



Risk and Regulation Monthly

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**REGULATORY
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EMEA

March saw several important regulatory discussions and updates. Issues related to levelling the playing field between banks using the Standardised and Internal Rating Based (IRB) approaches were highlighted in the Bank of England's (BoE) work, while both the BoE and the European Central Bank (ECB) unveiled details of their upcoming stress tests. The Asset Management sector was again at the centre of the Financial Conduct Authority's (FCA's) attention, as it reviewed their dealing commission expenditure and best execution.

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

Brexit

UK Prime Minister Theresa May formally [notified](#) the European Council's President of the UK's intention to **withdraw from the European Union (EU)**. The Prime Minister's letter to Donald Tusk set out the UK Government's approach to negotiating the terms of both the exit from the EU and the future partnership with the EU, recognising "a challenge to reach such a comprehensive [future trade] agreement within the two-year period set out for withdrawal discussions" in the Treaty on European Union. The Prime Minister also gave a [statement](#) in the House of Commons stressing that the UK will seek a "new deep and special partnership" with the EU, a message reiterated in the Article 50 notification letter.

The European Council [published](#) draft guidelines setting out the framework and core principles for the **Brexit negotiations** under Article 50 of the Treaty on European Union. The Council will seek a phased approach to negotiations, under which it will seek to prioritise an orderly withdrawal of the UK from the EU over other negotiations agreeing the terms of the future relationship.

The UK Government [set](#) out various positions in a white paper on the **Great Repeal Bill**. The Bill will convert EU legislation into UK law, whenever practical, and will not make any changes beyond those which are deemed "necessary to ensure the law continues to function properly" after Brexit. The Great Repeal Bill will be introduced at the start of the next Parliamentary session (in May or June) and will come into effect on the day the UK leaves the EU.

Sabine Lautenschläger, Member of the ECB's Executive Board, [spoke](#) about **access to the EU market** for UK banks following Brexit. She said that banks seeking a licence in the euro area were expected to meet the ECB's standards and warned that the ECB would not issue banking licences to "empty shell companies". She noted that "time is of the essence" given the ECB expects many applications for licences. She also [said](#) there will be a transitional period during which new euro area entities might use internal models that have not yet been approved by the ECB, provided the models were already approved by the PRA and the entities concerned had applied for internal model approval in the Euro area.

Capital (including macro-economic issues and stress testing)

The BoE's Financial Policy Committee (FPC) assessed the **outlook for UK financial stability** and judged that the overall level of risk to UK financial stability was broadly unchanged, but the relative weight of the various risks had shifted somewhat. In particular, it expressed concern about the rapid growth of consumer credit.

HMT published letters sent by the Chancellor of the Exchequer to the [PRA](#), [FCA](#) and [FPC](#) containing recommendations on the **Spring Budget 2017**. The underlying theme highlighted in the recommendations is the need to maintain and enhance the financial stability of the UK. The letters note that the government is keen to see more competition in all sectors, especially retail banking, and promotion of growth through proportionate regulation and helping business to access finance.

The Prudential Regulation Authority (PRA) [consulted](#) on changes to the **Internal Ratings Based (IRB) approach**. Its objective is to clarify expectations for firms applying for IRB model approval, including how smaller and challenger banks can demonstrate they met regulatory requirements for 'prior experience' of using IRB approaches, and on the use of external data to supplement internal data for estimating Probability of Default and Loss Given Default for residential mortgages. Martin Stewart, Director of Banks, Building Societies and Credit Unions at the PRA, [spoke](#) about reducing the differences between capital regimes for firms using the standardised (SA) and IRB approaches. He said that the PRA's analysis does not bear out the widely held view that the playing field is "uniformly sloping in favour of the major banks using IRB models".

The BoE published the [scenarios](#) and [guidance](#) for its **2017 stress test**, covering seven major UK banks. For the first time, the BoE will apply two main stress scenarios at the same time – the annual cyclical scenario (ACS) assessing the short-term resilience of the banking sector to cyclical risks, and the biennial exploratory scenario (BES) probing the long-term resilience of participating firms to structural stresses, including an increase in competitive pressures and lower interest rates. Under the new BES, firms will be expected to meet their capital requirements and, simultaneously, demonstrate business model viability.

The PRA [wrote](#) to firms providing guidance on **stress test model development and management**.

Amongst other things, the guidance clarified that banks need to establish a stress test model definition and maintain a comprehensive set of information on models. Banks are also asked to implement effective governance frameworks, and to document the underlying assumptions used in stress test models. All data inputs are required to be assessed for quality and relevance and all model components need to be subject to independent validation.

