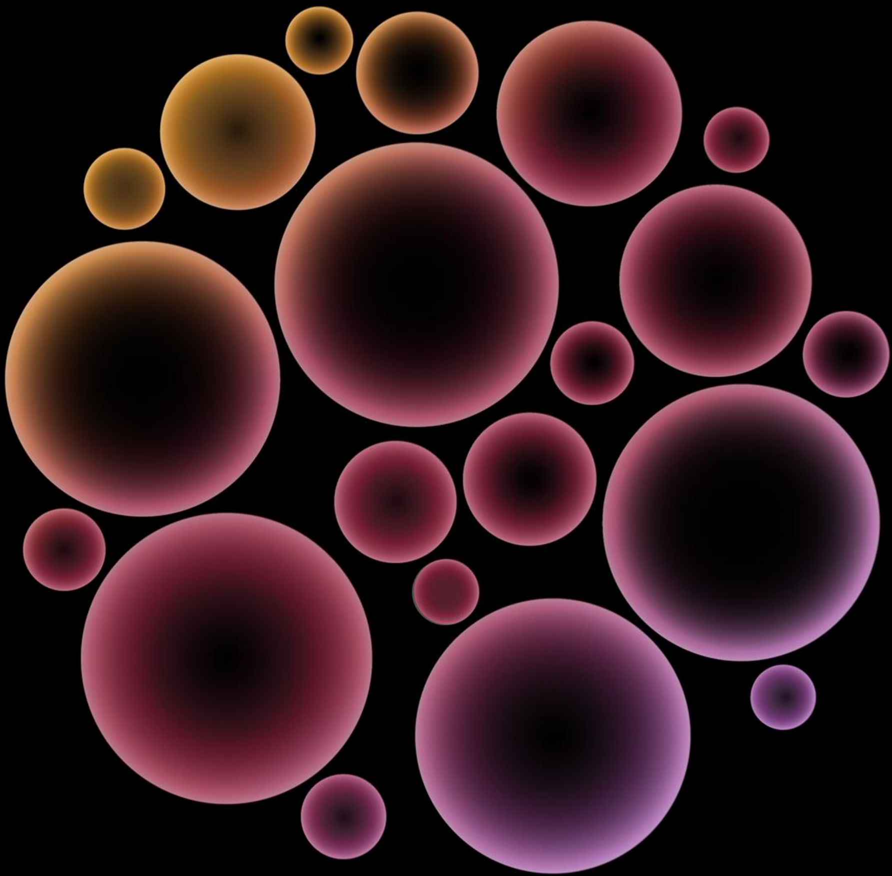
Deloitte.



Regulatory developments in February and March 2018

Key regulatory developments during the February and March 2018

EU ECB

Sabine Lautenschläger, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, spoke on macro prudential policy

She explained the institutional backdrop to macro prudential policy, and also outlined the four major risks existing according to the ECB. These include the risk of a sudden reversal of risk premia; the low profitability of banks; the risk that markets might again doubt the ability of public and private borrowers to service their debt; and liquidity risks in the non-bank sector which might spill over into the entire financial system.

EU ESAs

Issued a pan-EU warning to consumers regarding the risks of buying Virtual Currencies (VCs)

The European Supervisory Agencies warned consumers that VCs are highly risky and unregulated products and are "unsuitable as investment, savings or retirement planning products". Because VCs and the exchanges where consumers can trade them are not regulated under EU law, consumers buying VCs do not receive any protection associated with regulated financial services. in addition, some VC exchanges have suffered from operational problems that have disrupted trade and resulted in losses to consumers due to price fluctuations.

EU ECOFIN

The European Council agreed to delay the transposition deadline and application of the insurance distribution directive (IDD)

It agreed to postpone the transposition deadline to 1 July 2018 and the application date to 1 October 2018.

Int'l IAIS

Launched a public consultation on Draft Application Paper on the Use of Digital Technology in Inclusive Insurance.

It described inclusive insurance markets and customers, gave detailed descriptions of the use and implications of digital technology in inclusive insurance markets, and gave guidance on the application of specific Insurance Core Principles (ICPs) applied to the use of technology in inclusive insurance, with some examples of current practices.

Int'l IOSCO

Consulted on proposed policy measures to protect investors in over-the-counter (OTC) leveraged products

The report identifies various regulatory approaches aimed at enhancing the protection of retail investors who are offered OTC leveraged products (often on a cross-border basis). The report covers the offer and sale by intermediaries of rolling-spot forex contracts, contracts for differences (CFDs), and binary options, and proposes a number of policy measures in relation to licensing requirement, leverage limits, risk mitigation, disclosures and other measures to restrict the sale, distribution and marketing of the products to avoid mis-selling.

EU EBA

Released Adam Farkas' speech on bank business models at the Deutsche Bundesbank Conference.

