



## Risk and Regulation Monthly

### July 2016

July was busy with the publication of the EBA's bank stress test results, a swathe of technical publications relating to MiFID II, and a variety of documents relating to UK bank ring-fencing. New Chief Executives also took up their posts at the UK regulators.

This note is produced for information only on a best effort basis, and does not constitute advice of any kind.

#### **Brexit**

Jean-Claude Juncker **appointed Michel Barnier as the European Commission's Chief Negotiator for Brexit**. Formerly a French Minister, he was also Vice-President of the European Commission between 2009 and 2014, during which time he was responsible for financial services legislation.

Andrew Bailey **said** that **Brexit "is not going to be a bonfire of regulation"**. He also said that EU regulation which has already been directly implemented in UK law will remain in place, while the same was also likely to be true for rules not yet in place, such as MiFID II.

Andrew Tyrie MP, Chairman of the UK Treasury Committee (TSC), **said** that Brexit presented an opportunity for regulators to **rethink capital requirements for small and challenger banks**. The MP's latest intervention follows the publication of a **letter** from challenger banks on the issue.

Before leaving his post as Chancellor of the Exchequer, George Osborne **published a joint statement with senior representatives of several international investment banks** emphasising their determination to meet the economic challenges presented by Brexit.

Brexit dominated the **latest meeting of G20 Finance Ministers and Central Bank Governors**, at which they reiterated their "determination to use all policy tools" to navigate the economic environment. The group said it hoped to see the UK in future "as a close partner of the EU".

The FCA **issued** guidance on **fund suspensions** following higher than normal levels of redemption requests in the wake of the referendum. The FCA said that funds holding a large proportion of assets that could be illiquid or hard to value may consider lifting their suspensions, in order to provide investors with an opportunity to redeem at a revised valuation.

ESMA **said** its **risk assessment had changed** as a result of the UK referendum. Although overall risk levels remained steady for the time being, ESMA said the outlook for markets had deteriorated, and that “market turbulences may continue to occur”.

### Capital (including stress testing)

The Prudential Regulation Authority (PRA) **set out** how it intends to implement the **Systemic Risk Buffer**, which will be applied to ring-fenced banks and large building societies from 2019. Initial rates will be set in “early 2019”, and applied three months later. Thereafter, the rates will be set and announced annually by 15 December, and applied from 1 January the following year.

The PRA **consulted** on amendments to its Supervisory Statement on **Internal Ratings-Based approaches for calculating risk-weighted capital requirements**, including a new expectation that firms should not apply point-in-time or through-the-cycle probability of default models to their residential mortgage portfolios. The PRA also proposed that firms apply a house price fall assumption of no less than 25% in their UK residential mortgage loss given default models.

The PRA **published** a Dear CEO letter to insurance firms setting out its **analysis and observations from regulatory returns** and market questionnaires. The PRA noted that reserve releases were at a 30-year high, which it said “raises the question as to whether these reserve releases are sustainable”. On pricing trends for London market insurers, it found that while premium rates had fallen, most insurers believed that current market rates were still adequate.

The PRA **updated** its Supervisory Statement on **capital extractions** by run-off firms in the general insurance sector, to provide clarification of the PRA's expectations that firms hold sufficient regulatory capital, and that they should satisfy themselves and the PRA that this remains the case after a proposed capital extraction.

The PRA **published** a **Dear CEO letter** to insurance firms in run-off to remind them of the requirement to deal with regulators in an open and cooperative manner, and to provide appropriate disclosures and notices – for example, giving notice of a breach of PRA rules or proposed firm restructuring. The PRA said the letter followed a number of instances where it was not engaged sufficiently early.

The European Banking Authority (EBA) **published** the results of the **2016 EU-wide stress test**. Under the hypothetical stress scenario, banks' CET1 ratios decreased from 13.2% at the end of 2015 to 9.4% at the end of 2018. The impact was mostly driven by credit risk, followed by operational risk and market risk. Conduct risks were also factored in for the first time. The results will inform the Supervisory Review and Evaluation Process (SREP), to be completed by competent authorities later in 2016, and the EBA **clarified** that capital shortfalls identified in the stress test should be addressed by setting additional “capital guidance” above the combined buffer requirement. Any such additional capital guidance would not, however, be included in calculations of the Maximum Distributable Amount (MDA).