The ECB [announced](#) that its **2017 stress test** will take the form of a sensitivity analysis focused on the effects of interest rate changes using the BCBS standard for interest rate risk in the banking book (IRRBB) as part of the Supervisory Review and Evaluation Process (SREP). The exercise will also take into account how firms' models of customer behaviour affect their interest risk measurement. Alongside the announcement, the ECB [published](#) FAQs specifying the methodology and approach.

The Treasury Committee (TSC) [published](#) the additional evidence submitted by the PRA's CEO Sam Woods for the **EU Insurance Regulation inquiry**. The letter sets out the PRA's view on 23 areas for Solvency II reform recommended by the ABI, and the costs and benefits of current reporting requirements. The PRA is receptive to some of the proposals, including on streamlining the internal model change process, but also disagrees with a number of recommendations, including on the risk margin.

The European Commission submitted its annual [report](#) on **market developments potentially requiring the use of Article 459** of the CRR, which allows imposing stricter prudential requirements for a period of one year. The report assesses risks for the European economy identified by the ESRB, including the re-pricing of risk premia in global financial markets, amplified by low market liquidity, further weakening of banks' and insurers' balance sheets, deterioration of debt sustainability in sovereign, corporate and household sectors, and shocks and contagion from the shadow banking sectors. The EC concluded that it does not see any circumstances that would warrant the use of Article 459 CRR at this stage.

The EBA [consulted](#) on draft RTS specifying the nature, severity and duration of an economic downturn that firms are required to use to estimate the **loss given default (LGD) and conversion factor (CF)**. The methodological approach proposed for identifying the economic downturn conditions reflects an economic factor approach, where the downturn is driven by macroeconomic and credit factors selected according to an analysis of their dependency with specific features of realised LGDs and CFs defined as model components. The RTS does not cover the methods used by institutions to reflect these downturn conditions into downturn LGD and CF estimates.

The EBA [reported](#) on its benchmarking exercise for **market risk** which examined variability of RWAs across banks and considered the key drivers behind it. Despite data quality issues, the EBA found a wide dispersion for all risk measures, but particularly for the initial market valuation (IMV), as a result of different practices by firms, and for more complex risk measures such as the incremental risk charge (IRC). The EBA also [ran](#) its assessment of **high-default portfolios**. It found that more than 80% of the observed difference in RWAs across institutions could be explained by the proportion of defaulted exposures in the portfolio, the country of the counterparty and the portfolio mix. The analysis also showed that, in general, estimated values for PDs and LGDs were above observed values for defaults and losses. However, some banks showed systematically higher observed values, which the EBA noted will require closer analysis.

The EBA [published](#) an opinion on transitional arrangements and credit risk adjustments to mitigate the **effect of IFRS 9 on CET1 capital ratios**. This was a response to the EC's proposal to phase-in the impairment requirements of IFRS 9 using a 'dynamic' approach whereby firms would be allowed to add back to CET1 the amount of expected credit loss (ECL) in stages 1 and 2 for each year. The EBA said that no neutralisation of the initial impact of IFRS 9 should be allowed during the phase-in period. Instead, it supported a 'static' approach for amortising the one-off impact of IFRS 9 over four years.

The ECB [published](#) final guidance on **non-performing loans (NPLs)**, setting out expectations for strategy, governance and operations, and identifying best practices. Banks with high NPL levels are required to implement "realistic and ambitious strategies". The ECB expects that banks should set quantitative targets for NPL reduction, and outlined a number of policy options such as NPL work-out, servicing, and portfolio sales. The guidance details short and long-term options for forbearance solutions, measuring impairment and write-offs in line with IFRS9, and sets out disclosure requirements for the valuation of certain NPL collateral. Banks with elevated levels of NPLs will receive supervisory letters with further details and qualitative elements.

Liquidity

No items to report this month.

Governance and risk management (including remuneration)

The IAIS [consulted](#) on **group corporate governance**. The paper seeks to provide good supervisory practices and examples to address challenges for the governance of insurance groups, particularly around setting objectives and strategies, allocation of oversight and management responsibilities, policies and processes, risk management and compliance, and control functions.