The Executive Director of the EBA, Adam Farkas, gave a speech highlighting EU banks' significantly strengthened capital positions and how they are perceived by market participants as more stable and resilient. He noted the challenges posed by remaining asset quality issues and said these would continue to have implications on profitability. The speech argued that banks will continue to change their business models, propelled by factors such as technology, Basel III, and initiatives such as the Capital Markets Union (CMU) and that this would likely lead ultimately to a reduction in the number of banks- but a more efficient, stable and competitive banking sector.

EU ESRB

Published a recommendation on liquidity and leverage risks in investment funds.

The European Systemic Risk Board (ESRB) recommended that the European Commission propose a common legal framework governing the inclusion of additional liquidity management tools for EU funds to be used in stressed market conditions. This will likely lead to (i) increased scrutiny of liquidity management processes and tools and of fund stress testing; (ii) a wider range of additional liquidity management tools for use in stressed market conditions being available in some EU countries; (iii) more clarity on the situations where the regulatory powers of imposing leverage limits on funds and of suspending fund redemptions may be used; and (iv) new and potentially extensive liquidity and leverage reporting requirements for UCITS funds.

EU **ECB**

Yves Mersch, Member of the Executive Board of the ECB, delivered a speech at the European Banking Federation's Executive Committee.

A member of the ECB's Executive Board, Yves Mersch, gave a speech encouraging payment service providers not to wait until the application of the Revised Payment Services Directive (PSD2) to implement the corresponding Regulatory Technical Standards, and highlighted the need for third-party providers (TPP) to be authorised or registered as soon as possible. He also insisted on the need for banks to actively contribute to the Application Programming Interface (API) Evaluation Group, along with the activities undertaken by the Euro Retail Payments Board, to work towards the standardisation of APIs in the Euro area, and thus to provide clarity to TPP ahead of the application of PSD2.

EU **ECB**

Published a Feedback statement on the draft ECB regulation on statistical reporting requirements for pension funds.

The regulation aims to remedy shortcomings of the current un-harmonised and incomplete quarterly statistics on pension funds published since June 2011. The most important changes were (i) a postponement of the first reporting deadline, which will begin with quarterly data for the third quarter of 2019, to be reported by end-2019; (ii) an increase of the reporting threshold from €10 million to €25 million (in assets), which follows a transitional approach to reach 80% coverage of total assets by 2022; (iii) a phasing-in period to align with EIOPA's supervisory reporting requirements; and (iv) a clarification of the term "pensions fund managers", which is changed to "pension manager".

Int'l **IOSCO**

Consulted on conflicts of interest and associated conduct risks during the equity capital raising process.

IOSCO proposed a package of eight measures addressing areas where the role of intermediaries in the equity capital raising process might give rise to conflicts of interest such as "connected analysis" in the pre-offering phase of a capital raising, connected research, security allocation policy, pricing and personal transactions by staff informed by confidential information.

Int'l BIS

Published a report on issues and challenges in the cross-border retail payments market.

The Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI) launched a report providing a broad view of issues and challenges in the cross-border retail payments market, informed by a detailed analysis of the market. The CPMI's overarching view is that safe alternative clearing and settlement arrangements could improve the efficiency of the cross-border retail payment market, including links between national payment infrastructures and companies that require both payers and receivers to hold accounts.

Int'l BCBS

The Basel Committee on Banking Supervision (BCBS) published Sound Practices on the "Implications of Fintech developments for banks and bank supervisors".

The BCBS highlighted that in the future, banks will struggle to maintain their operating models because of the rise in competition from new FinTech players, as well as changes in technologies available and customers' expectations. Nevertheless, the extent to which FinTech will disrupt and change the banking sector remains uncertain. Given such uncertainty, the BCBS concludes that it should first contribute to a common understanding of the risks and opportunities associated with FinTech in the banking sector, before engaging in the design of requirements or technical recommendations. The document also included some considerations on how supervisors and regulators should address these risks and opportunities.

EU ESMA

Published a speech by Steven Maijoor, Chair of ESMA, at the Afor Consulting's second annual FinTech and digital Innovation conference

He presented the two strands to developing a "measured approach to FinTech". The first is to monitor innovations diligently and intelligently, in particular by identifying important structural features that are common to different financial technologies. The second is to take action in a measured way, by considering the risks but also the opportunities that FinTech presents for consumers. Consequently, the Commission plans to enhance the mandate and capacity of ESMA and the other two ESAs, and will give them new tasks in four main areas: (i) to pursue convergence on licensing requirements for FinTech firms; (ii) to clarify and update the supervisory outsourcing framework; (iii) to coordinate national technological innovation hubs; and (iv) to contribute to the development of cyber stress tests.