The EBA **announced** details of its **2016 transparency exercise**, which will be conducted on a sample of over 100 banks. Information will be provided on banks' balance sheets including data on capital, risk-exposures, profits and losses, and securitisations, for December 2015 and June 2016. Templates for the exercise will be populated by the EBA and submitted to the banks for review in September, and the results will be published in early December.

The EBA **updated** its **Risk Dashboard** summarising the main risks and vulnerabilities in the EU banking sector in Q1 2016. CET1 ratios declined modestly from 13.6% to 13.4%, driven by a decline in capital that was not offset by a reduction in risk-weighted assets. Annualised return on equity decreased 1.1% year-on-year to 5.8% in Q1 2016. Although the ratio of non-performing loans (NPLs) decreased, asset quality remained a concern.

The EBA **said** the case for policy action on **NPLs and forbearance** was “compelling”, following its review of 166 banks in the EU between September 2014 and March 2016. Despite improvements in identifying and reducing NPLs, overall levels remained high and wide variations persisted across countries. The weighted average NPL ratio across the whole of the EU was 5.7% in March 2016, up to three times higher than in other jurisdictions.

The EBA **published** final draft technical standards specifying the methodology to be followed by supervisory authorities in assessing firms' compliance with the **Internal Ratings-Based (IRB) approach for credit risk**. The standards clarified various components of the process, including the independence of the validation function from the credit control unit, and the calculation of the difference between expected loss amounts and credit risk adjustments.

The EBA **consulted** on draft Guidelines on the **treatment of connected clients for large exposures**. Firms should use clients' consolidated financial statements for an assessment of connections based on control relationships, and use a non-exhaustive list of indicators of control to assess clients which were not subject to EU accounting rules. The draft Guidelines also further developed the existing guidelines regarding economic dependencies.

The EBA **updated** its monitoring report on issuance of **Additional Tier 1 (AT1) capital instruments**. It reviewed 33 issuances dated between August 2013 and December 2015, and found that they were "in general quite standardised" instruments, despite their complex nature and institution-specific features. It said a few provisions of existing and new issuances should be avoided in the future or a revised wording should be used, particularly where they relate to regulatory calls, share conversion mechanisms, contingent clauses, and covenants.

The EBA made six "provisional recommendations" for amendments to the **minimum requirement for own funds and eligible liabilities (MREL)** under the Bank Recovery and Resolution Directive (BRRD) in an **interim report**, including to change the reference base from total liabilities to risk-weighted assets, and to introduce mandatory subordination requirements for "at least some banks". The EBA is required to publish a final report by the end of October.

The EBA **launched** a data collection exercise to support the Commission's call for advice on the creation of a new **prudential framework for investment firms**. Templates and instructions for **MiFID II firms** and **UCITS/AIFMD firms** conducting MiFID II activities were published. The collection also addressed a request from the European Commission with regard to the application of proportionality in the area of remuneration.

The European Central Bank (ECB) **published** its final Guidelines on the **recognition of institutional protection schemes (IPS) for prudential purposes**. IPS are arrangements to protect member institutions through the provision of capital and liquidity needed to avoid bankruptcy, and are features of the financial system in Austria, Germany and Spain. The ECB said members of IPS represent around 10% of total assets of the euro area banking system.

The European Insurance and Occupational Pensions Authority (EIOPA) **updated** the representative portfolios required to calculate **volatility adjustments under Solvency II**, with adjustments intended to mitigate the effect of short-term volatility on solvency positions and to prevent pro-cyclical investment behaviour.

The European Commission **requested** technical advice from EIOPA on a **review of Solvency II implementing measures**, following the Commission's broader Call for Evidence on financial services legislation. The Commission said that "significant improvements" could be made, in particular to simplify the requirements, to ensure technical consistency, and to reduce the impact on long-term investments.

The Basel Committee on Banking Supervision (BCBS) **published** its final revised framework for the **regulatory capital treatment of securitisation exposures**. Following the 2015 consultation on a set of criteria for "simple, transparent and comparable" (STC) securitisations, the BCBS set out two additional criteria to distinguish STC securitisations from other securitisation transactions for capital purposes.

The International Association of Insurance Supervisors (IAIS) **consulted** for a second time on its **global insurance capital standard**, focusing on the technical aspects of a standard calculation method. It covered valuation methodologies, qualifying capital resources and implementation of a risk-based approach to regulatory capital.