The BCBS [consulted](#) on a revised proposal for guidelines for the **identification and management of "step-in risk"** when a bank might support entities beyond its contractual obligations in order to protect itself from any adverse reputational risk stemming from its connection to the entities. The materialisation of step-in risk could also affect a bank's capital and liquidity positions. The guidelines define the step-in risk that is potentially embedded in banks' relationships with unconsolidated entities and propose criteria for identification of step-in risk that reflect the risk characteristics of the entities. The Committee recognises the necessity of a tailored rather than a standardised approach so the framework entails no automatic capital or liquidity charge, and leverages existing prudential tools by informing or supplementing them.

Conduct of Business (including MiFID)

The FCA [consulted](#) on reforming the availability of information in the UK **equity IPO process**. The proposed rules require an issuer to publish an approved prospectus or a registration document and allows unconnected analysts to have access to the issuer's management before the release of any connected research. In addition, the FCA provided draft guidance on analysts' interactions with the issuer's management and their corporate finance advisers around the time an underwriting or placing mandate and subsequent syndicate positioning is being considered. Speaking about the IPO reform, Christopher Woolard, Executive Director of Strategy and Competition at the FCA, [said](#) that proposed policies will "benefit both issuers in their fund-raising efforts and investors who, crucially, will be better protected".

The FCA [published](#) a policy statement setting out final rules and guidance on **payment protection insurance complaints (PPI)**. It set a deadline of 29 August 2019 for consumers to make their PPI complaints and announced a communications campaign to inform consumers of this deadline (to be launched after 29 August 2017). New rules and guidance on the handling of PPI complaints were also published taking account of the decision in the *Plevin* court case.

The FCA [reported](#) on its review of **dealing commission expenditure** across 17 investment managers between 2012 and 2015. It found that the majority of firms were still falling short of expectations on assessing whether a research good or service received was substantive, attributing a price or cost to substantive research if they received it in return for dealing commission, and recording their assessments to demonstrate they were not spending more of their customers' money than necessary. The review focused on paying for research, research budgets, research polls and voting systems, controls and record keeping and conflicts of interest, and concludes that more work needs to be done by investment management firms to "ensure they spend their customers' money with as much care and attention as if it were their own".

The FCA also [reviewed](#) how investment managers deliver **best execution** for their clients. It found that the pace of change in improving client outcomes in best execution was slow, with few firms having a cohesive strategy for improving client outcomes. Best execution monitoring in fixed income was less sophisticated than in equity trading. The FCA expects all firms to be aware of enhancements to best execution monitoring as they became available. It will continue to focus on these areas given its findings and the upcoming implementation of MiFID II and will revisit best execution later in 2017 to see what steps investment managers take.

The FCA [consulted](#) on changes to the Decision Procedure and Penalties Manual and the **Enforcement Guide** to reflect its new powers under the Bank Recovery and Resolution Order 2016; and to the Market Conduct Sourcebook, in order to comply with ESMA's guidelines on information regarding the definition of inside information under the **Market Abuse Regulation**.

HM Treasury [consulted](#) on the transposition of the **Insurance Distribution Directive (IDD)** into the Financial Services and Markets Act 2000, including on which insurance products sold as part of a package (or as an 'add-on') should be included in scope of the rules, on whether firms providing information in relation to insurance products only should be regulated, and on how firms operating across borders should be supervised. The FCA also [consulted](#) on the implementation of the IDD, particularly the application of the Directive, professional and organisational requirements (such as a minimum requirement for 15 hours continuing professional development for staff), complaints handling and out-of-court redress changes to the conduct of business rules (for non-investment insurance contracts), and the regulatory regime for ancillary insurance intermediaries.

The FCA [published](#) a policy statement and final rules on the **Lifetime ISA (LISA)**. In the light of feedback received on the related consultation on promotion and distribution of LISA, the FCA made specific amendments to risk warnings for investors.

Mary Starks, Director of Competition at the FCA, [spoke](#) about the **FCA's competition remit** and consumer decision-making in the context of 'uncertain times'. She noted that the FCA's competition remit was "not always well understood", and observed that the upcoming release of the FCA's Mission document should help to explain its objectives and priorities. Citing the interim findings of the FCA's asset management market study, she maintained that competition was "not working particularly well" in this market in the UK.

The FCA [consulted](#) on updates to the **pensions redress** methodology for consumers who were given unsuitable advice to transfer out of a defined benefit (DB) pension scheme. The proposed changes will apply to future redress payments only and cover areas including inflation and discount rates.

Andrew Bailey, Chief Executive of the FCA, [spoke](#) about **culture in financial institutions**. He suggested that incentives drive the behaviour of staff, along with other practices such as recruitment and performance management, and that it was "where tone from the top gets turned into real practice". He noted that the FCA will form judgements on whether these areas are driving positive behaviours and creating a culture that works in the long-term interests of the firm's customers and market integrity, as well as the firm itself.