EU ESMA Updated today its validation rules regarding the European Markets Infrastructure Regulation (EMIR)

ESMA updated EMIR validation rules, to allow for the reporting of exchange-traded derivatives in products for which the effective date may be earlier than the date of execution, and clarified how the identification of the product should be validated in the reports submitted on or after 3 January 2018.

EU EC Valdis Dombrovskis, Vice President of the European Commission, gave a speech on cryptocurrencies.

Dombrovskis said that "blockchain technology holds strong promise for financial markets" and that Europe should embrace this innovation. He noted that cryptocurrencies pose substantial risks to consumers who invest in them and "that warnings about these risks to consumers and investors are important." He went on to say that Initial Coin Offerings are an innovative way for firms to raise capital, but again pose a risk to investors. He promised that the Commission would continue to review cryptocurrencies to "determine if regulatory action at EU level is required", and also noted that crypto assets pose a money laundering risk.

EU ECON Mario Draghi spoke, as part of the monetary dialogue between the ECON Committee and the ECB, on monetary policy and the relevance of central clearing for monetary policy

He grounded his speech in the strong links between clearing and monetary policy. Draghi viewed the EMIR amendments for enhanced third-country supervision and role of the ECB as "welcome and necessary". He stressed that as "the existing regime was never intended to cope with large-scale euro-denominated clearing activities being carried out in a country outside the EU", and the adoption of amendments to EMIR should be finalised in advance of Brexit.

EU **ESRB**

Published a report on macroprudential structural buffers and a revised Handbook on Operationalising Macro-prudential Policy in the Banking Sector

The publications included additional guidance for national authorities on Other Systemically Important Institution buffer calibration; the categories of long-term non-cyclical risks that the Single Rulebook can address; and the potential to use the leverage ratio to complement structural buffers.

EU **EIOPA**

Published its second set of advice to the European Commission on specific items in the Solvency II delegated regulation

EIOPA recommended a mixture of revised calibrations, simplifications, and proposals to achieve greater supervisory convergence. Specifically, it advised to further simplify calculations for natural, man-made and health catastrophes, outlined circumstances and recommended objective criteria (such as financial ratios), that could lead unrated debt and unlisted equities to be treated as rated debt and listed equities, made recommendations on the calibration of interest rate risk, and suggested principles to strike a balance between flexibility and to foster greater supervisory convergence the loss-absorbing capacity of deferred taxes.

EU **EBA**

Launched new data point model (DPM) data dictionary tools

The EBA launched a new web page including the tools to assess its DPM, which compiles the harmonised data requirements included in its technical standards and guidelines. The role of this data dictionary is to enable the harmonisation of the banking regulatory framework by providing a clear interpretation of data exchange requirements to all relevant stakeholders. Regulators, supervisors, financial institutions, service providers, other organisations, and the general public can use the DPM as a common repository of clear and structured specifications of the data referred to in the banking Regulation.

EU SRB/ECB The ECB determined that ABLV Bank, along with its Luxembourg subsidiary, was failing or likely to fail following the significant deterioration of the bank's liquidity

The ECB instructed the national supervisory authorities to impose a moratorium on ABLV bank and its subsidiary, and the SRB subsequently determined that resolution action was not necessary as it was not in the public interest. The bank and its subsidiary will be wound up under the law of Latvia and Luxembourg, respectively.

EU ECB Benoît Cœuré, Member of the Executive Board of the ECB, spoke on the importance of euro interest rate benchmark reforms at the first meeting of the Working Group on Euro Risk-Free Rates

He said that the working group's mandate is to develop an adoption plan for a risk-free overnight rate that can serve as the basis for an alternative to the benchmarks currently used in the euro area, and explore ways to ensure its smooth transition. To guarantee success, not only should the working group reach a broad-based consensus, but this consensus should extend to include the wider financial sector community, and involve institutions, or financial sub-sectors that are not represented in the discussions.

EU ECB Ignazio Angeloni, Member of the Supervisory Board of the ECB, spoke on proportionality in banking supervision

He explained how the principle of proportionality is incorporated into the EU's legal and regulatory framework, and said that proportionality is key to ECB's approach to supervision, although there were challenges and limits to applying proportionality. He cautioned against major advances in the application of proportionality in order to soften the prudential burden for certain institutions, and that the ECB does not favour a modification of the existing legal framework to allow for less frequent reporting requirements for smaller banks.

EU | ECB

Daniele Nouy, Chair of the Supervisory Board of the ECB, gave a speech on the opportunities and challenges for European banks

She cited old challenges stemming from the financial crisis, non-performing loans (NPLs), the long period of low interest rates, as well as new challenges such as technological change, digital transformation and new competitors which necessarily lead to a profitability challenge. She cited Greek banks as an example, and spoke about their improving conditions but also the challenges remaining on NPLs, which remains an issue for many other stakeholders.