### Liquidity

The EBA **published** final draft technical standards on the application of a **preferential treatment of credit or liquidity facilities within a group or an IPS in the calculation of the Liquidity Coverage Ratio**. The standards provided further specification of the criteria that must be met to allow for preferential treatment, such as how to determine low liquidity risk profiles.

### Governance and risk management (including remuneration)

The TSC **published** correspondence between its Chair, Andrew Tyrie MP, and Tracey McDermott, former Acting Chief Executive of the Financial Conduct Authority (FCA), in relation to the regulator's thematic review of **culture in banks**. Although the cancellation of the review was not considered market sensitive, Ms McDermott said the FCA's press communications "could have been handled better".

The TSC **published** its "Review of the reports into the **failure of HBOS**", which concluded that there was a case for a new enforcement body separate to the existing regulators, and said that the Treasury should appoint an independent reviewer to re-examine this possibility. It observed that the collapse of HBOS was the result of prudential failings and that it was "far from satisfactory" that the bulk of enforcement staff and expertise still lay within the FCA.

Jonathan Davidson, FCA Director of Supervision for retail and authorisations, **spoke** on the role of the regulator in "**getting culture and conduct right**". He emphasised the FCA's ambition for the "conduct element of culture" and the role of leaders in encouraging personal responsibility. There were four key areas which leaders could use to shape culture, including "tone from the top" and remuneration and recruitment.

The Financial Reporting Council **published** the results of its study on **corporate culture and business success in the UK**. Over 250 chairmen, CEOs and experts in the UK's leading companies were interviewed. One of the key findings was the need for HR, internal audit, ethics, compliance and risk functions to be empowered to embed values and culture, and for their voice on the Board to be strengthened.

The European Commission **said** that the EU's **remuneration rules for banks** "are generally effective" but that the proportionality principle was in need of clarification. The report concluded that some of the rules in CRD IV/CRR may be "too costly and burdensome to apply," particularly where rules on deferral and pay-out in instruments were applied to small and non-complex institutions or to staff with low levels of variable remuneration.

The Financial Stability Board (FSB) **summarised** its May 2016 roundtable on **compensation tools to address misconduct risks** in banks. The discussion focused on the processes for governing and applying compensation and related risk management tools to better identify, mitigate and reduce misconduct risk.

### Conduct of Business (including MiFID)

The FCA **published** its **second major consultation paper on MiFID II**, covering a wide range of issues including commodity derivatives, supervision, senior management arrangements, systems and controls, and remuneration. A final policy statement is expected in the first half of 2017, and a third consultation will follow later this year.

The Bank of England, FCA and HM Treasury **published** an implementation progress report on the **Fair and Effective Markets Review**, which assessed areas such as the FX Global Code and the extension of the Senior Managers and Certification Regime. Responsibility will increasingly fall to market participants to see through changes to market practices, the report said.

The FCA **set out** the next steps for its work on **FX remediation**, and made clear that firms which were not part of the original programme should review the FCA's findings and implement remediation plans appropriate to their own businesses. Firms should also ensure the lessons learned from the programme were applied to other products and markets across their businesses.

TSC Chair Andrew Tyrie **asked** the Chief Executives of 13 banks to provide information about their **charges on overdrafts**, in particular to see the steps taken when a customer falls into an unarranged overdraft. He said that problems with price transparency and the difficulty of comparing products remained "as bad as ever".

The FCA **published** its **thematic review** of principal firms and their appointed representatives in the general insurance sector. The FCA identified "significant shortcomings" in relation to principal insurance firms' understanding of their regulatory obligations. It reported examples of potential mis-selling and customer detriment at a third of principal firms included in the review. The FCA took early intervention actions and sent a **Dear CEO letter** setting out its expectations.

The FCA **published** the terms of reference for its **Retirement Outcomes Review**, which will explore whether competition is working effectively in the retirement income market following the UK's pension reforms. The four main areas of focus will be shopping around and switching, non-advised customer journeys, business models and barriers to entry, and the impact of regulation on retirement outcomes.

The FCA **published** its research into the implementation and effects of a proposed **“annuity comparator”** as part of its broader work on pension freedom and consumer access to information. The experiment identified the importance of “social comparison” in annuity sales. The findings suggested the comparator should have a significant impact on shopping around and provide a personalised remedy.

