustainability in financial services. In Singapore and Hong Kong Special Administrative Region, this includes developing environmental, social and governance reporting guidelines for financial services firms.
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- Operational and cyber resilience
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- Good customer outcomes
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- Crypto-assets
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KEY STRATEGIC CHALLENGES	FIRMS WILL HAVE TO
Low interest rates, sluggish economic growth and competition from new entrants and major digital players will continue to put pressure on firms' business models and resilience.	Adapt their business models to ensure they are resilient to low growth and interest rates, while continuing to invest in new technology and digital solutions.
Global firms will find it increasingly costly and complex to comply with diverging national standards, as the international regulatory consensus continues to fray.	Build group systems and control frameworks with sufficient flexibility to adapt to national divergence from global regulatory standards.
Political, technological, environmental and demographic forces will have a profound impact on the medium-term regulatory outlook and firms' strategies.	Ensure their boards and senior managers have the necessary knowledge and skills, and diversity of thought, to manage new and emerging changes in their firm's external environment.
Regulators and society will increasingly expect firms to integrate fairness, ethics, sustainability, protection of vulnerable individuals, as well as their "purpose", into the core of their business.	Demonstrate that good outcomes for customers and society are a core priority. Areas of focus include providing value for money, supporting financial inclusion, and the fair treatment of vulnerable customers and those with non-typical needs.
The quality and effectiveness of boards' challenge will be further tested against a broadening set of critically important risks and strategic issues. Regulators will increasingly hold individual senior managers to account for their firm's conduct.	Enhance their governance and risk management frameworks to manage new risks and regulatory obligations, especially as the interaction between different risk classes (e.g. conduct, data protection, and model risk) increases.

Medium-term trends in EMEA

As set out in the global foreword, the regulatory agenda of the past ten years was shaped by the financial crisis and a variety of conduct of business issues that emerged subsequently, including benchmark manipulation and product mis-selling scandals.

If the crisis and its aftermath have propelled regulatory reform for the last decade, the environment in which regulation will be made and applied in 2020 and beyond could turn out to be quite different, especially in the EU and UK. That said, the precise direction in which regulation will head is not yet clear. A number of forces are at work, including politics, economics, technological innovation and changes in society's expectations. All are likely to have a profound impact on the medium-term regulatory outlook. While we do not expect these forces to play out fully in 2020 (and, where we do, this is already reflected in the predictions we make), we think they nevertheless provide important context for what follows in this Outlook.

We have identified the following forces that we believe could reshape FS regulation over the coming years:

Political trends and uncertainty

The role of central banks

Technological change

Socio-economic transformation

"A number of forces are at work, including politics, economics, technological innovation and changes in society's expectations. All are likely to have a profound effect on the medium-term regulatory outlook."

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Political trends and uncertainty

In the UK the recently elected Conservative government has made it clear that the UK will ratify the UK-EU Withdrawal Agreement and leave the EU by 31 January 2020. The Withdrawal Agreement allows for a Transition Period which will run to 31 December 2020. The UK Prime Minister Boris Johnson and the government have committed not to extend the Transition Period and to negotiate a UK-EU FTA by the end of 2020.

A key question is how FS regulation evolves after the UK has left the EU. The previous Conservative government under Theresa May made clear that it would continue to adhere to global regulatory standards and we expect the UK to remain an active and committed member of the global standard-setting bodies. However, it is less clear how closely the UK will continue to track EU regulation. This issue is directly linked to the debate about equivalence, and whether the UK will effectively be obliged to implement EU regulations and directives "line-by-line" in order to receive a positive equivalence assessment from the EU. The CEO of the PRA has noted that it would be "undesirable" for the UK to become a rule-taker from the EU.[1] And the CEO of the FCA has made the case for outcomes-based equivalence and looking for opportunities to improve onshored EU legislation on a "same outcome, lower burden" basis.[2] Pursuing either of these two (outcomes-based and line-by-line) approaches to equivalence would see the UK continue to follow the substance of both current and future EU FS legislation.

However, other regulatory outcomes are possible. One is that the UK and the EU reach agreement on an approach to mutual market access which improves on the current equivalence framework. Such an agreement would recognise the very close integration of the UK's and EU27's financial markets and services. However, as none of the EU's existing FTAs includes such a framework for FS, and given the complexity of negotiating one, it is unlikely that it could be included in any FTA agreed between the UK and the EU by the end of 2020. However, equivalence – which the UK and EU have declared that they should each endeavour to complete for their respective markets before the end of June 2020 – could be a step towards a more ambitious agreement on FS market access.

Another outcome is that the UK chooses to pursue an approach focused on deregulation post-Brexit, including reining back or de-emphasising those post-crisis reforms that are seen to reduce the international competitiveness of the UK's FS markets and giving the PRA and FCA a statutory objective to promote such competitiveness. This could also see the UK prioritise future financial relationships and partnerships with the US, Asia and Switzerland over those with the EU.

Increasing regulatory divergence between the UK and EU may prompt the latter to review, and possibly withdraw, any initial equivalence decisions.

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At the EU level the new European Commission has announced a very ambitious work programme in relation to FS, particularly in relation to ESG, FinTech, digital technologies and the CMU. However, while the ambition is clear, a number of factors make the new EU administration less predictable than it was:

- This is the first European Parliament since direct elections began in 1979 in which the two main political groups from the centre-right and centre-left have not, between them, formed a majority. The Green group, holding one tenth of the Parliament's seats, will be able to exert considerable influence on FS regulatory policy, should it choose to do so. Our central scenario is that the Greens will want to inject much more of an environmental perspective into new FS legislation, albeit from an already high base given the large number of ESG-related measures that were agreed at the end of the last Parliament.
- Developments in innovation and technology continue to raise questions about the regulatory perimeter and which activities should fall within it. The ongoing debate around GSCs is a prime example of this. The boundary between FS and non-FS is in some areas increasingly blurred and, as a result, we expect the Competition and the Internal Market Directorates to have a much stronger influence on the development of FS legislation than in the past. In many respects the injection of cross-sector perspectives into sector-specific FS regulation is welcome in that it reflects the reality of a market in which participants from outside the regulatory perimeter are involved with or provide services to "traditional" FS. However, this may well complicate and slow down the legislative process, given the interest of a larger number of very senior European Commission stakeholders. At a time when the pace of innovation is increasing, any such slowing down of the legislative process would not be in the interests of either FS providers or consumers.
- This will be the first EU administration which has had to make FS legislation without the UK as a member. The UK has typically promoted adherence to global standards (e.g. those produced by the BCBS in relation to bank capital), principles and outcomes-based regulation, and the need for EU financial markets to be integrated into global wholesale markets. It remains to be seen what approach the EU will take to new FS regulation. But greater divergence from global standards, increasingly detailed rule making and higher barriers for firms based outside the EU seeking to access EU financial markets are all increasingly likely outcomes. How the European Commission proposes to implement the final stages of Basel III will be a leading indicator of its future direction.

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The role of central banks

Central banks are currently in the public and political spotlight in a way that is unprecedented since the case for central bank independence in relation to monetary policy was generally accepted during the 1990s. This is in large part because of the low and in some cases negative nominal interest rates that have persisted for a number of years, across a number of European countries, in the face of weak economic growth. This has generated a heated debate between those who argue for ever more accommodating monetary policy including QE and even unconventional monetary measures to stimulate growth or avoid tipping countries into recession; and those who are concerned about the impact of this stance on the profitability and viability of certain types of FS firms, particularly banks and insurers, as well as the wider economic and social effects of the high asset prices that loose monetary policy is seen to drive.

Both sides of the debate implicitly, and sometimes explicitly, challenge the independence of central banks in setting monetary policy.

In other countries in the region not subject to low or negative rates, such as South Afric and Turkey, steps have been taken, or suggested, to increase political influence on the central bank.[3, 4]

The spotlight so far has been on central bank independence in relation to monetary policy. However, in the event that any changes were made to central banks' mandates, these could well spill over to their role and autonomy in relation to FS regulation and supervision, implying greater political influence on them. This could well be the case where FS regulation might otherwise inhibit new lending and investment, or where governments choose to use regulatory policy as a means to achieve wider economic or social goals, e.g. in relation to climate change.

Technological change

Technological change creates twin pressures on the FS industry. First, there is a notable difference in the speed of technological innovation relative to the speed of legislative and regulatory change. Regulators may have to respond to this by making greater use, temporarily if not permanently, of industry codes and other voluntary standards if they wish to avoid stifling innovation or - at the other extreme - being bypassed altogether. Second, technological change looks set to alter the regulatory perimeter, as new products and non-FS firms push up against it. Over the next few years legislators and regulators are likely to have to make some pivotal decisions, such as whether to bring systemically important services providers (such as CSPs) into the regulatory perimeter.

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Broader political and social concerns around the deployment of technology will increasingly influence FS regulatory policy. This will be evident, for example, in relation to the use of consumer data to fuel technological and digital innovation.

"Technological change looks set to alter the regulatory perimeter, as new products and non-FS firms push up against it. Over the next few years legislators and regulators are likely to have to make some pivotal decisions."

Two competing objectives, which extend beyond FS, will shape EU policy in this area in the coming years. The first is to make the EU a leading global, digitally autonomous, technological player. This includes the creation of a dynamic and **competitive data-based ecosystem** and economy through initiatives such as Open Finance, CMU, and the broader set of initiatives under the Digital Single Market umbrella. The second objective is to set best-in-class standards for **data privacy, ethics, and consumer protection**, with a number of flagship initiatives to promote a coordinated EU approach on the human and ethical implications of AI expected in early 2020.

This poses data-driven FS businesses both a challenge and an opportunity. Those FS businesses that can establish themselves as a trusted guardian of their customers' data stand to gain a competitive advantage. But the consequences of any unlawful, or unethical, use of consumer data on a firm's standing in the market and with its customers could be profound.

Socio-economic transformation

The last decade has seen an increasing blurring of the boundaries between regulatory and social policy. Shifts in society's expectations have influenced and in some cases redefined what are considered acceptable regulatory interventions. In recent years, for example, the European Commission has included diversity requirements in legislation such as CRD 4 and MiFID 2. This represents a departure from traditional regulatory scrutiny of board composition, which typically focused on competency and propriety.

Legislators' and regulators' work in relation to ESG issues, and within this, **climate change**, illustrate this trend even more clearly. The adverse impact of climate change increasingly forms the backdrop to public debates around sustainable economic development. The EU has already signalled through a series of measures and proposals that the financial sector has a role to play, both as a source of financing, and as a crucial part of society's risk management efforts.

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> "Shifts in society's expectations have influenced and in some cases redefined what are considered acceptable regulatory interventions."

The over-arching question from a regulatory perspective is how far legislators (and potentially regulators as well) will use FS regulation, including prudential capital regimes, to achieve broader public policy goals in relation to climate and the wider environment. An important early test of this will be whether the European Commission (or the European Parliament) seeks to introduce "brown penalising factors" or "green supporting factors" into the CRD 6/CRR 3 proposals and/or into the review of Solvency 2.

Demographic change is already having economic consequences that need to be factored into strategic plans across multiple sectors. Supervisors will be particularly attentive to the risk that some demographic groups will be "left behind" by a FS sector that fails to adapt to meet their needs.

Europe's population is ageing rapidly, with the number of FS consumers older than 65 growing ever larger. In the UK alone, the number of over 65s has grown from 9.1m in 1991 to 11.8m in 2016; this is expected to grow further, to 20.4m, by 2041.[5]

Elderly consumers face a number of challenges when it comes to interacting with FS:

- they are more likely to have fixed incomes, giving them a stable but less flexible pool of resources to draw on;
- they are also more likely to suffer from ageing-related illnesses which mean they are particularly at risk of financial detriment; and
- they may face access problems due to increasing digitalisation and use of new technologies to deliver FS products in new ways.

At the same time, millennials are set to become the largest segment of the global workforce over the next decade, with the median age of Africa's population being only 19.4.[6] Millennials also form the greatest share of the emerging **alternative workforce**, which comprises temporary, on-call contract workers, freelancers, independent contractors and gig-workers and is the fastest growing labour group in the EU. The FS industry needs to adjust to the emergence of this labour group in terms of how it treats them as customers. The income volatility of this ever-growing group leaves its members at risk of financial exclusion, with banks in particular struggling to offer appropriate products.

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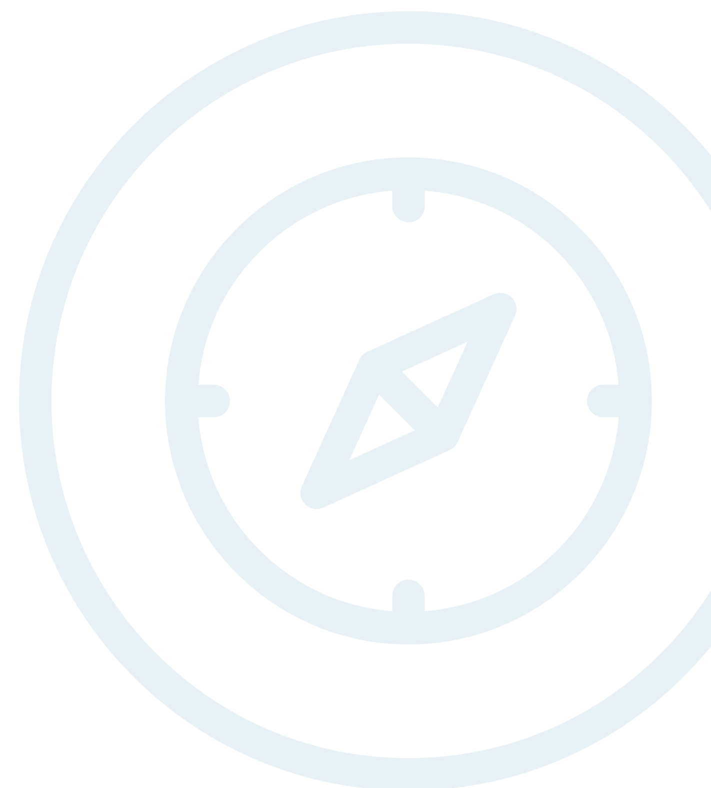
Some regulators (particularly the FCA in the UK) are very alert to the implications of these demographic shifts and what they mean for financial exclusion and the fair treatment of customers.[7] Other regulators are less directly engaged, despite similar demographic trends in their countries. But even where FS regulators are not making the consequences of demographic change a priority, FS firms would be unwise to ignore its effects. This links to the wider debate about FS firms' purpose and whether they are meeting the needs of all their stakeholders, rather than focussing primarily on shareholder value. Even in the absence of regulatory pressure to do so, firms that fail to engage with the changing composition and needs of their customer base could seriously reduce customer loyalty and erode their reputation and business franchise.