EU | ECB

Yves Mersch, Member of the Executive Board of the ECB, spoke at the Second Annual Conference on "Fintech and Digital Innovation: Regulation at the European level and beyond"

Mersch highlighted that, in the context of the Revised Payment Services Directive (PSD2), only the creation of a standardised and dedicated interface – an application programming interface (API) – constitutes an efficient access solution to encourage integration and competition in European payment markets. He also insisted that although third party providers and credit institutions are subject to different authorisation and supervisory criteria, PSD2 and banking legislation govern the respective activities and, therefore, there is no unlevel playing field between them. Mersch also encouraged market players to consider cyber risks as critical to their institutions and to develop a fully-fledged cyber strategy and response plan.

Mezinár. | BIS

Consulted on revisions to the Pillar 3 disclosure framework

Proposed changes include new or revised requirements for credit risk, operational risk, the leverage ratio and CVA; for benchmarking RWAs calculated by internal models; and that provide an overview of risk management, key prudential metrics and RWA.

Mezinár. | IAIS

Published its 2017 Global Insurance Market Report

It found that the (re)insurance sector remained stable with clear signs of growth, evidenced by high capital levels, positive profitability, and a persistent inflow of additional reinsurance capital. However, weak global demand, low inflation rates, very low and partially negative yields, and occasional bursts of financial market volatility are a challenge to the business model of some insurance companies, mainly life insurers.

EU ECB

The ECB published draft Guides to the ICAAP and ILAAP for public consultation.

The ECB published draft Guides to the internal capital and liquidity adequacy assessment process (ICAAP and ILAAP) for public consultation. Supervisory experience shows that banks need to improve the quality of their internal capital and liquidity adequacy assessment process. Banks are encouraged to address any gaps or weaknesses in their ICAAPs and ILAAPs, in close dialogue with their Joint Supervisory Team at the ECB, and have until 4 May 2018 to submit their comments.

EU ESMA

ESMA published the double volume cap (DVC) calculations for January 2018

ESMA published the double volume cap (DVC) calculations for January 2018 (totalling 18,644 instruments) and February 2018 (totalling 14,158 instruments) under the Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR). Two caps will limit dark trading in equity-like instruments, for certain instruments in January and February 2018 where (1) their trading on a single venue under the waivers exceeded 4%, and (2) trading across all venues exceeded 8% of total trading volume. NCAs are required to suspend, within two working days, the use of the reference price waiver and the negotiated transaction waiver in those financial instruments where the caps were exceeded. As a result, the use of the waivers should be suspended for these instruments for a period of six months starting from 12 March 2018. Following the next round of calculations, ESMA plans to publish the applicable DVC data for March 2018 on 9 April 2018.

U EBA

The EBA published its thirteenth Report of the CRDIV-CRR/Basel III monitoring exercise on the European banking system.

The EBA published its thirteenth Report of the CRDIV-CRR/Basel III monitoring exercise on the European banking system. This exercise presents aggregate data on EU banks' capital, leverage, and liquidity ratios assuming full implementation of the CRD IV-CRR/Basel III framework. The results showed a further improvement of European banks' capital positions, with a total average Common Equity Tier 1 (CET1) ratio of 13.8% (versus 13.4% as of 31 December 2016).

EU EBA

The EBA launched a consultation on how to manage non-performing exposures

The EBA launched a consultation on its Guidelines for credit institutions on how to effectively manage non-performing exposures (NPEs) and forborne exposures (FBEs). The guidelines specify sound risk management practices for credit institutions for managing FBEs and NPEs, looking at the governance and operations of a NPE workout framework, the internal control framework and NPE monitoring, as well as early warning processes. The deadline for submission of comments is 8 June 2018.

EU EBA

Andrea Enria gave a speech on FinTech at Copenhagen Business School

Andrea Enria, Chairperson of the EBA, delivered a speech at the Copenhagen Business School in which he argued that the current EU approach to FinTech produces an overly complex regulatory structure, organised in numerous and sometimes overlapping layers. Moreover, Enria announced that the EBA will, this week, launch a Roadmap addressing the key issues identified in its Discussion Paper published in 2017. The Roadmap will focus on six main areas, including: the authorisation of new FinTech players and the definition of the regulatory perimeter; Regulatory sandboxes and innovation hubs; Impact on business models, prudential risks and opportunities; Cybersecurity; Consumer and conduct issues; and Anti-Money Laundering/Countering the Financing of Terrorism.

EU EC

The European Commission published a press release on Sustainable Finance, detailing a strategy for a 'greener and cleaner' economy

The European Commission published an Action Plan on sustainable finance. The report sets out an implementation strategy that combines a number of non-legislative and legislative actions (some to be adopted as soon as Q2 2018) and proposes to make targeted regulatory amendments to incorporate sustainability across all financial services sectors. The actions include the creation of an EU label for green financial products, the incorporation of sustainability in prudential requirements, and the implementation of a unified EU classification system to define what is sustainable and identify the areas where sustainable investment can make the biggest impact. The Commission will organise a high level conference on 22 March 2018 to discuss the Action Plan presented last week.