Mark Carney, Governor of the Bank of England, [spoke](#) at a panel of the Banking Standards Board **on law, ethics and culture in banking**. He noted the Bank had pursued a series of measures to convert "ethical drift into ethical lift" in banking and detailed the UK action plan to improve conduct. He observed that the action plan begins with "stronger deterrents" and that in the UK steps have been taken to strengthen laws and regulation but gaps remain, most notably in the FX market. Furthermore, he observed that a move from "excessive reliance on punitive, *ex post* fines of firms to greater emphasis on more compelling *ex ante* incentives for individuals, and ultimately a more solid grounding in improved firm culture" is needed.

The European Commission [presented](#) an action plan on **consumer financial services**. The proposals seek to address transparency and fees in cross-border transactions, enabling consumers to change financial services providers or products more easily, improving the consistency of consumer credit worthiness assessments across Member States, and supporting the development of FinTech for cross-border consumer financial services.

The European Commission [published](#) a revised Delegated Regulation (as well as an [annex](#)) under the **Packaged Retail and Insurance-based Investment Products Regulation** (PRIIPs). It includes changes to provisions on the treatment of multi-option PRIIPs, performance scenarios, comprehension alert, and presentation of administrative costs in relation to biometric components of insurance-based investment products.

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

The EBA [published](#) a comparative report on **recovery options**. Overall, recovery plans in the sample were considered to provide a good overview of recovery options and clear improvements were seen across the board, although some challenges still remain. The EBA concluded that the majority of banks need to improve analysis of the feasibility of recovery options under different scenarios, and their links to governance arrangements, as well as the coverage of material entities.

The EBA [consulted](#) on its recommendation on the **coverage of entities in banking group recovery plans**, setting out common criteria that banks should use to identify subsidiaries and branches that need to be covered in group recovery plans. The EBA proposes to categorise entities based on their relevance, requiring different levels of information to be provided.

The EBA [added](#) more than 20 banks to the list of **other systemically important institutions** (O-SIIs), many of which are from Bulgaria and Poland. Five Irish banks were added to the list, including Citibank Holdings Ireland Ltd and UniCredit Bank Ireland plc. Firms designated as O-SIIs may be subject to capital buffer add-ons.

The ESRB [updated](#) its **Risk Dashboard** and highlighted that credit has grown across the majority of EU countries whilst banks' lending standards remain broadly stable. Banks' profits remain low, while their capital ratios and non-performing loan (NPL) portfolios have improved. The ESRB also noted that banks' issuance of long-term debt slowed down early this year.

The BCBS [began](#) a major review of its **assessment methodology for global systemically important banks** (G-SIBs). It proposes a set of changes throughout the entire framework including the removal of the cap on the substitutability category, expanding the scope to cover insurance subsidiaries, amending the definition of cross-jurisdictional indicators, and adding a new indicator for trading volume. For some of the changes the BCBS carried out quantitative impact assessments to obtain a "clear understanding" of how they could be reflected in the framework. It also called for input from interested parties on further proposals.

Regulatory perimeter

The PSR [published](#) a second report on **access and governance of payment systems**. It found good progress and improvements in the choice of access options available to payment service providers, given that a number of challenger banks had obtained direct access to interbank payment systems, so direct participation in payments was "set to increase considerably throughout 2017". The PSR also expects the entry of three new firms providing indirect access to payment systems this year, and found that the time and cost of joining had significantly reduced. The PSR expects operators to finish the development of aggregate access models by the end of 2017, and to be prepared to progress applications by non-bank payment service providers.

The PSR [announced](#) that American Express and the payment service providers participating in its scheme will be subject to the **interchange fee caps** on UK domestic transactions from 1 April this year until 31 March 2018, as they no longer qualify to be exempted.

The PSR [published](#) its **annual plan and budget**, setting out its key projects for 2017/18. It plans to finish its work on market reviews on infrastructure and indirect access, the "Which?" super-complaint on authorised 'push' payment scams, and the Payments Strategy Forum, but also to undertake "exploratory work" on consumer protection and education, the use of data in payments with a particular focus on data privacy and security, and the impact of innovation on competitive dynamics in the market. Speaking at the launch of the annual plan, Hannah Nixon, PSR Managing Director, [noted](#) that despite progress, there remain concerns about the quality of indirect access, limited choice for some payment service providers and barriers to switching.