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Cross-sector themes

In the year ahead we see ten issues of strategic significance for all sectors of the EMEA FS industry:

1. **IBOR transition**
2. **Climate change and sustainability**
3. **Operational and cyber resilience**
4. **Culture, governance, and accountability**
5. **Good customer outcomes**
6. **AI governance and model risk management**
7. **Regulating firms' use of consumer data**
8. **Crypto-assets**
9. **Financial crime**
10. **Stress testing**

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IBOR transition

In focus

- **Supervisory scrutiny will increase further in 2020 as the clock runs down to end-2021. Firms will be required to provide quantitative and qualitative data to evidence their progress on transition. Those which continue to issue IBOR based products maturing beyond end-2021 will be in for particular supervisory scrutiny.**
- **Conduct risk will stay at the top of the supervisory agenda, particularly in relation to the transition of products for retail customers and SMEs, where the information asymmetry will be greatest. Firms need to be able to evidence that they have identified the relevant risks, reviewed their existing conduct risk framework and, where needed, followed an appropriate remediation plan.**
- **Despite the best efforts of the authorities and the various RFR working groups, we expect the likely outcome of the transition to be the coexistence of multiple rates for a limited set of products and time, and some divergence in fallback arrangements.**

"Firms will either have to resort to manual workarounds or invest in better systems. And if progress is not sufficient, the authorities will explore other ways of incentivising firms."

Even though the transition away from IBORs is ostensibly market-driven, there is intense supervisory interest in this topic across the region, especially in the UK, with some supervisors already requesting detailed information on firms' transition plans. Firms will have to provide quantitative and qualitative data on a regular basis to evidence their progress.

We expect that firms will struggle to provide the full set of requested data with the accuracy and in the detail that supervisors want, at least initially. Firms will either have to resort to manual workarounds or invest in better systems. And if progress is not sufficient, the authorities will explore other ways of incentivising firms. These could include increasing capital requirements, introducing restrictions on issuing IBOR-linked products or increasing haircuts on IBOR-linked instruments taken as collateral in central bank market operations.

It is possible that firms' progress might lag behind supervisors' expectations, not for lack of effort on the firms' part but because of the

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sheer magnitude and complexity of transition and, in some cases, by a lack of engagement by their clients.

In the UK, regulators have set clear expectations that firms should cease issuing LIBOR-based cash products maturing beyond 2021 by end-Q3 2020. In the EU, now that €STR is being published, the EU authorities have made it clear that market participants should avoid entering into any new EONIA referencing contracts maturing after 31 December 2021. While we expect market participants to do what they can to cease issuance of new EONIA and IBOR-linked products in line with supervisory expectations, their efforts may be hampered until key enablers, such as term structures, are in place.

So far, the largest banks and insurers have been in the supervisory spotlight. However, supervisors' attention is already turning to the wider population of firms. Insurers should be aware of the risk of shallower risk-free curves as EIOPA moves away from deriving curves based on LIBOR/EURIBOR-linked swaps – a change that could also affect the LLP. Shallower curves could have a significant negative effect on valuation and solvency, especially for long-term insurers, though transitional measures and the MA will provide some mitigating effect. Investment managers need to consider how the change to RFRs might affect their fund performance and investment strategy and how they protect their customers' best interests through transition. In this context, they should focus on identifying their own and their customers' exposure to IBOR-based products, engaging with the issuers of those products to facilitate transition to the new RFRs and on clear client communications.

We anticipate a significant increase in issuance of RFR-linked products as banks and other market participants continue to drive activity in them. We expect that 2020 will also see significant progress on developing forward-looking term rates both in the UK and in the EU. The development of term rates is very likely to facilitate and accelerate the transition, especially for firms that so far are taking a "wait and see" approach.

"So far, the largest banks and insurers have been in the supervisory spotlight. However, supervisors' attention is already turning to the wider population of firms."

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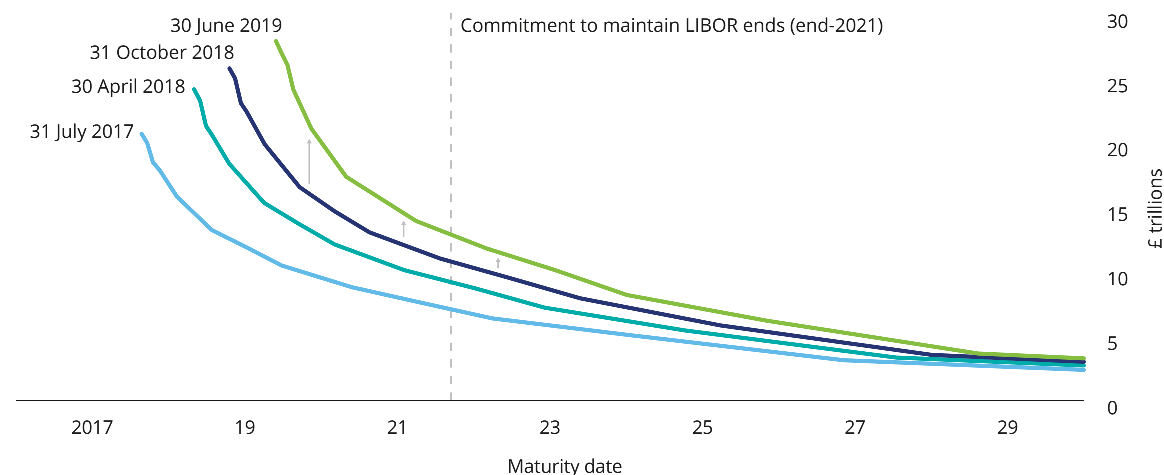
IBOR transition

Against this background, we expect to see supervisors increasing the pressure on firms to ensure that they identify and mitigate conduct risks arising in the course of IBOR transition. The principal conduct risks faced by firms are likely to arise from inadequate governance, unclear external and internal communications, and the potential for staff to act in a manner which may cause detriment to the market, clients and competition, for example by taking advantage of confidential information about their clients' trading intentions.

We expect the various RFR Working Groups to intensify their efforts to foster international cooperation and agree on aligned conventions across derivatives, bonds and loans. However, despite these efforts, the likely outcome of the transition will be the coexistence of multiple rates, for a limited set of products and time. In 2020, firms should focus on the application of fallbacks in their new and legacy contracts where potential divergence may create basis risk. The development of fallbacks for different LIBOR currencies is not necessarily following the same synchronised plan, which poses challenges and complexities for cross-border transactions and may slow down the transition altogether. Supervisors are encouraging firms not to rely on fallbacks; where they are used, we expect them to investigate whether this is appropriate.

Figure 1. Total value of cleared derivatives contracts referencing GBP LIBOR



Source: Bank of England, July 2019 Financial Stability Report, Chart B, page 51. Includes gross notional outstanding of all interest rate derivatives with a GBP LIBOR-linked floating leg, cleared at LCH Ltd excluding inflation swaps. 31 July 2017, 30 April 2018, 31 October 2018 and 30 June 2019 refer to observation dates for roll-off profile.

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Climate change and sustainability

In focus

- **Whilst the political and policy debate will continue, we do not think that regulators are yet at the point of using the prudential capital regime explicitly to promote green objectives.**
- **Rather, a growing number of regulators in the region will follow the PRA's example and issue their own supervisory statements on managing financial risks from climate change, whilst also deploying their accountability regimes, where these exist, to achieve climate risk objectives.**
- **The rapid emergence of different and potentially conflicting sustainability standards across the globe will intensify efforts to achieve greater global coordination in this area.**
- **Despite the prominence of investor activism in climate risk matters, we expect that regulators within the EU will remain the greater force for change in this area.**

Within the EU we expect debates around so-called "brown penalising" or "green supporting" factors to intensify in the context of CRD 6/ CRR 3 and Solvency 2, whilst moves towards integrating ESG into the SREP for banks will continue. We expect regulators, if pressed, generally to favour brown penalising factors over green supporting measures.

This is because brown factors can be calibrated, to a considerable degree, around physical and transition risks and associated data, that are already crystallising. Other policy makers may, in contrast, take a more positive view of the merits of incentivising green supporting factors relative to brown penalising ones.

We expect some regulators within EMEA, particularly those belonging to the NGFS, to follow the PRA's lead by issuing their own supervisory expectations on climate risk governance and management. We however anticipate that regulators in France, the Netherlands and UK will continue to lead the way in this area, in ways that are consistent with NGFS outputs. And in this respect, in the UK, more granular expectations will emerge on climate risk management, scenario analysis, disclosure and stress testing in the first instance through the BoE's 2021 BES – all of which are also policy focus areas for the EBA.

In response, firms should focus on understanding and mapping the physical and transition risks of climate change. They should develop and embed climate scenarios and stress testing to inform risk identification processes whilst enhancing risk modelling frameworks. They should also ensure that boards develop sufficient climate risk expertise by providing adequate training.

In the UK, in-scope banks and insurers will also need to implement the plan that they

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submitted to the PRA in October 2019 for integrating climate risks into their governance and financial risk management frameworks.

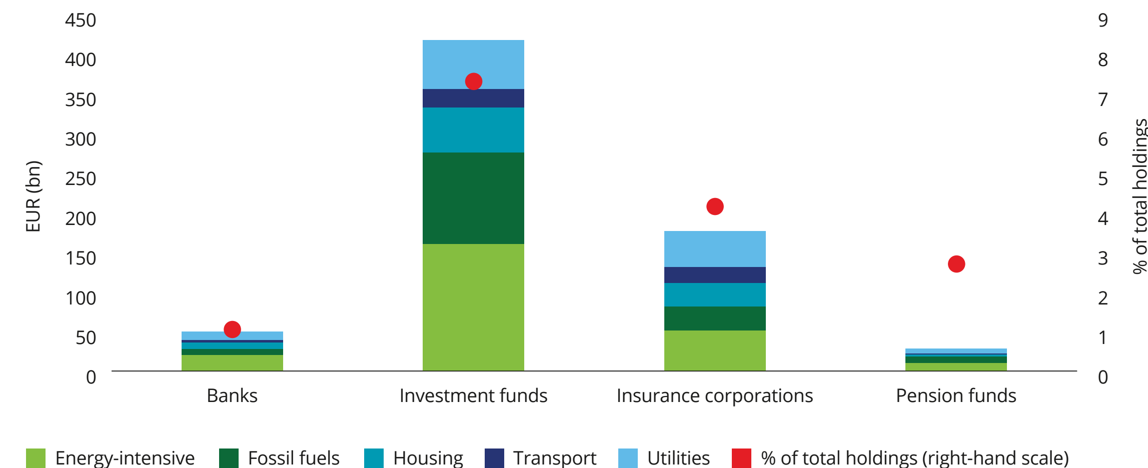
On governance structures, forthcoming changes to AIFMD, UCITS, MiFID 2, IDD and Solvency II will require firms to ensure that sustainability risks are incorporated into organisational requirements, risk management procedures and product governance. Additionally, amendments to IDD and MiFID 2 will mean that both investment firms providing advice/portfolio management and firms distributing insurance-based investment products will need to make changes to their suitability processes to address clients' ESG preferences.

In relation to firms' strategies, the greater regulatory/policy focus within the EU on defining sustainability, reflecting customers' ESG preferences, managing ESG risks and removing barriers to the development of green products and services, can all be expected to drive ESG product and service innovation by firms, including to meet growing customer demands in this area.

Moves are afoot in the UK and EU to make TCFD disclosures mandatory. In 2020 the FCA will consult on TCFD-aligned disclosures for certain issuers, the EBA will be submitting technical standards to the EC on CRR 2, Pillar 3 ESG disclosures and the EC intends to launch a review on NFRD. The BoE has also confirmed that it expects TCFD consistent disclosures by 2022 for listed companies and large asset owners.

Firms should therefore continue to make progress on TCFD-consistent disclosures in line with these initiatives. They should focus their attention on identifying material climate risks and related data to support this, establishing effective governance structures, conducting scenario analysis, developing strategies resilient to climate change and developing appropriate metrics.

Figure 2. Eurozone firms' exposure to climate-sensitive sectors (by issuer sector) in 2018



Source: ECB, Climate change and financial stability, May 2019

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Firms will also start preparing to comply with the Disclosure Regulation. In the case of investment products, this will include preparing and disclosing information on how negative impacts on financial returns arising from sustainability risks are integrated into risk policies, how financial entities consider the adverse impacts of sustainability factors, and, in the case of investment products with sustainability characteristics, how such characteristics are met. Meanwhile, we anticipate that firms will begin to think about the strategic implications flowing from the taxonomy as well as how to implement and use it.

We anticipate that the growth in consumption of sustainable financial products by retail investors will be accompanied by a growing focus by conduct regulators in the EU on "greenwashing". Greenwashing refers to the practice where firms market/portray products, activities or policies as producing environmental outcomes, when this is not the case. The FCA and AMF, informed by the EU's developing work on disclosure, taxonomy and labelling, are expected to lead the way in this work.

Firms in the EU will therefore need to ensure that all communications about sustainable products and services clearly and fairly articulate their ESG credentials, together with the way in which these objectives are achieved, and that there is clarity about performance measurement.

Finally, we expect ESG shareholder activism by asset owners and managers to intensify. This will be driven amongst other factors by regulatory stewardship developments. Despite the rising prominence of investor activism in relation to climate risk, we expect that regulators within the EU will remain the greater force for change.

"Despite the rising prominence of investor activism in relation to climate risk, we expect that regulators within the EU will remain the greater force for change."

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Operational and cyber resilience

In focus

- **Firms will need to demonstrate they have considered, and can manage, the full range of technology and resilience risks they face, especially as they upgrade their core systems to be able to innovate.**
- **Supervisors in some EU jurisdictions will have new means of evaluating and understanding firms' approaches and resilience to cyber and operational risks, and will put pressure on them to address areas of deficiency.**
- **Supervisors will continue to challenge rigorously firms' Cloud migration plans, and will further clarify policy on outsourcing arrangements. Firms should engage proactively with supervisors on Cloud transition and demonstrate robust governance and risk management capabilities.**
- **International standard-setting bodies will make some, still slow, progress in building consensus for the development and implementation of a common regulatory approach to cyber and operational risks.**

Supervisors will expect firms to demonstrate they have thought deeply about the full range of technology and resilience risks they face, especially as they upgrade their core systems as part of digital transformation programmes. These have too often been a key driver of operational failures in FS.

The European Commission is expected to table a comprehensive legislative proposal in 2020 on the management of cyber risks in FS, intended to harmonise and clarify expectations for risk management practices. In time, clearer powers and expectations will enable supervisors to apply more pressure on firms to strengthen their management of cyber risk, and teams previously less exposed to supervisory scrutiny will need to adapt to what will be a more intrusive approach.