EU **EC**

The EC published its FinTech Action Plan

The European Commission published an Action Plan on FinTech. The plan sets out a list of 19 initiatives gathered around three main work streams, namely: (i) enabling innovative business models to reach EU scale; (ii) Supporting the uptake of technological innovation in the financial sector; and (iii) enhancing security and integrity of the financial sector. Out of these 19 initiatives, only one is legislative in nature, and concerns the implementation of an EU-wide regulatory framework and passporting system for loan-based and investment-based crowdfunding activities.

EU **EC**

The EC released a fact sheet on its proposal for a regulation on European Crowdfunding Services for Business

The European Commission **published** a proposal for an EU legal framework for investment-based and lending or loan-based crowdfunding services providers. It is part of the broader **FinTech Action Plan**, and it is the only legislative initiative in the package. The regulatory proposal aims to help crowdfunding service providers overcome the barriers associated with divergent national regulatory frameworks on crowdfunding between Member States, and to enable them to scale up their activities to the EU market through passporting. The proposal also gives ESMA the responsibility to authorise, supervise and, if necessary, sanction crowdfunding service providers who do not comply with their regulatory obligations. Along with the regulatory proposal, the Commission also **proposed** to amend MiFID II with the aim of exempting crowdfunding services providers authorised under the new EU regulation from its scope.

EU **EIOPA**

EIOPA published its response to the European Commissions' public consultation on fitness check on supervisory reporting

EIOPA published its response to the European Commission’s public consultation on the fitness check on supervisory reporting. in the document, EIOPA highlighted the importance for supervisors of receiving data in terms of granularity, coverage, frequency and within proper timelines to identify and promptly assess the risks the industry faces. It also underlines its commitment to contribute to a thorough assessment of the consistency between different reporting frameworks and if the cost and burden of reporting obligations is reasonable and proportionate. EIOPA is now preparing the review of the Implementing Technical Standards on Solvency II supervisory reporting.

Int'l IOSCO

IOSCO has launched a consultation on mechanisms used by trading venues to manage extreme volatility and preserve orderly trading.

IOSCO launched a consultation on mechanisms used by trading venues to manage extreme volatility and preserve orderly trading. The report makes a number of recommendations, setting out that trading venues should have volatility control mechanisms to manage extreme volatility and that these mechanisms should be appropriately calibrated and monitored, as well as other requirements around information sharing between venues and regulatory authorities when the mechanism is triggered.

Int'l FSB

FSB publishes Global Shadow Banking Monitoring Report 2017

The FSB published the Global Shadow Banking Monitoring Report 2017. The report sets out a number of observations on the interconnectedness and activities of the shadow banking sector from the 2017 monitoring exercise, including that the activity-based, narrow measure of shadow banking (such as non-bank financial entities engaged in credit intermediation) grew by 7.6% in 2016 to $45.2 trillion for the 29 assessed jurisdictions, and that collective investment vehicles with features that make them susceptible to runs, such as open-ended fixed income funds, credit hedge funds and money market funds, grew at 11.0% over the course of 2016.

Int'l BIS

BIS held its Asia-Pacific High Level Meeting on Banking Supervision in Singapore

The BIS held its Thirteenth Asia-Pacific High Level Meeting on Banking Supervision in Singapore between the 28 February and 1 March 2018. Mr Agustín Carstens, General Manager of the BIS, spoke on effective supervision, and stressed that supervisors should remain vigilant to contain traditional risks such as asset quality, while equally considering emerging risks, such as the delivery of financial services using new technologies. Mr Piyush Gupta, the CEO of DBS bank, highlighted his bank's journey to become a digitised bank, including the potential challenges brought about by the increased digitisation of finance. The meeting also covered issues such as the role of proportionality in the application of Basel III; the regulatory treatment of sovereign exposures; and the challenges related to the shift to expected loss provisioning, including the timely identification and measurement of non-performing assets (NPAs).

EU **EIOPA**

Gabriel Bernardino, Chairman of EIOPA, gave a speech on the theme of sustainable finance and sustainable pensions

He set out how EIOPA plans to contribute to making European pensions future-proof. He highlighted that efficient risk management, improved funding, tailored systems of governance, a proper assessment of sustainable finances, and the introduction of Pan European Pension Products would contribute to this goal.

EU **EIOPA**

Dimitris Zafeiris, EIOPA's Head of Risks and Financial Stability Department, gave an interview on macro prudential policy and the Greek insurance industry

He said it is important to identify the potential sources of systemic risk and to find a balance between the entity-based and activity-based approaches for the insurance sector, and that further progress in the harmonisation of recovery and resolution for insurers was needed.