The FCA published its **thematic review on UK equity market dark pools**, which found that operators of dark pools still had more to do to identify and manage potential conflicts of interest, although significant progress had been made. The FCA said it would write to individual firms with more detailed feedback and recommended actions.

The FCA **published** its second report into **cash savings account rates**. Based on data up to April 2016, the FCA found that the interest rate ranges on offer demonstrated some consumers could be better off opening a different account. The next set of data will be published toward year-end.

The FCA **published** the final findings of its **credit card market study** along with a package of measures including a series of industry-led proposals to help consumers better control their spending.

The FCA **published** findings from its review into **signposting the availability of pensions guidance (Pension Wise)**. The majority of firms met the requirements but some shortcomings were identified, such as how firms showed customers the different ways in which Pension Wise could be accessed, and inconsistent use of terminology. It also found that management information around signposting of pensions guidance was “on the whole, inadequate”.

The European Commission published a variety of **delegated acts in relation to MiFID II**, including technical standards on non-equity transparency. The various delegated acts adopted included: standards on the **tick size regime for shares, depositary receipts and ETFs**; standards for the **exchange of supervisory information**; standards on **information and requirements for investment firm authorisation**; **data standards for financial instrument reference data**; **transparency requirements for shares and other instruments and transaction execution obligations**; **transparency requirements for bonds, structured finance products and other non-equity instruments**; standards on the **information for registration of third-country firms**; and **organisational requirements for trading venues**.

The European Commission **published** a **delegated regulation on PRIIPs in relation to product intervention**, setting out the criteria and factors to be considered by supervisors and EIOPA before intervening. EIOPA said that it considered the list of factors contained in the regulation, such as the complexity of the instrument under consideration, to be “exhaustive”.

The European Supervisory Authorities (ESAs) **published** a joint letter to the European Parliament and European Council on their plan to issue **Q&As on PRIIPs**, intended to clarify how to apply certain technical provisions and the different steps to be followed, in plain language.

The European Commission **published** a delegated Regulation on the **Market Abuse Regulation (MAR)** in relation to identifying high-risk third countries. Country risk is one of the factors to be considered when applying the broader risk-based approach to identifying and preventing money laundering and terrorist financing.

The European Securities and Markets Authority (ESMA) **issued** final guidelines clarifying the **implementation of MAR** in relation to market soundings and delayed disclosure of inside information. The guidelines set out the factors to consider when market sounding information is disclosed, the steps to take if inside information is disclosed, and the records to be maintained to demonstrate MAR compliance.

ESMA **issued** its final technical standards regarding **sanctions and measures to implement MAR**, which prescribe how national supervisory authorities should notify ESMA of investigations they conduct, as well as any sanctions and measures they impose under MAR. The annual submissions should provide ESMA with an aggregation of information regarding all sanctions and measures imposed, and simultaneously report those that are disclosed to the public.

ESMA **approved** a 90 day **short selling ban on shares in Banca Monte dei Paschi di Siena spa (BMPS)** proposed by the Italian exchange supervisor, CONSOB, under the Short Selling Regulation. ESMA said the current circumstances surrounding BMPS amounted to “adverse events or developments which constitute a serious threat to market confidence in Italy”.

ESMA **published** a second call for evidence on **asset segregation and custody services** under the Alternative Investment Fund Managers Directive (AIFMD) and the Directive on Undertakings for Collective Investments in Transferable Securities (UCITS), after respondents to its previous consultation objected to several of its proposed options. ESMA broadened the scope of its work to include asset segregation under UCITS and any residual uncertainty on how the depositary delegation rules should apply to central securities depositories.

ESMA published **advice** on the potential **application of the AIFMD passport** to 12 non-EU jurisdictions – the first wave of non-EU countries to be assessed. According to ESMA, there were no significant obstacles impeding the application of the AIFMD passport to Canada, Guernsey, Japan, Jersey and Switzerland. Some obstacles remained for the US, Hong Kong, Singapore, Australia, Bermuda, Cayman Islands and the Isle of Man.

ESMA **fined** Fitch Ratings Limited €1.38mn for a series of breaches of the **Credit Rating Agency (CRA) Regulation**. ESMA found three breaches including a failure to allow the rated entity 12 hours to consider and respond to a downgrade of its sovereign rating in 2012.