EU-level negotiations will take time, but we anticipate faster progress from regulatory authorities. In particular, we expect the SSM to weigh the development of an assessment framework for the cyber resilience of directly supervised banks similar to the Cyber Resilience Oversight Framework developed by the ECB for FMIs in 2018. EIOPA will finalise its guidelines on ICT and cyber security governance, building on the EBA's final guidelines on the same topic. It will also consider applying threat-led cyber resilience testing to the insurance sector. On the supervisory front, when outages occur, senior executives in the UK can expect heightened scrutiny under the SM&CR, and will need to show what steps they have taken to mitigate the risks of operational disruptions, especially during IT change programmes.

In the UK, responding to Parliament's call to prioritise this work, the BoE, PRA and FCA

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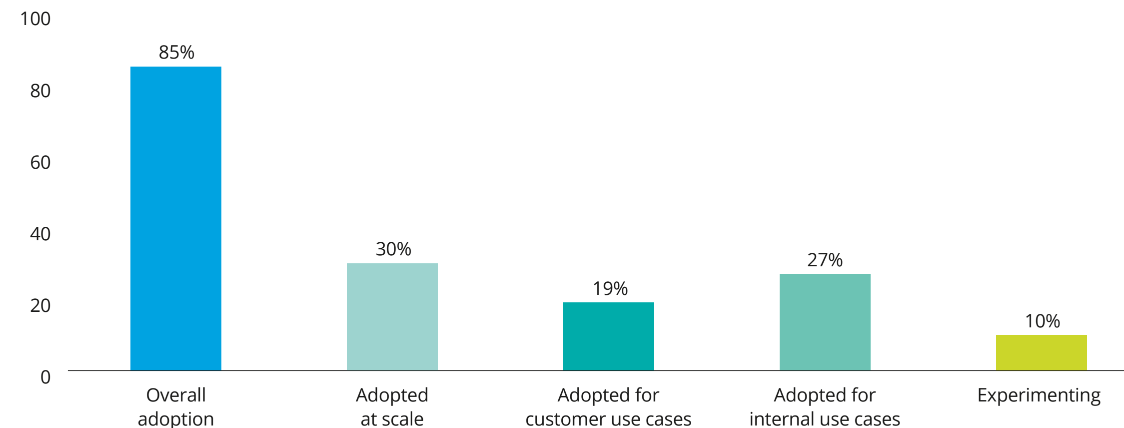
will will finalise their approach to operational resilience in 2020, and start implementing it before the end of 2021. Boards and senior management will need to communicate clearly to their supervisors their impact tolerance levels for operational disruption. This should include:

- identifying their important business services;
- mapping the underlying systems and processes that support them;
- articulating impact tolerance statements for each of these services; and
- demonstrating what they have done to improve the resilience of these services in the face of a disruption.

The first tests under the ECB's TIBER-EU framework have already started. In 2020 we expect an increase in the number of EU countries introducing these, including cross-border tests. In the UK, the FPC's cyber stress test of large FS firms will be repeated with increasingly challenging scenarios. Firms must prepare to engage with their supervisors, who will be using the results of these tests as tools to help them assess whether firms are taking steps to address the vulnerabilities revealed.

FS authorities, whilst recognising the importance of the Cloud for innovation and competition, are increasingly concerned about the concentration risk of large-scale outsourcing to unregulated CSPs. The EU, including the UK, will consider legislation to bring CSPs within the regulatory perimeter, but progress is likely to take time due to difficult

Figure 3. Cloud adoption amongst respondents to Deloitte's Digital Risk Survey



Source: Deloitte, Digital risk survey, October 2019

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fundamental questions, such as the feasibility of separating CSPs' EU FS-related functions and creating an authorisation regime.

In the meantime supervisors will continue to challenge firms' Cloud migration plans, with some jurisdictions remaining more wary than others. Firms' boards and senior management will need to demonstrate a comprehensive understanding of the business, technical and execution risks associated with Cloud transition and full adoption. Existing regulatory levers, such as individual accountability under the SM&CR (in the UK) and the operational resilience framework will be used to manage the inherent concentration and resilience risks arising from the use of the large CSPs.

International standard-setting bodies, such as the FSB, BCBS, IOSCO and IAIS will continue to struggle to reach consensus on the development and implementation of a common regulatory approach to cyber and operational risks, but we expect more progress to be made on this front in 2020.

In particular the FSB's development of a set of best practices for cyber incident response and recovery in FS firms will be an important step forward in fostering a common response to cyber-attacks. Equally, the work of the G7 Cyber Expert Group is beginning to yield significant benefits, and in 2020 we expect the publication of key documents setting out common inter-authority communication protocols and a common approach to dealing with risks arising from non-financial third parties. We also expect the US G7 Presidency to repeat its June 2019 cyber incident simulation, and potentially broaden the scope beyond the 24 public authorities involved in 2019.

"Firms' boards and senior management will need to demonstrate a comprehensive understanding of the business, technical and execution risks associated with Cloud transition and full adoption."

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Culture, governance, and accountability

In focus

- Regulators and supervisors will remain focused on strengthening firms' governance and culture and will increasingly apply accountability regimes to this end.
- Supervisors will prioritise banks' governance and culture but will progressively extend their focus to other sectors.
- Supervisors will attach greater priority to diversity and inclusion, the "tone from above" as well as from the top, and how boards are fostering environments in which employees feel safe to "speak up".
- Supervisors will also look more deeply at corporate "purpose", and its impact on outcomes for consumers, markets and firms.

To restore trust in FS, regulators and supervisors will remain heavily focused on the fundamental governance and cultural drivers of decision-making and customer treatment in firms. In particular, any indication of "group-think", an over-dominant executive and/or disengaged NEDs will result in an increasingly tough supervisory response framed around expectations of board members' regulatory accountability.

In Europe much of the attention will remain on banks which, according to Andrea Enria, Chair of the Supervisory Board of the ECB, have not "done enough so far" to reform their governance and risk management.[8] In some jurisdictions, such as Ireland and South Africa, the focus is spreading to other sectors. We expect a similar progression, albeit at variable pace, across other jurisdictions.

"Whilst continuing to scrutinise the "tone from the top", supervisors will focus increasingly on the "tone from above" in recognition that many employees take their cultural and behavioural cues from their immediate bosses."

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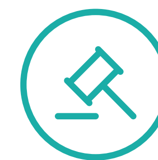

There will be continued focus on the suitability and effectiveness of the board and senior managers including efforts to harmonise the assessment of fitness and propriety through the next review of CRD. More immediately, the ECB will continue to scrutinise how NEDs' declared time commitment allows them adequately to oversee, monitor and challenge the business. In Ireland, firms will need to be in a position to demonstrate what action they have taken to detect and address any weakness in their fitness and probity arrangements, following concerns expressed by the central bank about a lack of industry awareness of regulatory requirements.

Supervisors will focus, with increasing intrusiveness, on the extent to which the board's desired culture is embedded and operative across all levels of a firm, particularly in customer-facing and risk and control functions. Whilst continuing to scrutinise the "tone from the top", supervisors will focus increasingly on the "tone from above" in recognition that many employees take their cultural and behavioural cues from their immediate bosses. Accordingly, supervisors will scrutinise how far firms' middle management transmit and reinforce the firm's purpose, values and desired behaviours, as set by the board, to front-line staff.

Supervisors will continue to challenge on diversity, putting the onus on firms to address a lack of diversity, particularly at the board and senior management level and in succession plans. In the absence of improvement, some regulators are signalling a willingness to consider, in time, rejecting board candidates on the grounds of diversity. Gender balance will remain an important measure but supervisors will increasingly look for wider evidence of "cognitive diversity" and whether firms have in place policies to ensure the board has sufficiently diverse experiences, knowledge and perspectives to provide informed oversight and challenge of the business. In this regard, we expect growing supervisory scepticism of tokenistic or "window dressing" appointments. Boards will need to balance their coverage of core competencies, knowledge and skills in new and emerging risk areas (such the use of consumer data and AI) against the benefits of bringing onto the board a wider range of backgrounds and experience generally.

In parallel, supervisors will look for evidence that firms are fostering cultures where employees routinely feel able to "speak up" or escalate problems without fear. Firms will need to demonstrate that they actively monitor issues being raised by employees, and take credible action to address them. Serious misconduct (e.g. sexual harassment) will increasingly be viewed as prima facie evidence of a fundamental cultural failing within firms.

In the UK, the FCA will conduct ever more searching examinations of individual firms' declared purpose (that is, the reason why a firm exists) with the aim of probing the underlying cultural drivers and whether these are delivering acceptable outcomes for consumers, firms and markets.

Supervisors will continue to harness accountability regimes in their drive to improve firm culture. The introduction of an accountability regime was one of the key

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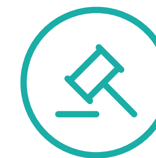
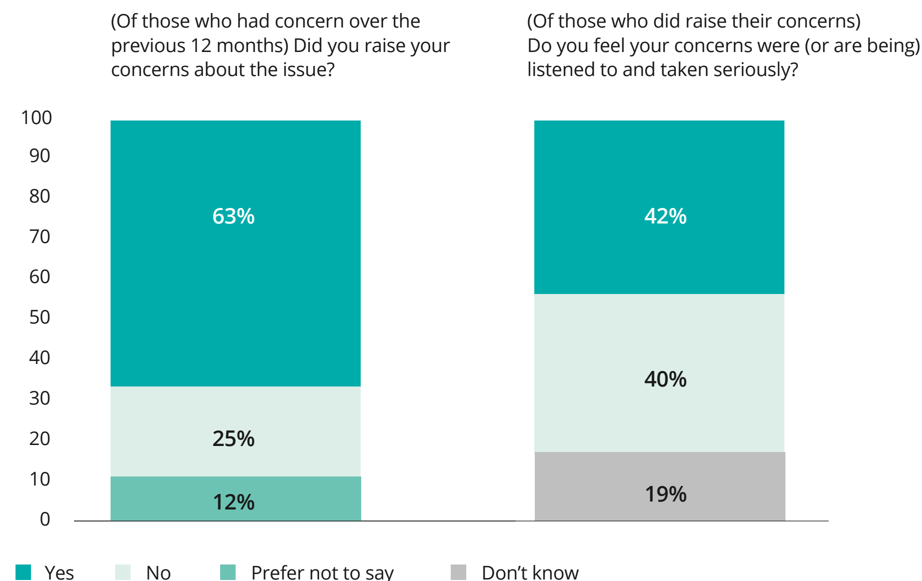


recommendations of the Financial Markets Review in South Africa whilst in Europe, the European Commission is seeking views on the benefits and drawbacks of an accountability regime under CRD. In Ireland, the IAF will be looking to enhance individual accountability and strengthen central bank enforcement powers in this area. The implementation of any such regimes will result in increasingly adverse consequences for firms and individuals when misconduct or other regulatory failings have occurred. As an illustration of this trend, the number of open enforcement cases in the UK related to culture and governance has risen from 15 in 2017 to 70 in 2019. [9, 10]

Figure 4. Do employees feel their concerns were (or are being) listened to and taken seriously?



Source: BSB, Annual Review 2018/2019, April 2019

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In focus

- **Conduct regulators will increasingly focus on the outcomes consumers receive, in addition to processes and controls around the design, sale and distribution of FS products.**
- **The investment management sector has been at the forefront of regulatory thinking and prioritisation on value for money, and will remain so; but 2020 will see this area of regulatory interest extending increasingly into other sectors.**
- **Consumers who need additional support, for example vulnerable consumers, will rise up conduct regulators' agendas, with the definition of such vulnerability being widely drawn.**
- **We expect the FCA's GI pricing review to lead to tight restrictions on firms' ability to raise prices for consumers who continue to renew with the same insurance provider, to limit firms' ability to use auto-renewal policies, and to introduce a new requirement for a senior manager to take responsibility for whether products provide value for money.**

Regulators across EMEA are increasingly adopting a more outcomes-based approach to conduct regulation and supervision. While regulators have traditionally tended to concentrate on firms' processes and controls, they are now increasingly focused on customer outcomes.

This includes looking at value for money, as well as outcomes for customers with non-typical needs, including those deemed vulnerable. While not new, we expect these trends to grow in importance in 2020 and beyond.

Firms will need to demonstrate that good customer outcomes are core to everything they do. In the UK, firms will also increasingly be asked to justify the fairness of their pricing decisions.

In the UK, 2020 will see a number of new rules designed to deliver better value for money and fairer and more open pricing of financial products. Investment managers have faced intense scrutiny over the value they provide to investors, and will be required to publish their first assessments of the value their funds deliver. While we may not see a large-scale reduction in fees, it will become increasingly difficult for firms to justify poor value products in the face of rising scrutiny, facilitated through regulatory initiatives, by the media, distributors and institutional investors. In particular, firms will need to ensure that they do not charge excessive fees for "active" funds that nonetheless closely track an index, and that differences between the charges paid by retail and institutional investors are demonstrably fair rather than simply a result of different levels of market understanding and buying power.

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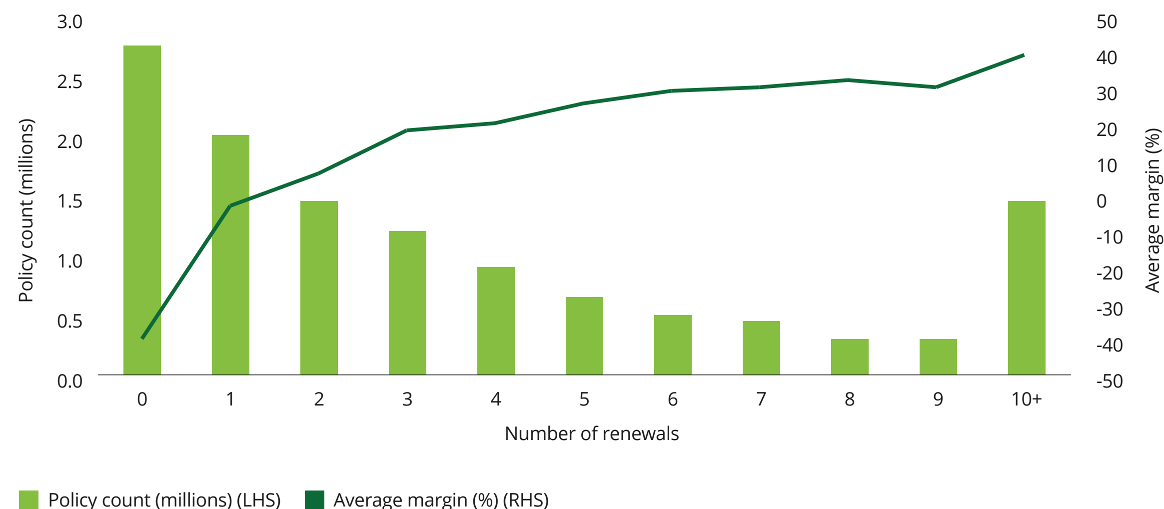
Figure 5. The FCA found that newer customers are often able to buy policies priced up to 30% below the cost to supply, while pricing for longstanding "back book" customers who have held the same product for over 10 years often incorporate margins close to 40%



Source: FCA, Thematic Review of household insurance, October 2018

UK insurers will work towards implementing the remedies of the FCA's GI pricing review, whose final report is expected in Q1 2020. We expect the FCA to put in place tight restrictions on firms' ability to raise prices for consumers who continue to renew with the same insurance provider, to limit firms' ability to use auto-renewal policies, and to introduce a new responsibility for a senior manager to take responsibility for the value of products. Firms will need to consider how any ban or restrictions on pricing will affect their business model and look to improve their pricing and product governance to ensure they deliver good customer outcomes.