EU **EC**

Vice-President Dombrovskis spoke on the Commission's strategy to complete the Capital Markets Union (CMU)

He covered introducing new EU-wide labels and passports for financial products; introducing clearer and simpler rules for businesses; and achieving more consistent supervision of EU capital markets. He spoke on the Commission's new proposals to pursue its CMU strategy, including common EU rules to boost covered bonds; measures to boost the cross-border market for investment finds; and new rules to provide legal certainty on who owns a claim.

EU **EC**

The Vienna Initiative adopted a new focus on innovation and productivity in order to increase investment in central, eastern and south-eastern Europe (CESEE)

It also stated that it will investigate the role of various funding sources to support different forms of innovation, with an emphasis on bank funding. in addition, it endorsed proposals for the further development of capital markets in CESEE.

EU **EC**

Consulted on the impact of the finalisation of Basel III.

The measures included: a Regulation introducing a Pillar 1 statutory prudential backstop for newly originated loans that become non-performing; a Directive facilitating out-of-court collateral enforcement and fostering the development of secondary markets for NPLs by developing an EU passport; and a non-binding blueprint for the set-up of national Asset Management Companies.

EU **EC**

Published a proposed package of measures to reduce non-performing loans (NPLs)

The measures included: a Regulation introducing a Pillar 1 statutory prudential backstop for newly originated loans that become non-performing; a Directive facilitating out-of-court collateral enforcement and fostering the development of secondary markets for NPLs by developing an EU passport; and a non-binding blueprint for the set-up of national Asset Management Companies.

EU **EC**

Published a proposal for a Regulation on cross-border distribution of investment funds, and a proposal for a Directive amending the UCITS Directive and AIFMD to facilitate the cross-border distribution of investment funds

The proposals aim to reduce the cost of cross-border distribution of funds with the intention of supporting a more integrated single market for investment funds, whilst maintaining high levels of investor protection. The issues addressed by the proposals cover marketing requirements, regulatory fees and administrative and notification requirements. Notably, the draft Directive proposes to ban the imposition of physical presence for UCITS, through the use of electronic or other means of distance communication with investors.

EU **ECB**

Sabine Lautenschläger, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, gave a speech on 'The banks and the market'

She outlined the importance of banks for the European economy, and how they must be able to fail, adding that if they are not, the economy will suffer in the long run. However, she warned that if banks fail, they must do so in an orderly manner because otherwise financial stability will suffer in the short run; and the European resolution framework helps to make orderly failure possible. and while failure is the least desirable outcome, and stronger regulation can help, the onus is on banks themselves to ensure their financial health.

EU **ECB**

Published its Addendum to its Guidance to banks on non-performing loans (NPLs)

The document sets out its supervisory expectations for prudential provisioning for NPLs and introducing a Pillar 2 backstop for newly non-performing loans. Newly NPLs which are fully unsecured should be fully covered after 2 years, while NPLs that are fully secured should be fully covered after 7 years.

EU **ECB**

Launched a second public consultation on a new euro unsecured overnight interest rate.

This consultation follows the ECB's decision, announced on 21 September 2017, to develop a euro unsecured overnight interest rate based on data already available to the Eurosystem and builds on the findings of the first ECB public consultation. The consultation aims to gather stakeholder views on the methodology for the rate as well as key operational and technical parameters.

EU **EBA**

Issued an opinion on measures to address macro prudential risk

This was published following the notification by the French High Council for Financial Stability (HCSF) of its intention to tighten the large-exposure limits applicable to large and highly indebted non-financial corporations (NFCSs) in France. The EBA does not object to the proposal, which the HCSF intends to apply only to global and other systemically important institutions (G-SIIs and O-SIIs) with the aim of counting for changes in the intensity of macro prudential risk. The applied measure means that French systemically important institutions shall not incur an exposure exceeding 5% of their eligible capital (versus the prescribed large exposure limit of 25%) for highly indebted NFCs or groups of connected NFC. This is the first case in which a designated authority has made use of Article 458 of the CRR to set strict larger-exposure limits.

EU **EBA**

Published a report on the functioning of the supervisory colleges in 2017

It found that: (i) significant improvements have been achieved over the past couple of years in college interactions, but that further efforts are expected from both home and host supervisors to enhance the joint decision process and the completeness of the SREP assessments; (ii) the vast majority of closely monitored colleges maintained frequent interactions in 2017; (iii) all closely monitored colleges dedicated sufficient time for exchanging supervisory views on the group risk assessments; and (iv) that the four topics the EBA had identified for supervisory attention in 2017 (NPLs, business models, operational risk including IT risk, and the comparability of RWAs and the use of EBA benchmarks in SREP) were well reflected in supervisory colleges, although less engagement was witnessed on RWA comparability.