ESMA **consulted** on Guidelines which set out its expectations for the **validation and review of CRAs' methodologies**. The consultation focused on the changes that have been made in response to feedback received from the December 2015 discussion paper; although ESMA said that the initial proposals "have not been substantially altered".

ESMA **issued** a warning on the **sale of speculative products to retail investors**, after a number of national supervisors observed an increase in aggressive marketing of these products, in parallel with a rise in complaints. ESMA said some firms were failing to comply with their regulatory obligations under MiFID, and that some unauthorised and unregulated entities were also offering such products. ESMA said it would continue to monitor the situation, and would consider the need for further work in the medium term.

The European Commission **consulted** on a potential framework for **personal pensions** across the EU, following **advice** from EIOPA on the development of an EU Single Market for personal pension products (PPP). The Commission said that pension products in general and personal pensions in particular were "key players" in capital markets, and that development of the EU's personal pensions market was part of its work on Capital Markets Union.

EIOPA **consulted** on the implementation of the **Insurance Distribution Directive**. Its proposals covered product oversight and governance, conflicts of interest, inducements and suitability assessments.

EIOPA announced the **launch** of an EU-wide **thematic review** on market conduct covering insurance companies operating in unit-linked life insurance. The review was intended to identify potential sources of consumer detriment stemming from relationships between insurers and providers of asset management services.

The Committee on Payments and Market Infrastructure (CPMI) **published** a report with five recommendations to ease **correspondent banking** costs and concerns. They included the use of legal entity identifier (LEI), know-your-customer (KYC) utilities and information sharing in line with KYC and data privacy provisions.

The European Commission **published** a proposal to amend the **European Venture Capital Funds (EuVECA) Regulation and the European Social Entrepreneurship Funds (EuSEF) Regulation**. Among other things, the proposal would allow larger managers of venture capital funds and social entrepreneurship funds to register under the EuVECA and EuSEF regimes and to benefit from the passport to market to retail investors.

The FSB **published** a progress report on the reform of major **interest rate benchmarks**. The report found progress had been made by the three major benchmarks of EURIBOR, LIBOR and TIBOR. However, reform of the IBORs was not complete, and the FSB urged benchmark administrators to focus on the transition towards new reference rates, and to decide how to anchor rates in transactions and objective market data.

The FCA **fined Towergate** and former director **Timothy Philip** for **client and insurer money failings**. The FCA found that Towergate, an insurance intermediary, accumulated a shortfall of £12.6mn in its client and insurer money bank accounts which, owing to systems and controls weaknesses, went undetected for a number of years.

**Crisis management (including special resolution, systemically important firms, and business continuity)**

The PRA **proposed** in its **final ring-fencing consultation** that ring-fenced banks should meet almost all regulatory reporting requirements at the sub-group level, while groups continue to report at the consolidated level.

It also proposed a number of specific ring-fencing reporting requirements. The PRA also **finalised** its policy statement on prudential requirements, intragroup arrangements and use of financial market infrastructures (FMIs) for ring-fenced banks.

HM Treasury **consulted** on **technical amendments to ring-fencing secondary legislation**. The proposed amendments would not materially alter the framework, although some notable changes were put forward relating to the process for identifying large corporates eligible to bank outside the ring-fence, and a new exemption was proposed to enable financing of infrastructure projects by ring-fenced banks.

The FPC **published** its **UK Financial Stability Report**. In response to Brexit, it decided to set the countercyclical capital buffer at 0%, but expected banks not to increase dividends and other distributions as a result. The reduction of each bank's PRA buffer would continue and details of the adjustments were set out in a **letter** to banks. Insurance firms were also given more flexibility with respect to Solvency II transitional measures.

The Bank of England **published** the results of the **2016 H1 Systemic Risk Survey**. It found that the probability of a high-impact event in the UK financial system over the short term had risen considerably and confidence in the stability of the system had fallen since the second half of 2015. The possibility of an economic downturn and UK political risk were the most cited risks. The perceived risk of a cyber attack also increased to a new high for the third consecutive Survey.

The PRA **finalised** its rules for ensuring **operational continuity in resolution**, with one significant change relative to earlier drafts, whereby the ongoing financial resilience requirements were replaced by an intention for the resolution authority to set loss-absorbency requirements. The expectation that service providers be supported by liquidity resources remained unchanged.