The FCA also looks likely to bring forward new rules requiring deposit-takers to offer a basic savings rate, essentially a minimum variable interest rate for all their easy access savings accounts and cash ISAs after they had been open for a set period of time. Firms will have to rethink their savings business models, balancing the interest rates offered across their range of products against their wider deposit funding needs.

In South Africa, 2019 saw the publication of a draft Conduct of Financial Institutions Bill. Although the bill will take time to become law, it sets out an extensive overhaul of conduct regulation that firms need to start preparing for now. In Europe, 2019 saw EIOPA publish a new framework for identifying conduct risk, the UK's FCA released guidance on how firms should treat vulnerable consumers, and new rules to improve client protection in Switzerland were finalised. We expect 2020 to be the year in which supervisors test firms to ensure that they are putting in place measures to deliver the outcomes these frameworks seek to achieve.

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At EU level, efforts to improve customer disclosures are intended to help retail clients understand which products will provide the best value for them. For example, a key objective of the PRIIPs Regulation was to make investment product costs and risk disclosures easier to understand and more comparable across product types. The European Commission is currently working with the ESAs to review PRIIPs and this work is expected to continue in 2020. Key areas under review include performance scenarios, costs, investment options and differences between different product types. In the meantime, firms will need to ensure that their disclosures are clear, and can provide explanatory materials where necessary.

More recently, we have seen EU authorities take an interest in specific rules on value for money, such as the FCA's new rules for investment managers, especially in light of ESMA's finding that retail investors in UCITS funds pay twice as much as institutional investors. Therefore we see a distinct possibility that the new European Commission will propose legislation on value for money at EU level, mirroring some of the developments already well underway in the UK.

"Firms will need to demonstrate that good customer outcomes are core to everything they do."

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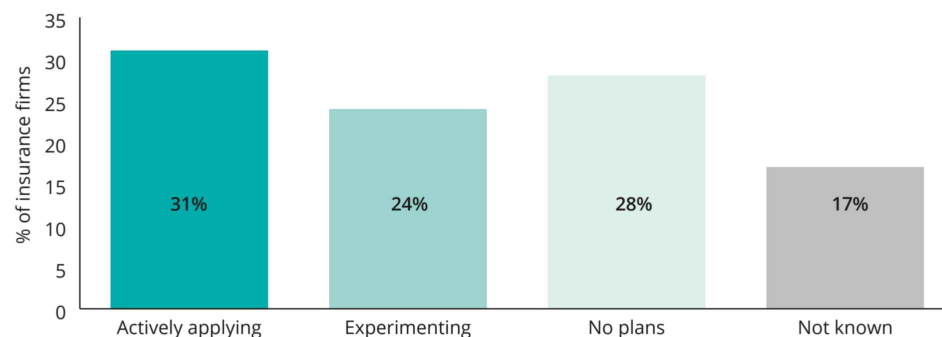
AI governance and model risk management

In focus

- Use of AI models will continue to grow, but slowly, with firms increasingly adopting AI models for lower risk activities, including to test or improve existing models.
- Regulators will send a very clear message that using AI will not dilute firms' corporate governance and individual accountability obligations.
- Board members will need to demonstrate the necessary capabilities to consider, challenge, and manage AI models.
- Regulators and supervisors will continue to consider and implement initiatives to support the safe adoption of AI, but we do not expect any immediate significant changes in their approaches.

Figure 6. Usage of Big Data Analytics tools such as AI and Machine Learning in motor and health insurance firms



Source: EIOPA, Big Data Analytics in motor and health insurance: a thematic review, April 2019

FS and cross-sector authorities across Europe are starting to look closely into the governance and model risk management challenges arising from material AI models, and the implications for their regulatory and supervisory objectives.

The use of AI in FS is still relatively young, but it has the potential to make FS firms more competitive, efficient, and profitable. Regulatory initiatives such as Open Banking and, in future, Open Finance will continue to incentivise the development of advanced data analytics capabilities to generate significant value for both firms and customers.

Against this background, FS firms are proceeding steadily, if cautiously, in their adoption of AI.

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Regulators are keen to see the potential benefits of AI being captured both by the industry and themselves. However, as adoption of AI increases in scale and strategic importance, its risk implications are also rising steadily up regulators' agendas.

The current regulatory framework does not preclude the use of AI models. However complying with governance and risk management requirements will be generally more challenging in an AI environment, for example in relation to model interpretability, stability, and performance. AI model risk will also interact to a much greater degree than before with other risk classes, such as conduct or data protection. Firms will therefore need to demonstrate that their model risk management frameworks have been enhanced to be able to identify and manage a much broader set of risks, such as bias, discrimination, privacy, and broader data ethics implications.

Some regulators, such as the DNB and the UK ICO, have started to issue draft AI guidance and frameworks. We expect this trend to strengthen in 2020, both at EU and national level. For example, the EIOPA InsurTech taskforce is currently assessing how AI differs from other commonly used insurance models, and will consider whether specific governance requirements are required. In the UK, the FCA will publish a report, in partnership with the ATI, on how the financial sector can explain, and be transparent in, its use of AI.

These initiatives will help firms apply existing rules to their AI models. However, they are also designed to leave no doubt that supervisory expectations, whilst remaining proportional to the risks involved, will be unaffected by firms' use of AI per se, and that using AI will not dilute firms' corporate governance and individual accountability obligations.

The latter will be a particular area of supervisory focus. Board members and senior management will need to demonstrate the necessary capabilities to consider, challenge, and manage the key strengths, limitations, trade-offs, and appropriateness of AI models. There will be strong expectations on boards to establish clear risk appetite frameworks and parameters within which AI systems can operate, and to satisfy themselves that effective controls are in place to ensure that neither is breached. This will be especially relevant for significant or material models, such as those used for risk and regulatory capital calculations, or to drive consumer outcomes.

"Complying with governance and risk management requirements will be generally more challenging in an AI environment, for example in relation to model interpretability, stability, and performance."

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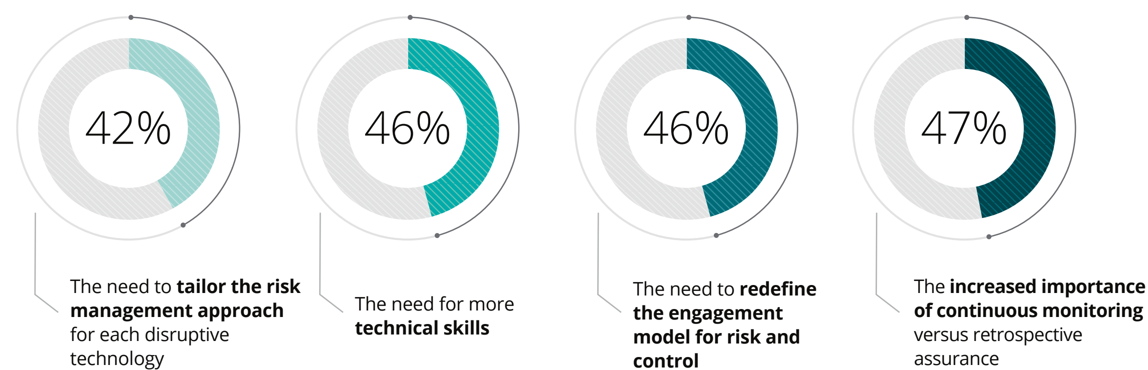
To support the board in discharging its obligations, model validation teams, as well as other critical oversight functions across all three lines of defence, will need the necessary skills and technical understanding of AI.

This will take time. In 2020, we expect adoption of AI models in FS to continue to grow, but at cautious pace. FS firms will tend to adopt AI models for lower risk activities, for example to validate or improve existing models, but not, for example, to make fully automated significant decisions about customers.

While the onus to demonstrate compliance of their AI models will remain squarely on firms, supervisors too will continue to build their AI supervisory skills and capability, and to consider what other initiatives could support a wider, yet safe, adoption of AI. But we do not expect any immediate significant changes in regulatory or supervisory use of AI for the time being.

As supervisors establish their expectations for AI models, they may apply some of these to traditional models, where the same characteristics or shortcomings (e.g. opacity) may also exist, but have hitherto been overlooked or underestimated. Supervisors will expect firms to be proactive in considering and responding to any such deficiencies and, where relevant, apply enhanced governance and model risk management practices developed for AI models to traditional models as well.

Figure 7. How is the adoption of disruptive technology changing what's required from risk management at an operational level? The most commonly recognised impacts across all respondents were:



Source: Deloitte, Digital Risk Survey, October 2019

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Regulating firms' use of consumer data

In focus

- Competition, consumer protection, privacy, and ethical considerations will shape the EU and UK policy response to firms' use of consumer data.
- Firms must be ready to demonstrate the value that data-driven use cases will bring to users and society, and evidence how different regulatory policy approaches would support or hinder them.
- Boards should put in place strong ethical frameworks built on a foundation of compliance with existing conduct, data protection and equality regulations, strong governance frameworks, and meaningful consumer engagement.
- We expect "value for data" to become an area of increasing regulatory focus: firms will be asked to demonstrate that they are treating their customers fairly in this area.

Developing a framework for the use of consumer data which strikes the right balance between competition and innovation on the one hand, and data and consumer protection on the other is difficult. However, policy makers in Europe have resolved to do this and it will have important medium-term implications for FS firms' innovation and data strategies.

To determine their policy position we expect regulators to look closely at three key factors:

- the short- and medium-term value delivered to consumers by new products and services enabled by the use of their data;
- the balance between firms' legitimate commercial interests and the rights and interests of their consumers, with an increasing focus on what consumers and society consider "ethical" and "fair"; and
- the cumulative and longer-term effects that adoption at scale of new data-driven products and services is likely to have on the FS market, and other public policy objectives.

Firms seeking to help shape an appropriate and proportionate policy response will have to be able to answer these questions. Individually and as an industry, they should present strong evidence to policy makers that their existing and developing data-driven use cases do support good outcomes for both their customers and society. Different policy approaches could either support or hinder the significant investments firms are making into their innovation and data strategies.

The EU's expected initiatives on the human and ethical implications of AI, and the Open Banking and Open Finance regulatory debates in both the EU and UK, for example, will be clear and immediate opportunities to engage proactively with policy makers. In insurance, we expect the use of consumer data, including

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from new sources (e.g. connected home devices or drones), to accelerate significantly. As insurers move further away from the traditional insurance risk-pooling model, they will need to satisfy regulators on the fairness implications for consumers, including in areas such as price increases, exclusion and cross-subsidies.

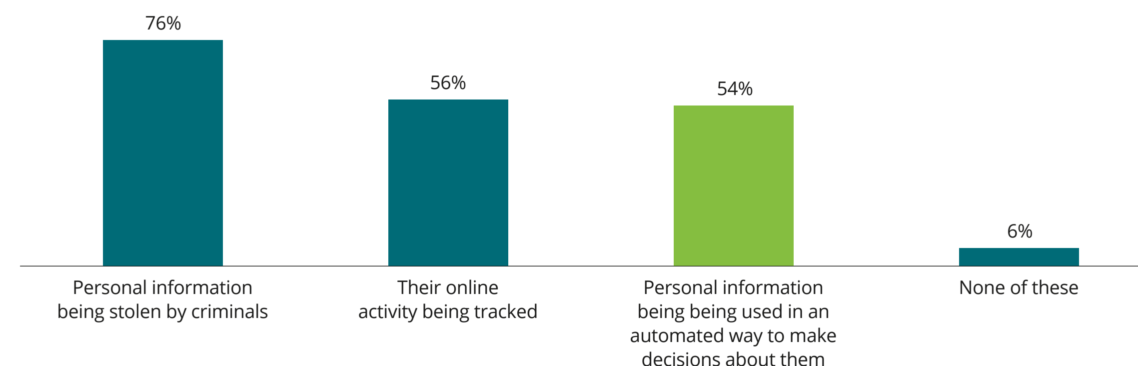
Across sectors, firms need to understand how consumers are likely to respond to their new offerings. Consumers' views of what is or is not a fair and ethical use of data are still forming, and could change rapidly in response to any adverse events. Firms should not be complacent given the current lack of intense supervisory activity. Any consumer or political backlash against firms' use of AI or data will have a significant impact on reputation, as well as a vigorous regulatory response, including past business reviews.

Regulators and consumers will both likely consider AI as an umbrella term for a broad range of computer techniques used to make or drive decisions about customers through large-scale automated processing of data. In our experience this is a far broader interpretation than many firms are currently contemplating.

The FCA has observed that firms know that their ability to combine consumers' data allows them to create business value.

Consumers too "should be empowered to understand the value of their data" and what they are likely to receive in return for it.[11] We expect "value for data" to become an area of increasing regulatory focus, and firms will have to prove that they are treating their customers fairly in this regard. However, until "fairness" in relation to use of customer data is better understood, firms' data-driven offerings should be designed with sufficient transparency and flexibility to respond effectively to fluctuating consumer, political and regulatory expectations.

Figure 8. Which of the following outcomes are data subjects most concerned about when companies and organisations use their personal information?



Source: ICO, Information Rights Strategic Plan: Trust and Confidence, July 2019

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These trends mean that data ethics - i.e. the evaluation of data collection, sharing, and use practices with the potential to affect people and society negatively - will continue to rise up the board agenda.[12] Boards should put in place strong ethical frameworks, rooted in effective and integrated conduct and data governance frameworks. Choosing the most appropriate course of action in relation to data ethics will require diversity of thought and perspectives. Therefore, ethical frameworks will need to be supported by a diverse senior executive team and board, including in terms of gender, ethnicity, professional experience, and social background.

Ethical frameworks can only be built on a foundation of compliance with existing conduct and data protection regulations and supervisory expectations in relation to use of customer data. In particular, as GDPR supervisory activity intensifies across the EU our experience suggests firms are still likely to fall short of basic regulatory expectations, including in relation data security, lawful basis for processing, and general information governance practices.

> “Ethical frameworks can only be built on a foundation of compliance with existing conduct and data protection regulations and supervisory expectations in relation to use of customer data.”