EU **EBA**

Published its FinTech Roadmap

The EBA also announced the creation of a FinTech Knowledge Hub. FinTech priorities include monitoring the regulatory perimeter; promoting best supervisory practices on assessing cybersecurity; addressing consumer issues arising from FinTech; and analysing the impact on incumbent institutions' business models and the prudential risks and opportunities arising from the use of FinTech.

EU **EBA**

Published its advice on the European Commission's proposal for a statutory prudential provisioning backstop for newly non-performing loans

The EBA's analysis showed that after 7 years, the statutory prudential backstop would lead to a decrease in the CET1 capital ratio of 56 basis points for the average European bank, rising to 205 basis points after 20 years. The EBA further found that the impact of the measures should help prevent the build-up of NPLs.

EU **ESAs**

Published their final report on Big Data, analysing its impact on consumers and financial firms

Findings showed that while Big Data poses some risks to financial services' consumers, the benefits outweigh these and many of the risks are mitigated by existing legislation. Benefits brought by Big Data include more tailored products and services, improved fraud analytics, and enhanced efficiency of internal procedures. Risks identified include the potential for errors which may lead to incorrect decisions being taken by financial services providers, and the increasing level of segmentation of customers enabled by Big Data potentially influencing the availability of certain financial services products.

Int'l **BIS**

Published its 2018 Regulatory Consistency Assessment Programme (RCAP)

This is a summary of post assessment follow-up actions, which are taken or planned by member jurisdictions after the assessments to address findings as identified by the RCAP assessments, and don't reflect efforts made by members to address findings during the assessments. Findings reflect major divergences from the Basel standards or timing differences with respect to forthcoming standards.

Int'l **BIS**

The Committee on Payments and Market Infrastructures launched a report on central bank digital currencies

The report examines two types of central bank digital currency: a wholesale currency limited to select financial institutions, and a general purpose currency accessible to the public. The report analyses the implications of both types in three core areas central banking functions, including payments, monetary policy implementation and financial stability.

Int’l BIS

Published follow-up reports on Basel III implementation assessments

These were taken by member jurisdictions as of end-2017 to address deviations from the Basel standards that were identified as part of the Committee’s Regulatory Consistency Assessment Programme (RCAP). The Committee also updated its Handbook for jurisdictional assessments, which incorporates lessons from the Committee’s experience in conducting RCAP assessments and expands the methodology to cover assessments of the Net Stable Funding Ratio (NSFR) and the large exposures framework.

Int’l FSB

Published a progress report on addressing declines in correspondent banking and recommendations on remittances

The report noted the steps being taken to address the decline in correspondent banking, including the publication of the Correspondent Banking Due Diligence Questionnaire in February 2018. Recommendations on remittances included better application of the risk-based approach and better supervision.

Int’l FSB

Published a letter from its Chair to the G20 Finance Ministers and Central Bank Governors

The letter set out the FSB’s priorities under the Argentine Presidency, which include vigilant monitoring to identify, assess and address new and emerging risks; the completion of the G20’s outstanding financial reform priorities; evaluating policies that have been implemented to ensure the reform programme is efficient; and optimising how the FSB works to maximise its effectiveness.

EU EBA

The EBA published an assessment of the current credit risk mitigation (CRM) framework as a part of its work on the review of the internal ratings-based (IRB) approach

The EBA highlighted the limited guidance provided in the current CRR provisions on CRM under the Advanced-IRB Approach, noted that the fulfilment of the three mandates for regulatory technical standards (RTS) in the area of CRM in the CRR could lead to disproportionate regulation with limited benefits, and recommended that the mandate RTS on liquid assets be deleted from the CRR, with institutions assessing independently the sufficient liquidity and the price stability over time of the eligible assets held as collateral.

EU EIOPA

EIOPA published a second paper of a series on systemic risk and macroprudential policy in the insurance sector

As part of its ongoing work to assess the merits of macroprudential policy tools for the EU insurance sector, EIOPA identifies, classifies and provides a preliminary assessment of the tools or measures already existing within the Solvency II framework which could mitigate any of the systemic risk sources that were identified in the EIOPA's first paper, such as the volatility adjustment and the matching adjustment.

EU ECB

Sabine Lautenschläger, Vice-Chair of the Supervisory Board of the ECB, spoke on the need to align banking regulation and supervision

She said that the banking union is not currently "living up to its full potential", and argued that large investment firms and third-country branches should be subject to European-level supervision, as banking supervision has been under the SSM. She also said that legislators should harmonise the options and national discretions contained in European banking regulation, and that a common approach to insolvency laws and moratoriums should be created.