The PRA also **consulted** on **reporting requirements relating to operational continuity**. It proposed that information on operational costs, intra-group charging of services, and data on holdings of liquid assets should be reported.

The EBA **published** its analysis on **governance arrangements and indicators for recovery plans**, concluding that plans should be clearer about escalation procedures and decision making processes, and should be more consistent with existing processes and frameworks.

The majority of plans needed to enhance the coverage of group-wide material entities in the development and implementation of the plan.

The EBA **consulted** on its recommendation to change the reference point for the target level of national **resolution financing arrangements** from "covered deposits" to a measure based on "total liabilities".

The **Single Resolution Board** (SRB) published a **report** documenting the keynote speeches and panel contributions from its **inaugural conference** held in Brussels earlier this year. Elke Koenig, chair of the SRB, described the alignment of MREL and TLAC as one of the SRB's "big tasks" for the coming year.

The ECB **published** a report on its crisis **communication exercise for financial market infrastructures**. It found a number of areas for improvement which will be addressed in a dedicated action plan, particularly concerning the role of oversight functions, contingency arrangements, and the frameworks for, and timeliness of, communications.

The ECB's Sabine Lautenschläger, Member of the Executive Board and Vice-Chair of the Supervisory Board, **spoke** on **business model analysis**, explaining why and how the Single Supervisory Mechanism (SSM) conducted business model analysis, and providing an overview of the profitability of Significant Institutions.

Mark Carney, the chair of the FSB, **wrote** to **G20 Finance Ministers and Central Bank Governors**. The FSB will continue to concentrate on structural vulnerabilities of asset management activities and work towards greater resilience for CCPs, as well as work towards full and consistent implementation of other outstanding post-crisis reforms. Innovation in financial technology was also on the FSB's radar.

### Regulatory perimeter

The FCA **published** a statement on the **authorisation process for consumer credit firms**. The FCA said it received nearly 37,000 applications, of which 99.6% had been closed within the statutory deadline. Following feedback on its authorisation process, it decided to introduce a number of changes, including acknowledgement of application received within two working days, and a substantive response within 10 working days.

The FCA published **feedback** on its **call for input on "RegTech"** – technology designed to facilitate the delivery of regulatory requirements.

The feedback explored the potential role the FCA could play, and the forms of RegTech that could be adopted, as well as barriers to adoption. The FCA emphasised that innovation and technology remained a priority theme for 2016/2017. The FCA's Chris Woolard also **spoke** on RegTech at an event in London.

The FCA **called for input** into the post-implementation review of its **crowdfunding rules**. Providers and investors in peer-to-peer lending were invited to provide input on areas such as prudential requirements, disclosures to customers, the assessment of investor knowledge, and rules for investment-based crowdfunding.

The Financial Markets Law Committee **published** a report on legal uncertainties arising in the context of **virtual currencies**, especially around property rights, the definition of "money" and regulatory challenges related to the uncertainties.

The Payments Systems Regulator's (PSR) **final report** into the **ownership and competitiveness of the infrastructure that supports the UK's payment systems** reiterated that there was "currently no effective competition". It proposed several potential remedies, most notably that shareholder banks should divest their interest in the infrastructure provider VocaLink.

The PSR's Payment Strategy Forum **consulted** on its draft strategy in which it proposed measures to **improve access to payment systems**, including through the use of open access APIs, and the adoption of the international messaging standard ISO20022. The consultation also introduced the first building blocks for the single payment delivery mechanism and recommended a number of measures to encourage industry collaboration to improve security and reduce financial crime.

The EBA **published** final draft technical standards under the **Interchange Fee Regulation (IFR)** intended to ensure the independence of the accounting, organisation, and decision-making of payment card schemes and processing entities. They included requirements for the use of shared services and information, as well as a code of conduct.

The European Commission sent a **letter** to the ESAs informing them that it intended to endorse the **technical standards on margin requirements for non-cleared OTC derivatives**, subject to some important amendments.

The first wave of the initial margin requirements will apply from one month after the date of entry into force of the standards, with subsequent waves phased in up to 2020. The first wave of the variation margin requirements will also apply from one month after the date of entry into force of the standards, with the rules applying to other counterparties from the latest of March 2017 or one month following entry into force. The Commission also **corrected** an initial error in the standards.