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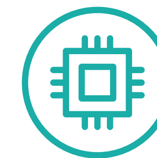

In focus

- In the short-term, most crypto-assets regulatory activity will happen at the national level, until the overarching EU approach is clarified.
- Current regulation will need to be adapted for the unique characteristics of DLTs to make it relevant for crypto-assets classed as financial instruments.
- The broad range of possible crypto-assets structures and characteristics means that regulators and regulated firms will need to assess their regulatory status on a case-by-case basis, which may prove to be a complex task.
- Regulators will adopt a tough stance towards unregulated crypto-assets and related products, in order to reduce consumer harm and protect market integrity.
- We expect EU and international authorities to prioritise their efforts to agree an approach to GSCs, given the possible entry of unregulated, yet potentially systemic new players into FS markets.

The ESAs have clarified their direction of travel on how they may apply EU regulation to crypto-assets fulfilling the definition of financial instruments or e-money under EU regulation. However, until an overarching EU regulatory framework is implemented, most of the regulatory activity for the next 12 months will happen at the national level, with regulators applying or creating their own crypto-assets frameworks and taxonomies within the boundaries of existing EU or national regulations.

Complying with a range of national taxonomies will be a complex exercise for regulated firms. The broad range of possible structures and characteristics of crypto-assets makes it difficult to classify them into narrow categories. Regulators, firms and issuers will have to assess their regulatory status on a case-by-case basis, which will be resource-intensive. In some cases, firms may leverage the innovation facilitators (e.g. sandboxes) established by their regulators.

Even when crypto-assets are clearly within the regulatory perimeter, EU authorities have acknowledged the challenge of applying existing regulation to trading them, particularly for settlement finality, custodial services, transaction reporting and asset segregation. Regulators will need to adapt current regulation to the unique characteristics of DLTs to make it relevant for the trading of crypto-assets classed as financial instruments. This will be necessary to enable participants to create a market and expand their cross-border crypto-assets activities. Consequently, we expect harmonising national regulatory frameworks and taxonomies to encourage

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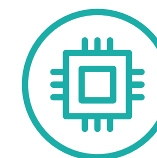

market activity and reduce regulatory arbitrage to be a priority for EU and international authorities. Simultaneously, the BCBS will determine the risk-weighting of crypto-assets – it has indicated that, if crypto-assets are classed as high-risk assets, it would support a very conservative Pillar 1 capital and liquidity treatment for them.

"The broad range of possible structures and characteristics of crypto-assets makes it difficult to classify them into narrow categories. Regulators, firms and issuers will have to assess their regulatory status on a case-by-case basis, which will be resource-intensive."

In the retail arena, a recent FCA survey estimated that a ban on derivatives referencing unregulated crypto-assets to retail consumers could reduce consumer losses by up to £234.3 million a year.[13] This is a prime example of the complexities of crypto-assets structures. In this case the derivative is within the regulatory perimeter, but the underlying – an unregulated, transferable crypto-asset – is outside. We expect regulators to scrutinise retail access to regulated crypto-assets, and potentially limit their access to them where they have the powers to do so. The FCA is likely to be the first mover following its consultation on banning the sale of "derivatives and exchange-traded notes referencing unregulated transferable crypto-assets" to retail consumers.[14] Regulators in the EU and elsewhere may well follow suit.

We expect regulators to take a tough stance towards the marketing and sales of unregulated crypto-assets, particularly to retail investors, to avoid mis-selling cases that could cause harm to consumers and damage the market's reputation. Regulators will be particularly mindful that, in the current low interest rate environment, retail investors may be susceptible to buying assets promising a higher yield, without properly considering the nature of the risks.

Although ESMA will consider the creation of a bespoke regime for crypto-assets which do not qualify as MiFID financial instruments, this will not happen quickly. In the meantime, we expect new types of crypto-assets to continue to emerge outside the regulated sphere. However, regulated firms will be cautious about their activities in these (currently) unregulated products, not least because their regulatory obligations as authorised entities may also apply to any unregulated activities they conduct.

Regulatory activity, in EMEA and internationally, will accelerate on GSCs, in reaction to the proposed launch of the Libra initiative in which Facebook is an investor. GSCs can present characteristics of both financial assets and payment instruments, and can be offered by large unregulated players with established and extensive cross-border consumer reach. Their hybrid characteristics and the potentially systemic nature of their unregulated issuers

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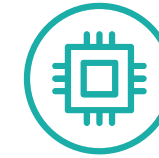
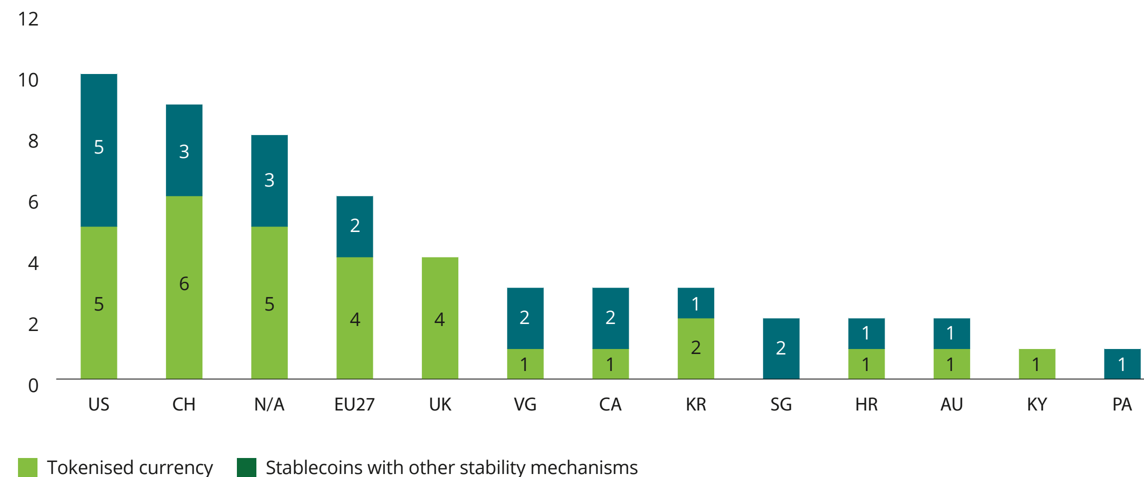


have raised regulators' concerns about risks to financial stability, competition, consumer protection, monetary policy and international payment systems. FS regulators and central bankers, led by the FSB and G7, will work to develop a coordinated response to GSCs to avoid regulatory arbitrage and address these risks. One such response will be to "accelerate work on issues around possible public digital currency solutions".[15]

EU and UK authorities will also work on assessing the efficiency of their payment systems, and how the increasing demand for cheaper and faster payments can be met by improved traditional payment systems rather than unregulated GSCs.

Figure 9. Legal headquarters of 54 active stablecoin initiatives



Source: ECB, In search for stability in crypto-assets: are stablecoins the solution?, August 2019

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In focus

- Supervisory patience for AML/CTF failings will run even thinner. Potential sanctions for failings include Pillar 2 add-ons for banks, and/or where executive accountability regimes are in place, personal liability under the regime.
- Across the sector, NCAs will focus their efforts on awareness of AML/CTF, STR, and the application of AML standards to virtual assets in 2020.
- Firms will need to provide data to NCAs to support NCAs' interactions with the Joint ESAs' review of AML/CTF and the setting up of AML/CTF colleges.

A number of very high profile cases of AML/CTF failings in EU banks over recent years have attracted intense media coverage. But they also captured the interest of politicians who have been critical not only of the conduct of the banks concerned but also, in some cases, of the supervisory authorities involved. Shareholder awareness of the issue is high: 67% of market analysts responding to the EBA's 2019 Risk Assessment Questionnaire believe that AML, CTF and sanctions compliance will be the leading cause of increased operational risk in banks in the year ahead.[16]

Against this background, supervisors have no appetite for further systematic AML/CTF failings – regardless of the FS sector in which they occur.

Supervisors will therefore scrutinise not only the robustness of firms' AML/CTF control environment, but also whether their culture and purpose are reducing or raising the inherent risk of financial crime. They will expect "tone from the top" evidence that the board and senior management are setting a culture of proactive vigilance on all aspects of financial crime risk. But they will also expect evidence that the board is satisfying itself continuously that this culture is operative and effective at all levels; that adequate escalation procedures are in place; and, equally importantly, that staff are alert to and feel supported and encouraged to report up concerns promptly, even where these may not be fully formed.

> "67% of market analysts responding to the EBA's 2019 Risk Assessment Questionnaire believe that AML, CTF and sanctions compliance will be the leading cause of increased operational risk in banks in the year ahead."

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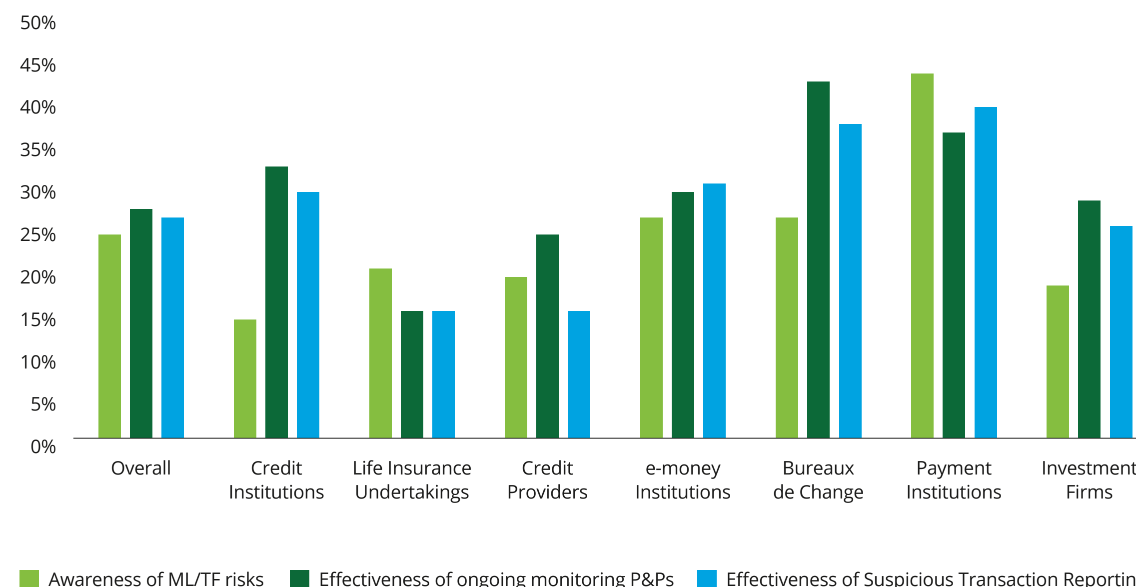
Firms that exhibit poor AML/CTF policies or practices can expect supervisors to require immediate remediation and to move swiftly to consider supervisory or enforcement action, potentially including capital add-ons through the SREP process, or criminal penalties.

In the face of this strong supervisory resolve, the industry's starting point is not uniformly robust. The recent Joint ESAs' EU-wide review of AML risks found that over a quarter of reviews of the effectiveness of STR reporting across all sectors were rated poor or very poor, as were 24% of reviews of awareness of AML/CTF issues.[17] In the UK, a recent review by the FCA of market abuse compliance in investment banks and investment management firms noted that several firms showed poor compliance with requirements for control of insider lists, recording and retention of telephone calls, and low volumes of STORs on non-equity trading.

Figure 10. The proportion of reviews by NCAs across the EU that were rated as "very poor" or "poor", by type of institution



Source: Joint Opinion of the European Supervisory Authorities on the risks of money laundering and terrorist financing affecting the European Union's financial sector, October 2019. Other possible ratings were "Very Good", "Good" or "not assessed". Report covers all reviews undertaken by home and host supervisors in 2017.

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This supervisory stance is reinforced by the FATF's most recent assessment data.[18] This shows that, whilst all EMEA jurisdictions need to improve the effectiveness of their AML processes, as well as their technical compliance with FATF standards, MEA jurisdictions are generally behind their European counterparts.

In terms of immediate activity, the EU's AMLD 5 must be transposed into law in Member States by 20 January 2020 – and work on AMLD 6 is already in train. AMLD 5 meets the FATF requirement on virtual assets by extending AML controls to virtual currencies and their issuers. Importantly, it will apply both to transactions where funds transfer from virtual to real currency and also virtual to virtual transactions. FS firms will thus be required to apply AML/CTF processes and standards to these products, their providers and their holders. During 2020, the FATF will undertake a review of countries' compliance with incorporating virtual assets into their AML regimes. This will add urgency to countries' implementation efforts.

The EBA will lead the ESAs' efforts to strengthen EU firms' combating of money laundering. In 2020 it will conduct on-site reviews of NCAs to assess and improve compliance with AMLD 5 The EBA is due to report the findings of these reviews in Q4 2020. Firms should expect that NCAs will want to gather data to support their responses to these reviews. In addition, in line with their guidelines – finalised in December 2019 - the joint ESAs will start setting up colleges of supervisors to assess AML/CTF issues for firms operating in three or more Member States. There have been proposals to establish a single EU-wide AML/CTF regulator and for AML/CTF rules to be made directly applicable to FS firms in the EU via a regulation rather than via a directive. Given ongoing instances of AML failings in firms around the world, these proposals are likely to gather force in 2020.

At the global level, the BCBS has issued guidelines on improving co-operation between prudential regulators and AML/CTF authorities. The guidelines call for the establishment of an effective cooperation mechanism and propose guidelines on information exchange and cooperation systems. FS firms will want to ensure they assess these guidelines and understand their implications.

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Stress testing

In focus

- **2020 will mark a turning point for the role of stress testing in firms, as supervisors and policy makers prepare to introduce changes to stress testing frameworks.**
- **The most significant development is emerging requirements for banks and insurers to assess the financial risks from their exposure to climate change, which will pose challenges for existing risk management frameworks and capabilities.**
- **Supervisors are increasingly shifting their focus to qualitative aspects of stress testing, such as control frameworks or model validation; and to macroprudential policy. For banking, consideration is being given to the appropriate complexity of the stress testing exercise and the balance of responsibilities between banks and supervisors.**
- **The changes being considered will be implemented over several years, but in the coming year firms will need to start to plan investments in new capabilities and consider the implications for their operations. CROs should think strategically about both embedding stress testing within the business and embedding related change initiatives within projects to develop risk management capabilities.**

Stress testing has become an essential tool for supervisors to understand and assess firms' risks, vulnerabilities and risk management capabilities. As concerns about crystallisation of significant cyclical economic risks grow, scrutiny of stress testing outcomes is likely to increase. Practically though, many things will stay the same in 2020. EU banks will participate in the EBA's stress testing exercise using methodologies substantively the same as in previous years. EIOPA's stress testing framework is under review and therefore there will be no test for insurers in 2020.

Nonetheless we expect 2020 to mark a turning point for the role of stress testing, leading to a step-change in expectations of firms. There is a variety of reasons for this.

Reviews of the effectiveness of the UK and EU-wide stress testing frameworks, undertaken by the BoE's Independent Evaluation Office and by the European Court of Auditors in 2019 respectively, highlighted several areas for improvement or further development. Separately, EIOPA has consulted on steps to formalise and regularise its stress testing methodology for insurers. These developments equip supervisors with a mandate for change.