EU ECB

Danièle Nuoy, Chair of the Supervisory Board of the ECB, spoke on governance

She highlighted five key areas in which banks need to improve: fit and proper assessments for board members; independence of the board; the link between internal control functions and the board; risk appetite frameworks; and data quality. She further noted that banks may need to rethink their internal governance and risk management arrangements in light of digitalisation.

EU EC

Valdis Dombrovskis, Vice-President of the European Commission, spoke on the EU's Action Plan for Sustainable Finance

He outlined the objectives of the plan to redirect capital flows towards green and sustainable investments, embed sustainability into risk management and increase transparency and long-term thinking in financial and economic activity. The first legislative proposals from the European Commission, which are expected in May, will aim to establish an EU classification system to provide common definitions of green finance.

EU ESMA

ESMA published its latest Trends, Risks, and Vulnerabilities Report for the securities markets in the second half of 2017

The report found that overall risk levels remained stable but at high levels in the market under ESMA's remit. The report provides analysis on the risk monitoring framework within the AIFMD, the exchange-traded derivatives market before MiFID II implementation, the public disclosure of net short positions and ESMA's approach to operational risk assessment. ESMA also reiterated its warning about retail investors investing in the virtual currency markets and Initial Coin Offerings.

EU ESMA

Steven Maijoor, Chair of ESMA, spoke on the Capital Markets Union (CMU), Brexit and the ESAs Review

His speech clarified ESMA's approach to delegation, outlining that "we are not looking to question, undermine or put in doubt the delegation model. We know that this is a key feature of the investment funds industry and that the flexibility to organise centres of excellence in different jurisdictions has contributed to the industry's success." Maijoor is also positive about the impact MiFID II and PRIPPs have had on promoting the transparency of costs and charges. While ESMA is aware of the negative reaction against the methodology for calculation of costs under PRIIPs, it is only willing to examine the isse should there be "concrete evidence" that there are real flaws.

EU ESMA

Clarified the treatment of package orders under MiFIR's trading obligation for derivatives

ESMA issued an opinion on the treatment of package orders under the trading obligation for derivatives (TO), suggesting an approach to ensure that the components of a package order would need to be executed on a trading venue only where it is feasible without creating undue operational or execution risk. This approach applies orders where all components of the package are subject to the TO, as well as where at least one component is subject to the to and all other components are subject to the clearing obligation for derivatives (CO), and where at least one component is an interest rate swap subject to the to and all other components are government bonds denominated in the same currency.

Int'l **FSB**

Provided an update on its Cyber Lexicon work to the G20

The Lexicon aims to provide a common understanding of relevant cyber security and cyber resilience terminology, and should help with other activities, such as effective information-sharing and effective practice identification.

Int'l **BIS**

The BCBS consulted on a technical amendment to the additional Pillar 3 disclosure requirements

This relates to jurisdictions implementing an expected credit loss (ECL) accounting model as well as for those adopting transitional arrangements for the regulatory treatment of accounting provisions. The changes introduce additional disclosure requirements around the impact of ECL requirements on Total Loss-Absorbing Capacity and the credit quality of assets.

Int'l **FSB**

Called for responses from financial institutions and other reporting entities on issues they may face with legal barriers to the reporting of full transaction information about over-the-counter (OTC) derivatives

This includes client confidentiality, data protection, blocking statutes or other financial requirements. Responses, which should be submitted by 25 April, will provide input to the FSB's ongoing work to evaluate the extent to which its member jurisdictions have met their commitments to remove such legal barriers.

This quarter

List of regulatory publications and events expected this quarter

Bank prudential framework Due Date				
	Int'l	BCBS	Finalisation of Phase 3 of the enhanced disclosure rules under Pillar 3	Q1 2018
	Int'l	BCBS	Finalisation of the revisions to the G-SIB assessment methodology	Q1 2018
Insurance prudential framework				
	Int'l	IAIS	Second consultation on the first International Capital Standards for insurers	Mid-2018
Conduct and competition				
	Int'l	FSB	Final report on strengthening the governance framework to mitigate misconduct risk	Q1 2018
Payments, technology and innovation				
[New]	EU	EC	European Commission initiative on Artificial Intelligence	Apr 2018
Economic and Monetary Union				
	EU	European Commission	Protection of secured creditors from business borrowers' default	Q1 2018
	EU	European Commission	Enabling framework for Sovereign Bond-backed Securities	Q1 2018
Capital market structures				
	EU	ESMA	ESMA to consult on a procedure for imposing leverage limits on investment funds	Q2 2018
	EU	ESMA	ESMA to consult on guidance on the use of liquidity management tools for investment funds	Q2 2018
	EU	European Commission	Consultation on corporate bond market liquidity	Q1 2018
	EU	European Commission	Final findings from study on distribution of investment products to retail investors	Q1 2018
	EU	European Parliament	ECON vote on CCP RRP proposal	Q1 2018

Deloitte.