ESMA **proposed** a delay to **central clearing requirements for small financial counterparties** with limited volumes of derivative activity under EMIR. ESMA proposed extending the deadline for compliance with the clearing obligation for Category 3 counterparties by two years.

The European Systemic Risk Board (ESRB) **published** its first **EU Shadow Banking Monitor**. It provided an overview of market developments and identified issues that could contribute to systemic risks, such as excessive leverage in hedge funds and interconnectedness with the traditional banking sector. The report also applied an "entity-based" and "activity-based" mapping of shadow banking. The ESRB also **published** an accompanying methodological paper.

### Rethinking the domestic and international architecture for regulation

The TSC endorsed the appointment of **Sam Woods** as the Bank of England's Deputy Governor for Prudential Regulation and **Chief Executive of the PRA**, and the appointment of **Andrew Bailey** as **Chief Executive of the FCA**, both of whom took up their new posts. The endorsements followed appointment hearings during which the TSC questioned both on a wide range of issues, such as outlook for the UK economy and the operations of the regulators.

Following Andrew Bailey's appointment, the FCA **published** the **key responsibilities of its new Chief Executive**. He also **spoke** at the FCA's Annual Public Meeting on the regulator's recent work and future challenges, from the competition agenda through to the Senior Managers Regime and more. He said that pensions and retirement income presented "the biggest single challenge in the provision of financial services" in the UK in the face of an ageing population. He said the FCA would look to publish more details on its "mission" in early autumn.



The TSC **published** summaries of the latest **FCA internal audit report**. Among its findings were that “good progress” had been made by the FCA’s Supervision Division but “significant improvements” were required to ensure Pillar 1 supervision was effective with respect to the largest firms. It found that supervisors of large, complex firms did not have sufficient access to specialist wholesale support to supervise wholesale activities.

The Bank of England **consulted** on the **establishment of an Enforcement Decision-Making Committee (EDMC)**, following a 2014 recommendation by HM Treasury. The EDMC would be based on the model of the FCA’s Regulatory Decisions Committee. It would cover the PRA as well as the Bank of England’s FMI and Resolution Directorates.

The FCA **commented** on the new **FinTech “bridge” created** with South Korea, intended to facilitate FinTech investment and market access in both countries and to encourage regulatory cooperation.

The Bank of England, the PRA, the FCA and the PSR **reviewed** their **memorandum of understanding** and found that their **cooperation in relation to UK payment systems** was working well. They included minor changes reflecting the expansion of the PSR’s remit.

The EBA **published** the second annual report on the **convergence of supervisory practices in the EU**. Supervisors had progressed significantly in implementing the SREP and building a common understanding, but important divergences remained, in particular with regard to how additional, firm-specific capital requirements were set, with knock-on implications for the application of automatic restrictions on distributable amounts.

The EBA **published** final Guidelines on **communication between supervisors and statutory auditors**, setting out a principles-based framework covering effective communication, the scope of information to be shared, forms of communication, as well as frequency and timing of communication. The EBA amended the start date of the Guidelines from end of 2016 to 31 March 2017, to align it with the start date of the audit cycle.

The ESRB **published** a strategy paper on **macroprudential policy beyond banking**, covering the development of lender- and borrower-based policy instruments, perceived gaps in current EU legislation, and the institutional setting in which the ESRB is the macroprudential policy hub.

### Disclosure, valuation and accounting

The PRA **consulted** on changes to the **reporting requirements for credit unions**. It proposed that regulatory returns should be submitted electronically, and that legacy returns should be replaced by returns that were “significantly less complex and easier to prepare”.

The PRA **updated** its Supervisory Statement on reporting and public disclosure in relation to the **supervisory options provided by Solvency II**, covering issues such as reporting currencies, reporting of external credit ratings, and exchange rates. The PRA also **updated** the **template reference numbers** in its Supervisory Statement on Solvency II reporting and exemptions in order to align them with a European Commission implementing regulation.

The FCA **consulted** on changes to disclosure requirements to reflect the direct application of the **PRIPs Regulation** from 31 December 2016. The FCA said it aimed to ensure no duplication or conflict with the requirement under PRIPs to produce a Key Information Document.

The EBA **consulted** on draft Guidelines on **credit risk management practices and accounting for expected credit losses**, which will replace accrued loss accounting under International Financial Reporting Standards (IFRS). The Guidelines clarified issues including provisioning, the application of the proportionality principle, and reporting.