Supervisors are also increasingly shifting their focus to qualitative aspects of stress testing, such as the control framework or model validation, and (in particular, for banks) whether supervisory stress testing exercises

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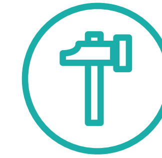

are adequately embedded in firms' own risk management capabilities. And as has been highlighted in the UK,[19] stress testing can be used to inform conduct supervision, for example by elucidating the consequences of a stress scenario for debt affordability or investment valuations and the implications for individuals, including those deemed vulnerable.

There is also an increasing focus on using stress testing to inform macroprudential policy as well as microprudential supervision. In essence, this means supervisors developing models that take into account inter-firm contagion and adverse feedback loops between the financial sector and the real economy. Each of these features is likely to accelerate when losses crystallise within a stress test scenario, and might also exacerbate aggregate losses. In order to capture the whole of the financial system in this analysis, policy makers are considering extending stress testing to investment funds at a system-wide level, although the current focus for Investment Management is the stress testing of individual funds.

More significant for firms have been interventions by senior supervisors about the future direction of supervisory stress testing in Europe. Andrea Enria, Chair of the Supervisory Board of the ECB, has discussed the trade-off between wanting to keep stress testing frameworks relatively simple, and hence tractable, against the desire for the results to provide true insight into the resilience of banks and for the exercise to be used to inform how banks are run.[20] These issues will not be easily resolved, but we expect usability to take precedence, which would result in more complex methodologies and outputs.

"Supervisors are also increasingly shifting their focus to qualitative aspects of stress testing, such as the control framework or model validation, and (in particular, for banks) whether supervisory stress testing exercises are adequately embedded in firms' own risk management capabilities."

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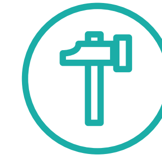

The most significant development though is the application of stress testing to assess the financial risk to firms from climate change. Major UK banks and insurers need to focus in the near-term on preparing for stress testing for climate change, and factoring any associated investment into broader ESG plans. The BoE plans to run its first stress test exercise in 2021 as its BES. The BoE published a discussion paper in late-2019 on the design of the exercise. EIOPA is preparing a sensitivity analysis exercise for climate-related risks to take place in 2020. Other regulators are also exploring the topic and we expect to see broad alignment of ambitions and approach through cooperation within the NGFS.

Even though many of these changes only begin to take effect from 2020, firms should not be complacent. In the coming year they will need to monitor the evolution of the stress test frameworks, and begin to invest in new capabilities.

CROs should think strategically about both embedding stress testing within the business; and including related change initiatives within projects to develop risk management capabilities – for example, data, systems and processes. This will be key not only to ensure that supervisory expectations are ultimately met, but will also enable banks to mitigate the increasing costs of supervisory requirements by realising value for the business.

Figure 11. Impact of energy transition on banks' CET1 ratios

Source: DNB, An energy transition risk stress test for the financial system of the Netherlands, October 2018

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In focus

- **Banks will need to prepare for compliance with CRD 5/CRR 2 in advance of its June 2021 application date. SA-CCR will be a particular challenge in 2020.**
- **Divergent implementation of the Basel III revisions will continue to add cost and complexity for cross-border banks. The EU's approach to implementation will become clearer in 2020, allowing firms to begin planning in earnest.**
- **IRB banks which have already begun work to understand the uncertainty that the output floor will add to strategic decision making will be at an advantage, as will those already working to implement standardised RWA calculations across their portfolios.**
- **The PRA published a Dear CEO letter to remind banks that they are required to submit complete, timely and accurate regulatory returns and has demonstrated that it is prepared to deal with non-compliance through enforcement action.**
- **We expect that banks will find gaps between their current planned resolution end-state and their resolution authority's expectations in 2020. Banks that form an integrated view of the changes that they need to make will be best placed to realise the wider benefits of improving their resolvability.**
- **We expect to see attempts to remove barriers to banking market consolidation in the EU. Banks should be prepared to provide evidence to supervisors on how regulatory barriers deter them from pursuing consolidation opportunities.**

CRR 2 compliance

CRD 5 and CRR 2 will start to apply from June 2021. Banks will need to allocate resources (especially in Risk and Treasury) in 2020 to ensure they are ready.

CRD 5/CRR 2 compliance will impose a considerable data collection burden on firms, most notably in relation to the modified framework for interest rate risk and the new SA-CCR framework. The biggest challenge for many will be implementing systems that can allocate collateral at a granular, trade level and enhancing their calculation engines to deal with non-linear products. For banks with particularly complex portfolios, replacing legacy infrastructure could be both time-consuming and highly costly.

Many EU banks are already compliant with the minimum NSFR ahead of the 2021 application date, with the EU NSFR shortfall having fallen to EUR 14.2 bn, from EUR 49.1bn in June 2018.[21, 22]

That said, maintaining stable funding will continue to compress banks' margins in 2020. Banks with large pools of stable funding in

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the form of personal and business current accounts will continue to be best placed to cope with this margin challenge. For some banks, the cost of raising term funding to meet NSFR requirements may need to be passed on to customers. Those banks doing so should ensure it does not create unfair outcomes, particularly for vulnerable customers.

Basel III divergence

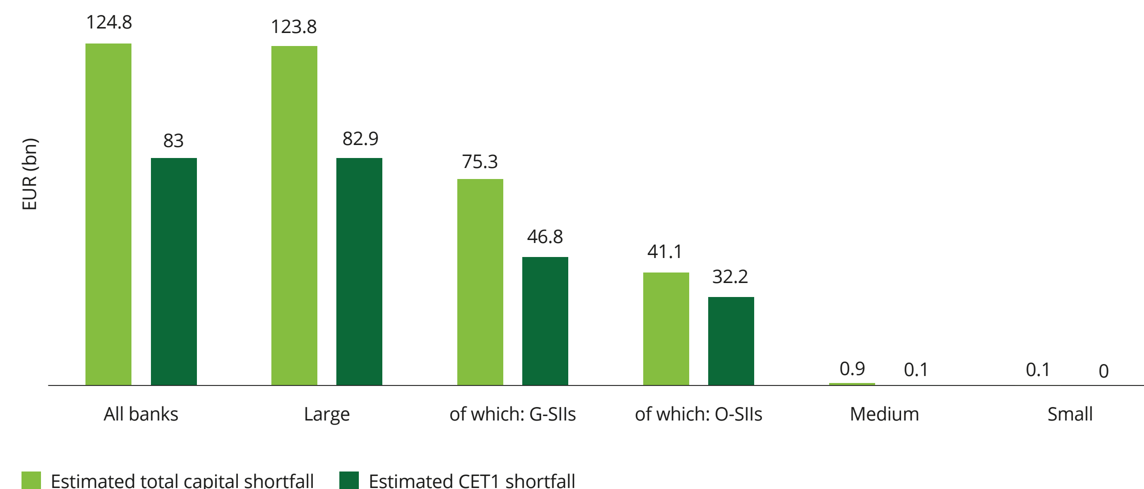
Any significant divergence in timing of the implementation of the finalised Basel reforms across EMEA will add cost and complexity for firms which operate across multiple jurisdictions. We expect the potential scope of any divergence to become clearer in 2020.

Assuming the UK gains greater regulatory flexibility following its exit from the EU, we expect HMT and the PRA to favour adherence to Basel III standards over other considerations. This may open up a gap between the UK's approach and that taken by the EU. In the EU, we anticipate that the implementation of the latest reforms will not be achieved by the BCBS' 2022 deadline. The Commission is set to publish CRD 6/ CRR 3 in Q2 2020, and we expect that political negotiations will take at least two years.

If there is a delay in the EU, it is likely to affect the timing of implementation in other EMEA jurisdictions. For example, the Swiss regulators may give serious consideration to delaying implementation in order to align themselves with the EU.

Given the projected impact on EU banks (see figure 12), we also expect that EU legislators will diverge in substance to dampen the impact of the reforms. Several elements of the final Basel package affect European banks significantly; it seems the output floor is highly likely to be adapted to take account of European specificities.

Figure 12. Projected capital shortfall for European banks created by the implementation of the finalised Basel III standards in the EU



Source: EBA, Basel III reforms: impact study and key recommendations, August & December 2019

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Preparing for the output floor

Although full implementation of the output floor will only be fully phased in by 2027 in most jurisdictions, some banks may think it prudent to start planning in 2020 for how to adapt their balance sheets, should they need to do so.

The implementation of the floor will challenge management's focus, given that addressing its impact will put pressure on other competing metrics such as the Leverage Ratio. It will also add further complexity to banks' strategic decision making, particularly when assessing the effect of the floor on multiple portfolios. Banks may aim to grow portfolios which generate capacity under the floor, in order to offset portfolios which absorb capacity. But in this case, markets for portfolios which generate floor capacity may become more competitive and the pricing of such portfolios may rise, making growth targets more difficult (or at least more expensive) to achieve.

Uncertainty around the achievability of portfolio growth will in turn make it difficult for banks to predict the effect of the floor on their future capital position. Those banks that are already doing the work to implement standardised RWA calculations across the group and analysing the potential effect of the output floor on their business and balance sheet may develop a "first mover" advantage by developing their business model before the output floor applies.

TRIM and IRB model repair

The implementation of the EBA's IRB repair programme, including changes to the DoD, takes effect from 1 January 2021, and for some firms making the required changes may lead to increases in capital requirements. Combined with the ECB's TRIM exercise coming to a close in 2020, many Eurozone banks will face pressure on modelling resources to meet required remediation actions.

Regulatory Reporting

Supervisors in EMEA are becoming increasingly concerned about the accuracy and timeliness of regulatory reporting by banks. In the UK, the PRA published a Dear CEO letter identifying a number of shortcomings it has observed, and made clear that it is willing to take enforcement action where necessary. In the Eurozone, the Commission has proposed centralising Pillar 3 reporting, with the EBA publishing for all CRD/CRR firms. Although this is still a proposal, firms will need to assess the implications for their external reporting processes as part of their CRD 6/CRR 3 evaluation. Following on from this, in 2020 we expect executives and boards of banks to face ongoing pressure from supervisors to take action to ensure the integrity of their regulatory reporting. This can be achieved by: regular comprehensive reviews of governance, controls and other processes around regulatory returns; deep dive exercises to examine the accuracy of regulatory returns; and ongoing work to identify and validate key interpretations and judgements made in the reporting process.

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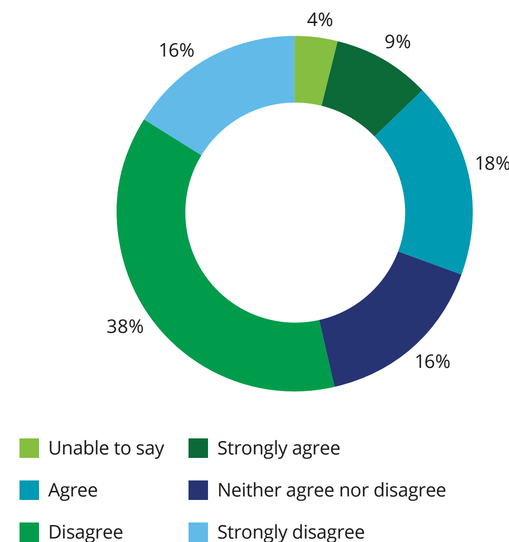
Resolvability

In both the UK and Eurozone, banks that form an integrated view of the resolvability changes they need to make will be best placed to realise wider benefits – including improvements to governance and risk monitoring, potentially transforming resolution planning into a strategic asset for bank management. Master playbooks are one possibility for integrating the different resolution requirements.

In 2020, UK banks face their first deadline under the BoE's new resolvability assessment framework, with each bank required to report on its internal assessment by October. While those reports will only be shared with the BoE, banks will need to publish a public summary of their assessment by June 2021. Moreover, the BoE has set a deadline of 2022 for ensuring all banks in its remit are resolvable. Banks need to continue progress towards this goal and we expect the BoE to pick up specific issues in bilateral conversations and work plans. The BoE does not want banks to backload development of capabilities into 2021 and 2022.

The SRB's expectations for banks will be finalised and implemented in 2020. Although the SRB's approach is broadly similar to the BoE's, a notable difference is that the SRB has indicated that it is not currently persuaded of the merits of disclosure. We expect many banks will find differences between their and the SRB's expectations on various capabilities, including FMI contingency plans, valuation and operational continuity playbooks.

Figure 13. Deloitte's survey question – There is a significant gap between the bank's current articulation of its resolution priorities (including playbooks) and the expectations of resolution authorities



Source: Deloitte, Resolvability in the Eurozone survey, October 2019

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Barriers to market consolidation

With the EU banking market widely considered to be "over-banked", and suffering from structurally low profitability,[23] we expect legislators, regulators and supervisors to be receptive to evidence put forward by the industry to highlight examples of where FS regulation may be hindering consolidation.[24]

We expect the European Commission to make another attempt in CRR 3 (as it did in CRR 2) to allow "home" supervisors to waive sub-consolidated capital and liquidity requirements for Eurozone subsidiaries whose parents are also Eurozone-based, but this is likely to face entrenched opposition from "host" nations in negotiations.

Regulatory changes arising from these EU initiatives, if made at all, are unlikely to take effect in 2020. However, banks should be prepared to provide evidence to supervisors and other authorities on how regulatory barriers may deter them from pursuing consolidation opportunities. In addition, banks should seek to help supervisors identify measures that can be taken more immediately through existing powers without the need for EU legislative changes, including improving transparency in Pillar 2 requirements to ensure predictable pricing in M&A processes and clarifying supervisory expectations on post-merger operational integration.

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In focus

- In our view, the challenge of negotiating an FTA with the EU by the end of 2020 means that the level of ambition for including FS market access provisions within it remains uncertain.
- Although we think that the UK and the EU will make progress on their intention to complete their respective equivalence assessments before end-June 2020, we do not expect UK-based firms to rely on this process being concluded in its entirety time for the end of the Transition Period.
- We expect the SSM to continue to challenge firms, including those with their headquarters in the Eurozone, over the pace at which they are moving business and people from the UK to the EU.
- Firms will have a short timeframe to put in place the necessary infrastructure and processes to begin FRTB reporting, and to decide whether to begin seeking regulatory approval for IMA models under the reporting requirement.
- Firms should move away from quick fixes in transaction reporting and address the root causes of problems. In the UK, the FCA is expected to focus on the buy-side and supervisory action is likely.
- The largest investment firms will need to start preparing to apply for authorisation as credit institutions, as the deadline under IFR/IFD for submitting applications is December 2020.

