



### STRUCTURAL REFORM OF THE BANKING SECTOR

Measures to ensure the impact of failing banks is minimised are coming to fruition. Ring-fencing requirements and regulators' demands for individual banks to be made resolvable will drive unprecedented changes to legal and operational structures, and in turn to banks' capital structure and funding models. There will be more clarity over the course of 2014 as national and regional rule-writing progresses, and work to articulate the key attributes of resolvability continues at the international level under the aegis of the FSB. As a result, planning for operational and strategic change will pick up pace.



### RESTRUCTURING THE (REST OF THE) FINANCIAL SYSTEM

Banks are not the only businesses subject to major structural upheaval. Resolution regimes for non-banks are expected to progress in 2014, particularly for CCPs and insurers, with the latter also under pressure from moves to address global systemically important insurers. Market structure will not escape unscathed, with EMIR set to drive further structural and operational changes through central clearing, while MiFID II will continue to alter the forms of trading venues and market structure.



### CAPITAL AND LIQUIDITY – BACK TO THE FUTURE?

Will proposed changes to the capital framework take us towards Basel 3.5 or back to Basel 1.5? Legislation to implement Basel III is not the end of the story – supervisory attitudes will continue to shift in relation to models, with more challenge and less discretion, and increasing uniformity of practices in areas such as Pillar 2, stress testing and model approval. Implementation of the liquidity regime will continue to be in focus. What, if any, lessons can be learned from all of this – and from Solvency II – for the development of a global capital standard for insurers?



### WHOLESALE CONDUCT RISK

The focus on wholesale conduct will intensify over the course of 2014. The issue is squarely in the sights of the FCA, and the results of a number of thematic reviews are due in 2014, while a recent series of high profile enforcement cases indicates the size of the stakes. Litigation in relation to interbank rate manipulation is set to continue, while investigations into the foreign exchange market are ongoing. Agreement on MiFID II will also bring algorithmic and high frequency trading under the spotlight.



### BANKING UNION

With the SSM set to become operational in late 2014, there is an immense amount of preparatory work to be done. The ECB's comprehensive assessment exercise, including the asset quality review, will seek to ensure banks are financially sound before the ECB takes over responsibility for direct supervision of the largest banks. Of course, Banking Union is not just about the SSM, with proposals for a Single Resolution Mechanism, including a Eurozone-wide resolution fund also set to attract increasing attention over the next year. All these elements will create change, and new requirements and supervisory expectations for banks to manage.



### OPERATIONAL RISK

Following a recent series of high profile incidents exposing serious shortcomings in operational risk controls, supervisors are turning up the heat in this area. Heightened supervisory expectations will see more banks subject to sizeable Pillar 2 add-ons for operational risk issues, while the Basel Committee is set to complete work in this area in 2014. Cyber security is one such risk in focus, with firms now subject to 'cyber stress tests'. Much tougher supervisory expectations on risk data aggregation is another. Integrating all of this within a coherent risk appetite and risk management framework remains a challenge.



### PUTTING CUSTOMERS FIRST THROUGH BETTER CONDUCT AND CULTURE

Fairness and the 'ethics of care' will take precedence over narrow compliance with rules as supervisors look to exercise more judgment and encourage more customer-centric cultures. All areas of firms and all levels of staff will be under scrutiny, as supervisors assess how practices at all stages of the product life cycle contribute to good consumer outcomes, while product intervention powers will be developed further. It will be instructive to see how the FCA uses its new powers over consumer credit.



### INDIVIDUAL ACCOUNTABILITY

Governance and corporate culture will remain in the spotlight, but it is clear that firms will need to focus on more than structures alone, as regulators consider how high level policies are cascaded through firms. Senior individuals will be under the spotlight, with new legislation and supervisory approaches looking to make individuals more accountable and find ways to 'focus minds'. The increasing use of "attestations" by supervisors will be one way of achieving this end.



### COMPETITION – PART OF THE SOLUTION?

The UK's FCA will continue to pursue its competition objective, while the new Competition and Markets Authority will assume its full responsibilities in April 2014. The seven day current account switching service is now live, but work to set up a new payments regulator is on-going, and account portability will continue to be an issue. Wholesale markets are also under scrutiny, and the results of the FCA's Wholesale Strategic Review will determine whether a full-blown market study will be undertaken on competition in wholesale markets, and its effect on retail products.



### MANAGING REGULATORY CHANGE IN AN EXTRATERRITORIAL WORLD

Regulatory change management has three elements – dealing with new regulatory authorities; new regulations; and new supervisory attitudes and expectations. This in itself is a mammoth task, particularly for global organisations. But its complexity is compounded by extraterritorial effects, with rules applying outside the national environment, creating conflicts and overlaps. EMIR, MiFID II and Dodd-Frank will crystallise some of these conflicts in 2014.

# TOP 10 FOR 2014