ESMA **issued** a Public Statement on the **implementation of IFRS 15**, which establishes a new framework for determining and recognising revenue. It clarified that issuers of securities admitted to trading on regulated markets should be transparent and provide more entity-specific information about the impact of IFRS 15 in their financial statements.

### Information security and data privacy

The FCA **published** final guidance for firms interested in **outsourcing to the cloud** and other third party IT services. The guidance set out the areas firms should consider during their preparations for the use, evaluation and ongoing monitoring of third parties in delivering IT services essential to the effective function of their business operations.

Elizabeth Denham **began** her tenure as **the UK’s new Information Commissioner**. Ms Denham, who was previously the Commissioner at the Office of the Information and Privacy Commissioner for British Columbia, Canada, is expected to serve a five year term in charge of the UK’s independent data protection authority.

The **EU-US Privacy Shield** agreement was **adopted** by the European Commission. The agreement is intended to set out the protections for personal data transfers between the EU and the US. However, the influential Article 29 Working Party also published a **statement** on its adoption, noting a number of concerns about the agreement, such as a “lack of concrete assurances” that “mass and indiscriminate” collection of personal data by public authorities was not taking place.

The European Commission **launched** a public-private partnership action plan to address **cyber security**. A series of initiatives have set out to better equip the EU against cyber-attacks and strengthen the cybersecurity sector’s competitiveness, and the Commission said an expected €1.8bn will be invested in its action plan by 2020 to tackle cyber-threats.

#### Financial crime

The FCA **published** a Policy Statement on its new **financial crime reporting requirements**, including the creation of a new regulatory return intended to support the FCA’s work to combat money laundering.

HM Treasury **published** the outcomes of the plenary meeting of the **Financial Action Task Force (FATF)**. Key issues discussed included work on terrorist financing, which is the FATF’s top priority. The meeting also dealt with public documents which identify jurisdictions that may pose risk to the international finance system.

#### Other

The FCA **published** its **Annual Report 2015/16** and its first **Competition Report**, covering 2013-16. The Competition Report summarised FCA activities to promote competition in consumers’ interests, including that the FCA had launched eight market studies and had sought to open markets to innovation, although it said that more work was needed.

The CMA **published** its **annual report**, including an **impact assessment**, which reviewed the work undertaken during the past year, particularly in relation to its market reviews into retail banking and the energy market. The report found that having the CMA as a single competition authority worked more efficiently than previous arrangements.

The PSR **published** its 2015/2016 **annual report and accounts**. It said that milestone achievements of the past year included the set-up of the Payments Strategy Forum and the Payments Community, interim reports on indirect access and competition in payment system infrastructure, and guidance on the first-phase implementation of the IFR in the UK.

The FCA **re-appointed** Sue Lewis as **Chair of the Financial Services Consumer Panel** for a further two and a half years. In a statement the Consumer Panel Chair pledged her support to Andrew Bailey and his team “to make financial services markets work well for individual and small business consumers”.

The ESRB **published** its **2015 Annual Report**, covering the analysis of risks arising from the insurance and real estate sectors, the transition to a low-carbon economy, and persistent low interest rates. The ESRB also contributed to the stress tests launched by the ESAs and to the ongoing work on CCPs, and continued to evaluate the implementation of its recommendations.

The SRB **published** its **first Annual Report**. It covered resolution-related activities, including the preparation of the draft resolution planning and crisis management manuals and the establishment of the Single Resolution Fund, as well as the set up of the SRB’s institutional and operational capabilities. It said the “main achievements” of the SRB had been the creation of a template for transitional resolution plans, and the initial drafting of those plans.

The FSB **published** its third **Annual Report**, providing an update on its activities, decisions and publications in 2015. The report also set out the FSB’s governance structure and provided the audited financial statements for the year.

## Contacts

### David Strachan

Partner, EMEA Centre for Regulatory Strategy  
+44 (0)20 7303 4791

### Rod Hardcastle

Director, EMEA Centre for Regulatory Strategy  
+44 (0)20 7007 1640

### John Andrews

Manager, EMEA Centre for Regulatory Strategy  
+44 (0)20 7007 5183

### Alexandra Boehme

Associate, EMEA Centre for Regulatory Strategy  
+44 (0)20 7303 7960

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Fax: +44 (0) 20 7583 1198.

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