Brexit impact on capital markets

Market access

Given that today the EU's capital market is fully integrated and that all major firms, including those headquartered in the Eurozone, use the UK as their EU capital markets hub, the impact of Brexit on UK based firms' ability to access EU27 markets is potentially profound. At the time of writing the UK Government has stated its intention for the UK to leave the EU by 31 January, to conclude a FTA with the EU by the end of 2020 and for the Transition Period not to be extended beyond that date.

We think it will be challenging for the UK and the EU to include substantive provisions on FS market access or significant improvements to the current equivalence framework in any FTA which is agreed by the end of 2020. This is because there is no precedent for such an arrangement in any existing FTA that the EU has with a third country, which means that there is no "off-the-shelf" template, and because of the complexity of agreeing such a framework from scratch.

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Instead we expect the focus to be on equivalence assessments and the progress made against the commitments in the Political Declaration by both the UK and the EU to endeavour to conclude them before the end of June 2020. Completing all the relevant assessments by the end of June will, in our view, require the EU to recognise that, on leaving the EU the UK's regulatory framework will be identical to its own (which it will be) and be satisfied that the UK's regulatory approach will not subsequently diverge from the EU's, both in respect of regulations which are already in place and those which will fall to be implemented in future (such as IFR/IFD). This will involve both a technical regulatory assessment and a political assessment, with the latter being influenced by the overall state of the FTA negotiations between the UK and the EU.

Positive equivalence assessments would either solve or substantially ameliorate a number of important FS market access and related issues (e.g. clearing, the share trading obligation, the derivatives trading obligation and data exchange). However, we do not expect that firms will rely on the equivalence process being complete by the end of 2020. Instead, they will be ready for the possibility that the Transition Period expires at the end of 2020 without there being a FTA which covers FS to the necessary degree or fully completed equivalence assessments, with the degree of their readiness depending on the progress that the UK and EU are making on their negotiations. Firms will also monitor closely the extent to which the measures which a number of EU Member States either took or prepared in the course of 2019 to prevent market or counterparty disruption in the event of a "no deal" Brexit will be available to them, should the Transition Period end without any future arrangements for FS market access having been agreed.

Supervisory focus

Against this background, we expect the SSM to continue to challenge firms, including those with their headquarters in the Eurozone, over the perceived slow pace at which they are moving business and people from the UK to entities in the EU. In our view, clients will continue to want to trade on the most liquid markets and at the tightest spreads. If this is in the UK, they are likely to continue trading with UK entities, thereby slowing the process of any transfers. We expect supervisory interest, in both the UK and EU, to focus on local management oversight and control of risk-taking in new entities. The specific areas are likely to be risk management of back-to-back and remote booking, oversight of intra-group outsourcing, and the internal model approval process.

Legal entity optimisation

We expect some firms to start taking steps towards optimising their business across the UK and EU, although their ability to do so will depend on the extent to which a number of the uncertainties identified above are resolved. 2020 activities could include revisiting jurisdiction analyses to determine whether there are more optimal solutions for new entities in the context of tax efficiency, capital, market liquidity, access to talent, and supervisory sophistication. Firms are also likely to scrutinise the cost inefficiencies that have been created from new structures, particularly around operating models for finance, risk, compliance, operations, and front office.

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CRR 2, agreed last year, mandates the implementation of the FRTB in the EU as a reporting requirement only, and leaves its binding capital requirement for the forthcoming CRR 3 legislative proposal. Firms with large trading books will be expected to begin complying with the new market risk reporting requirement based on the revised standardised approach, which we expect to happen potentially as early as H1 2021 (or one year after the finalisation of the Delegated Act specifying its application). This means that those firms will have a short timeframe to put in place the necessary infrastructure and processes to begin reporting their trading book exposures.

Firms will face a difficult choice in 2020 on whether to begin seeking regulatory approval for IMA models under the reporting requirement. While this could be costly and will offer firms no capital benefit when IMA reporting comes into force in mid-2023, CRR 3's application date of the FRTB as a binding capital requirement will remain uncertain during negotiations.

Firms need to be mindful of the sometimes long supervisory lead times for model approval, and to consider whether deferring model approvals in 2020 may leave them unprepared if CRR 3's approach to market risk allows for only a short transition from reporting to binding requirements. Firms that proceed with IMA models next year should also stay alert to the possibility that IMA rules will be modified in CRR 3. If so, firms that use flexible and modular systems that can adapt to rule changes will be better placed to avoid duplicative work and cost overruns.

Transaction reporting

While supervisors in mainland Europe have indicated that they are going to focus more on the retail client protection areas of MiFID 2 in 2020, in the UK the FCA is likely to be active in relation to TR. We expect the degree of supervisory scrutiny to increase once the UK version of ESMA's reporting system (FIRDS) goes live after Brexit. After the substantial TR fines levied on banks last year, we expect the FCA's focus to shift to the buy-side and ARMs, and supervisory and/or enforcement action is likely if firms do not adhere to the requirements.

"Firms will face a difficult choice in 2020 on whether to begin seeking regulatory approval for IMA models under the reporting requirement."

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To minimise these risks, many firms will need to start moving away from quick TR fixes and instead address the root causes of their failings, to benefit for the years to come. To do that effectively, firms should ensure their TR-specific governance is adequate and their data is in order. They will likely also need to look at the ancillary elements of the framework - change management, data governance, data quality monitoring, and specific roles, responsibilities, policies and procedures. Better, more consistent and relevant MI, is also likely to improve senior management oversight over TR risks and facilitate timely action.

Prudential requirements for large investment firms

IFR/IFD entered into force on 25 December 2019. The package introduces a new prudential regime for investment firms. Firms that deal on own account or underwrite, and whose relevant assets exceed EUR 30bn (individually or on a group basis), will have to obtain authorisation as credit institutions. Firms that met those criteria on 24 December 2019 will have to submit their application by 27 December 2020. Those which do not fulfil the criteria on that date should keep in mind that they will have to become authorised once the average of monthly total assets, calculated over a period of twelve consecutive months, exceeds the threshold. Although the precise details of re-authorisation will only be known later, firms may want to start focusing on this now as the process can be potentially detailed and lengthy.

As for post-Brexit UK, it is unclear at present how the new rules will apply, as the UK is likely to consult on the domestic implementation over the coming months. UK-based investment firms should therefore monitor those developments closely to give themselves enough time to prepare.

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In focus

- Insurers will continue to face the long-running headwind – now at unprecedented strength - of low interest rates in 2020. This will intensify the risk margin burden for life insurers and the strain on investment income for non-life insurers, and firms will continue to look for new sources of income to mitigate this pressure.
- The Solvency 2 review will result in important changes that insurers will need to factor into their strategies and planning, particularly in the areas of the LTG measures, ESG factors, and reporting and disclosure, but notably not in relation to the risk margin and the LLP for the euro.
- Supervisors will seek further justification of non-life insurers' pricing and reserving models and decision-taking as the market continues to harden, particularly in relation to emerging risks such as climate change and cyber, and conduct issues such as cross-subsidisation.
- In the retirement market, regulatory priorities will be coordination between the pensions and insurance regulatory frameworks, the powers of TPR in the UK, and the final rules for the PEPP.

Overall context

Interest rates continue to present the most severe immediate challenge to the insurance industry. 2019's unprecedented declines in long-term "risk free" rates have ratcheted up already immense pressure on the insurance business model. The effect has been felt most severely in the life sector given the double squeeze of low long-term investment returns and an increased risk margin, which increases disproportionately as interest rates fall. This is exacerbated by structural pressures from Solvency 2, in particular the stepping down of the UFR and the steady run off of transitionals. Relief, in the form of rising long-term nominal and real rates, appears unlikely in the foreseeable future.[25]

For non-life insurers, persistently low returns from core underwriting and investment activities will accelerate the drive to develop fee-based add-on products (e.g. car windscreen or GAP cover). Insurers will, however, see a still-sharper focus from conduct regulators on the distribution of such products and the value and outcomes they provide to consumers. Additionally, in recent years, non-life firms have increasingly moved up the asset risk curve in search of yield, and are therefore likely to see sharpening regulatory focus on asset-side risks.

A return to regulatory change

Of the many areas of Solvency 2 that the European Commission is investigating for its

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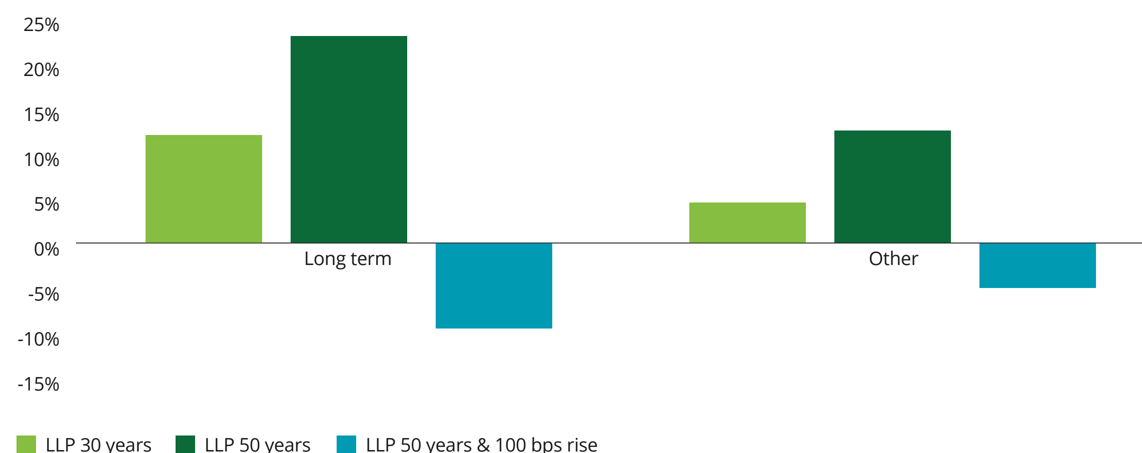
2020 review, insurers are, in our view, most likely to see important changes in relation to the LTG measures, ESG factors, and reporting and disclosure. Insurers will need to respond to these changes in their strategies and planning. However, we do not expect significant reform on what are arguably the most important topics under consideration, namely the risk margin methodology and the LLP for the euro.

On the LTG measures, we expect the European Commission to introduce changes to the VA to tailor it more closely to individual insurers' asset portfolios. This will potentially follow a similar conceptual approach to the IAIS' ICS 2.0 discount curve adjustment, and will bring the VA closer in its effect to the MA.

The key debate for ESG factors is whether sufficient evidence exists of differences in risk profile between "sustainable" and "non-sustainable" investments to support variations in capital treatment. Even where such evidence can be identified, we expect intense debate on whether the insurance capital framework should explicitly set out to encourage green investment decisions. We expect rising political pressure for explicit incentivising and dis-incentivising factors for "green" and "brown" investment respectively. If pressed, regulators will prefer the latter given that it can be calibrated, to a considerable degree, around risks that are already crystallising. . Either way, this will set an important policy precedent. There would also be considerable focus on which investments would be captured by incentivising factors.

Figure 14. EUR % change in risk margin by product type



Source: EIOPA, Consultation Paper on the Opinion on the 2020 review of Solvency II, October 2019

Changes to reporting and disclosure will require insurers to change systems and processes. Coupled with the implementation of IFRS 17, for some insurers this will require significant work to reporting systems that have only been in place, following substantial investment, for a few reporting cycles since implementation of Solvency 2 in 2016.

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The risk margin and the LLP for the euro are only likely to be reformed, in our view, should the European Commission provide the necessary political direction. In the case of the risk margin, this is unlikely given the departure of the UK, where concern about the risk margin has been strongest, from the various discussion and decision-making fora.

A substantial change in the LLP for the euro is likely to meet significant resistance given its implications for solvency ratios across the EU, though a limited change to take some additional market data into account is possible.

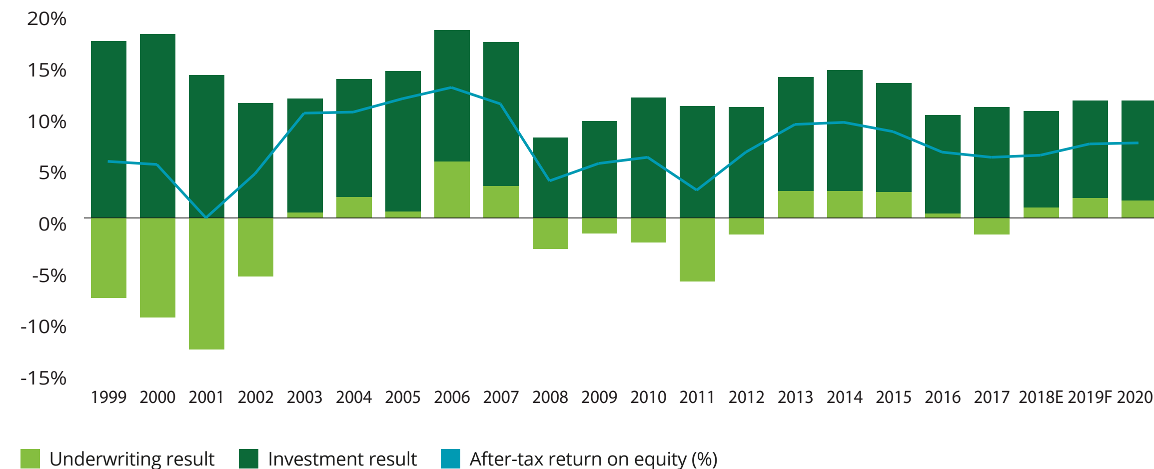
The IAIS' ICS methodology could also provide an important counterpoint on both these issues once the monitoring period begins in 2020. In particular, the IAIS' decision not to pursue a cost-of-capital-based risk margin calculation should produce a risk margin that is, by design, materially less interest rate sensitive than the Solvency 2 methodology.

Pricing in the non-life sector

Many non-life insurers enter 2020 having seen material price increases across multiple business lines. Following several years of declining pricing, this provides potential, at face value, for insurers to strengthen pricing and reserving and improve returns.

Prudential regulators will continue to expect insurers to apply sufficiently severe projections in their pricing, capturing especially the increasing risks from climate-driven events and rising cyber risk exposures. This will include scrutiny of data adequacy and how account has been taken of projected increases in the incidence and severity of future losses.

Figure 15. Profitability of the eight major non-life markets, 1999-2020F, in % of net premiums earned (except for ROE)
Aggregate of the US, Canada, the UK, Germany, France, Italy, Japan and Australia



Source: Swiss Re sigma 3/2019 – World insurance: the great pivot east continues

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Conduct regulators will take action on cross-subsidy and fairness issues in the changing pricing environment to avoid harm to consumer outcomes and competition.

Retirement savings and pensions

2020 will see a continued shift in consumer pension investment away from traditional guaranteed products and towards personal savings-based flexible cash and drawdown products. The low interest rate environment, inextricably linked to this trend, will also continue to create funding strains for pension schemes in many jurisdictions, as for example in the Netherlands in 2019.

For those operating in the UK pensions regulatory regime, we expect 2020 to bring greater clarity on the future regulatory regime and powers of TPR, including for Master Trusts and "superfund" DB consolidators. We expect TPR to shift steadily towards a more intensive supervisory approach. For superfunds a key issue is how regulators view the differing roles, from the perspectives of DB schemes, of consolidation within the pensions framework and insurance buy-out, and the consequent need for alignment and coordination between the insurance and pensions regulators. For superfunds, much will hinge on the outcome of this regulatory debate. This topic is also likely to arise in the UK Treasury's Future Regulatory Framework Review. In parallel, we expect to see an increase in the number of DB schemes looking at options for consolidation through a superfund.

Insurers preparing for future portfolio transfers (in particular for annuities) will need to factor the 2019 England and Wales High Court judgement not to sanction the FSMA Part VII transfer of Prudential's UK annuity book to Rothesay Life into their preparations. While most directly relevant for future court processes in England and Wales (and even if the judgment itself is re-considered on appeal), we expect the matters raised to increase supervisors' scrutiny of independent experts' reports and policyholders' interests, wherever the portfolio transfer is taking place.

EIOPA and the European institutions will be keen to finalise the framework for the PEPP, which could significantly enhance savings options across the EU and provide new product opportunities for firms. These discussions are likely to be complex, especially given major unresolved issues such as tax treatment across the EU.

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In focus

- **Fund liquidity will be a key priority for supervisors in 2020. Investment managers will need to demonstrate a robust and detailed approach to fund stress testing and fund liquidity risk management.**
- **Supervisors will be looking for evidence of robust governance oversight of portfolio managers by management companies, and evidence that portfolio managers are taking meaningful action in response to such challenge.**
- **Supervisors will challenge firms on how they identify and prevent or manage conflicts of interest, both in investment management and product distribution.**
- **Investment managers will face increased supervisory scrutiny on the extent to which fund redemption terms are aligned to the liquidity profile of the fund's assets.**

The investment management sector is at the forefront of supervisory scrutiny of the value delivered to customers. We cover this in the cross-sector section on Good Customer Outcomes.

Liquidity risks in investment funds

Following liquidity-related stress events in several funds in 2019, and the suspension of several property funds in the UK in 2016, fund liquidity risk has risen up the regulatory agenda. There has been a lot of regulatory and supervisory activity, both at EU and national level, and we expect this to intensify still further in 2020. Nevertheless, we do not expect regulators to introduce an EU-wide ban on open-ended retail funds investing in illiquid assets.

ESMA's guidelines on fund liquidity stress testing apply from 30 September 2020. Since different types of fund face different risks, ESMA has taken a principles-based approach, allowing investment managers to determine the specific stresses applied to each fund. ESMA will expect firms to take this exercise seriously; otherwise it may apply a more prescriptive approach in the future. A key challenge will be sourcing high-quality data and setting appropriate assumptions, especially for simulating redemptions as some firms have limited data on underlying investors.

ESMA intends to facilitate a common supervisory action on UCITS fund liquidity management in 2020. While the details have not been announced, this is likely to include high-yield bond funds, given that ESMA's stress simulation work has found that 40% of such funds could experience a liquidity shortfall if they face weekly redemptions of 5-10% of their net asset value. ESMA may also take into account the EBA's finding that that leveraged

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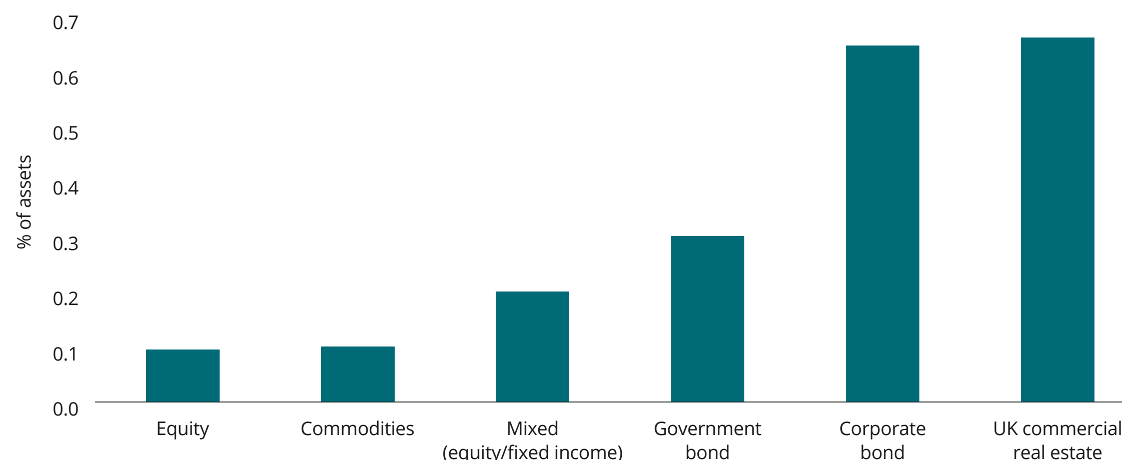
bond funds experience larger outflows than unleveraged ones. In addition, in 2020 IOSCO intends to review how its 2018 liquidity risk management recommendations have been implemented.

In response to the ESRB's 2018 recommendation on liquidity and leverage risks in investment funds, we expect the European Commission to propose legislation in 2020 on the availability and use of liquidity management tools, the role of national regulators in suspending redemptions, the prevention of excessive liquidity mismatches, and UCITS liquidity reporting. These issues may be considered as part of the upcoming reviews of UCITS 5 and AIFMD.

Central bankers remain concerned about potential systemic risks posed by investment funds. For example, the ECB has said that in a broad-based market downturn, large fund redemptions could trigger forced asset sales and amplify stress in less liquid markets.

Figure 16. Fund redemptions following a 1% fall in asset value



Source: Bank of England, July 2019 Financial Stability Report, Chart H4, page 35

"Investment managers will need to review their liquidity stress testing procedures to ensure that their scenarios are sufficiently severe, their assumptions are robust and their tests are conducted sufficiently frequently."

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Mark Carney, Governor of the BoE, has said that daily dealing funds investing in illiquid assets are "built on a lie" and could pose systemic risk. We think central bankers are likely to push for fund liquidity monitoring and measurement requirements to become more broadly aligned to those applied to banks, and that they will work closely with conduct regulators to achieve this.

In the UK, the BoE and the FCA are conducting a joint review on liquidity in open-ended funds. As part of this, the FPC has established that there should be greater consistency between the liquidity of a fund's assets and its redemption terms, and has set out principles for liquidity measurement, redemption pricing and redemption notice periods. In 2020 the review is expected to make recommendations on how these principles could be implemented.

Meanwhile, the FCA has introduced new requirements for non-UCITS retail funds to suspend dealing when there is material uncertainty about the valuation of immovables that account for at least 20% of the fund's assets.

Funds investing mainly in illiquid assets will also need to include risk warnings in financial promotions, produce contingency plans for a liquidity crisis, and have their liquidity management processes overseen by their depositary. Firms must comply by 30 September 2020, and should start updating prospectuses and promotional materials early to allow sufficient time.

Overall, we are likely to see significant regulatory scrutiny of fund liquidity management in 2020, as well as scrutiny by investors and distributors. Investment managers will need to review their liquidity stress testing procedures to ensure that their scenarios are sufficiently severe, their assumptions are robust and their tests are conducted sufficiently frequently. They will also need to review their use of liquidity management tools in light of the results of these tests, and their fund redemption terms to ensure that these are realistic in a stressed scenario. Investor disclosures will also need to explain clearly the fund's liquidity risks and the liquidity management tools that may be used.

Fund Governance

EU mancos have faced increased supervisory scrutiny since ESMA's 2017 Opinion, which set out supervisory expectations for mancos delegating investment management functions, including to non-EU entities. We expect no let-up in this scrutiny in 2020, especially since ESMA plans to undertake a peer review of national regulators' handling of Brexit relocations. The Central Bank of Ireland is already carrying out a review of mancos to assess whether they have sufficient resources and adequate risk management frameworks to comply with its Fund Management Companies Guidance, which includes rules on delegate oversight, organisational effectiveness, directors' time commitments and managerial functions.

In the UK, following the high-profile suspension and subsequent closure of an equity UCITS fund that was managed by a third-party manco (referred to in the UK as a "host ACD"), Andrew Bailey, CEO of the FCA, suggested that the host ACD model might be reviewed. The FCA has previously highlighted conflicts of interest in this model, as in commercial terms the portfolio manager is the host ACD's

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client and decides on its selection and ongoing appointment, whilst in regulatory terms the fund investors are the host ACD's clients.

The FCA also noted that in-house ACDs face a conflict between their duties to the asset management group and their duties to the fund investors, and may lack the authority within the group to challenge the strategy set by more senior boards. UK ACDs have seen increased supervisory scrutiny in recent months and are likely to see more in 2020. New rules on appointing independent directors to ACD boards recently came into force, and the FCA will expect these directors to provide robust challenge. Compliance with the SM&CR - which includes a new prescribed responsibility on value assessments, independent director representation and acting in investors' best interests - is also a key FCA supervisory priority for the sector in 2020.

Conflicts of interest

Investment managers will need to be able to demonstrate how they manage conflicts of interest in their fund governance model. Supervisors will want to see a culture where the manco's board provides independent and robust challenge to the portfolio manager, and evidence that the portfolio manager takes that challenge seriously and acts on it.

MiFID 2 introduced stricter standards on conflicts of interest, with a clear onus on firms to prevent or manage conflicts where possible, rather than simply disclose them to clients. In 2020 we expect to see supervisory scrutiny of how conflicts of interest are identified and prevented or managed, including for example in product design and distribution, order handling and allocation, investment research, remuneration structures and external relationships.

In the UK, a recent high-profile fund suspension has brought "best buy lists" published by investment platforms into the spotlight, as the fund was recommended by a prominent investment platform until it was suspended. Investment platforms should review their methodology for recommending funds to ensure that it is unbiased and clearly explained to investors and their governance oversight to ensure any conflicts of interest are identified and managed appropriately.

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ACD
Authorised Corporate Director

AI
Artificial Intelligence

AIFMD
Alternative Investment Fund Managers Directive

AMF
Autorité des Marchés Financiers (French regulator)

AMLD
Anti-Money Laundering Directive

ARM
Approved Reporting Mechanism

ATI
Alan Turing Institute

BCBS
Basel Committee on Banking Supervision

BES
Biennial Exploratory Scenario

BoE
Bank of England

BRRD
Bank Recovery and Resolution Directive

BSB
Banking Standards Board

CCP
Central Counterparty

CET1
Common Equity Tier 1 capital

CFO
Chief Financial Officer

CMU
Capital Markets Union

CRD
Capital Requirements Directive

CRO
Chief Risk Officer

CRR
Capital Requirements Regulation

CSP
Cloud Service Provider

CTF
Counter Terrorist Financing

DB
Defined Benefit

DLT
Distributed Ledger Technology

DNB
Dutch National Bank

DoD
Definition of Default

EBA
European Banking Authority

ECB
European Central Bank

EIOPA
European Insurance & Occupational Pensions Authority

EMEA
Europe, Middle East and Africa

EMIR
European Market Infrastructure Regulation

EONIA
Euro OverNight Index Average

ESAs
European Supervisory Authorities (the EBA, ESMA and EIOPA)

ESG
Environmental, Social and Governance

ESMA
European Securities & Markets Authority

ESRB
European Systemic Risk Board

€STR
Euro Short-Term Rate

EU
European Union

EURIBOR
Euro Interbank Offered Rate

FATF
Financial Action Task Force

FCA
Financial Conduct Authority

FIRDS
Financial Instruments Reference Data System

FMI
Financial Market Infrastructure

FPC
Financial Policy Committee (part of the Bank of England)

FRTB
Fundamental Review of the Trading Book

FS
Financial Services

FSB
Financial Stability Board

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FTA
Free Trade Agreement

FTT
Financial Transaction Tax

GAP
Guaranteed Asset Protection

GBP
British pound sterling

GDP
Gross Domestic Product

GDPR
General Data Protection Regulation

GI
General Insurance

GSC
Global Stablecoin

HMT
Her Majesty's Treasury
(the UK's finance ministry)

IAF
Individual Accountability Framework

IAIS
International Association of Insurance Supervisors

IBOR
Interbank Offered Rate (for the purposes of this paper, the term "IBOR" is used to describe LIBOR, EURIBOR and EONIA)

ICO
Information Commissioner's Office

ICS
Insurance Capital Standard

ICT
Information and Communications Technology

IFD
Directive on the prudential supervision of Investment Firms

IFR
Regulation on the prudential requirements for Investment Firms

IFRS
International Financial Reporting Standards

IMA
Internal Model Approach

IMF
International Monetary Fund

IOSCO
International Organization of Securities Commissions

IPU
Intermediate Parent Undertaking

IRB
Internal Ratings Based (approach)

ISA
Individual Savings Account

IT
Information Technology

LIBOR
London Interbank Offered Rate

LLP
Last Liquid Point

LTG
Long-term guarantee

MA
Matching Adjustment

Mancos
Management Companies

M&A
Mergers and Acquisitions

MI
Management Information

MiFID
Markets in Financial Instruments Directive

ML
Machine Learning

MREL
Minimum requirement for own funds and eligible liabilities

NCA
National Competent Authority

NED
Non-executive Director

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NFRD
Non-Financial Reporting Directive

NGFS
Network for Greening the Financial System

NSFR
Net Stable Funding Ratio

OTC
Over The Counter

P&Ps
Policies and Procedures

PEPP
Pan-European Pensions Product

PRA
Prudential Regulation Authority

PRIIPs
Packaged Retail Investment and Insurance Products (Regulation)

QE
Quantitative Easing

RFR
Risk-Free Rate

ROE
Return On Equity

RTS
Regulatory Technical Standard

RWA
Risk Weighted Assets

SA
Standardised Approach

SA-CCR
Standardised Approach for measuring Counterparty Credit Risk

SM&CR
Senior Managers and Certification Regime

SMEs
Small and Medium-sized Enterprises

SRB
Single Resolution Board

SREP
Supervisory Review and Evaluation Process

SSM
Single Supervisory Mechanism

STO
Share Trading Obligation

STR
Suspicious Transaction Reporting

STOR
Suspicious Transaction and Order Report (includes reporting of suspicious orders)

TCFD
Task Force on Climate-related Financial Disclosures

TIBER
Threat Intelligence-based Ethical Red Teaming

TPR
The Pensions Regulator

TR
Transaction Reporting

TRIM
Targeted Review of Internal Models

UCITS
Undertakings for Collective Investments in Transferable Securities

UFR
Ultimate Forward Rate

VA
Volatility Adjustment

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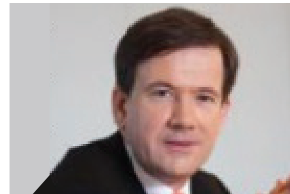

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