The European Commission [reported](#) on addressing national barriers to capital flows as part of the **Capital Markets Union (CMU)**. In relation to barriers to the cross-border distribution of investment funds, it proposes actions to tackle differences in national rules and supervisory approaches on the marketing of funds, administrative arrangements for funds, and regulatory fees for cross-border marketing.

Steven Majjoo, ESMA's Chair, [gave](#) a statement to ECON on the Commission's **legislative proposal for a CCP recovery and resolution framework** noting that it "could benefit from a more detailed technical outline" regarding resolution planning. He also invited the Parliament to consider whether the proposed resolution tools are consistent with the EMIR framework and acknowledged the importance of creating a strong governance process involving colleges of supervisory and resolution authorities.

ESMA updated its [list](#) of recognised **central counterparties (CCPs)** based in third countries, as it added six new CCPs from the United States, Japan, Brazil, India and the United Arab Emirates.

ESMA [published](#) its final guidelines on CSDs' access to CCPs or trading venues' transaction feeds under the **Central Securities Depository Regulation (CSDR)**. The guidelines specify the conditions under which access could be refused, especially as this type of access between infrastructures is not covered under Markets in Financial Instruments Regulation (MiFIR). They also outline the legal, financial and operational risks to be taken into account by a CCP or a trading venue when carrying out a comprehensive risk assessment following a CSD's request for access to their trading feeds.

ESMA also [released](#) its guidelines on CSD participant default rules and procedures. The guidelines include recommendations on how a CSD should define its default rules and procedures and recognise a participant's default, which type of actions a CSD may take in case of default, how the CSD should communicate the implementation of such rules and procedures, and how a CSD should test and periodically review its default rules and procedures.

ESMA [published](#) its draft regulatory and implementing technical standards (RTS/ITS) under the **EU Benchmarks Regulation**. The rules include details on governance and control requirements for supervised contributors and the oversight function for administrators.

ESMA [published](#) its draft RTS on the scope of the **consolidated tape for non-equities** under MiFID II.

The RTS specified the possibility for consolidated tape providers (CTPs) to specialise in one or some asset classes and the approved publication arrangements (APAs) and trading venues that have to be included in the CT based on a coverage ratio of 80% of all transactions published in an asset class in the EU that the CTP has to meet. Given the higher complexity for establishing and operating a non-equity tape, and given that the provisions on non-equity tapes in MiFID II will only apply from September 2019, ESMA decided to deliver the draft RTS relating to non-equity tapes at a later stage.

Olivier Guersent, Director General for Financial Stability, Financial Services and Capital Markets Union, at the European Commission, [spoke](#) about key challenges related to 'digital consumers' and work that the EC had done on promoting **technological innovation**, including in the area of on-line payments, robo-advice and crowdfunding. On key workstreams for the EC's FinTech Task Force, he observed that these were focused on ensuring that the regulatory framework was "fit for purpose", considering new supervisory approaches (e.g. sandboxes) and exploring developments around Distributed Ledger Technology (DLT) and cybersecurity.

Sabine Lautenschläger, Vice-Chair of the ECB Supervisory Board, [highlighted](#) the growing number of **FinTech firms** applying for banking licenses and the increase in peer-to-peer lending and crowdfunding. She outlined different scenarios of how FinTech could affect the banking sector, from the more 'benign' outcome of 'teaming up' with banks, to possibly 'breaking up the value chain' of banking. She noted that, regardless of the scenario, supervisors are concerned about new or increasing FinTech-related risks which are becoming more apparent, and described actions undertaken at the **ECB** in response, for example, an assessment of the risks to banks' business models, and the intention to establish a euro area-wide hub for FinTechs.

The European Commission [adopted](#) a Delegated Regulation **amending the deadline for compliance with clearing obligations** for certain counterparties dealing with OTC derivatives. It extends the deadline to 21 June 2019 for small financial counterparties dealing with OTC interest rate derivatives (denominated in EUR, GBP, JPY, USD, NOK, PLN and SEK) and OTC index credit default swaps.

The EC Commission [called](#) for input on benefits and challenges of **technological innovations** such as data analytics, Artificial Intelligence (AI), crowdfunding, cloud solutions, RegTech and DLT, and related regulatory and supervisory framework. The Commission will use the feedback to gauge how FinTech can make the EU Single Market for financial services more competitive, inclusive and efficient, and develop its policy approach accordingly.

The IAIS [reported](#) on **FinTech developments** in the insurance industry. It discussed the main forms of InsurTech innovation e.g. Big Data, Internet of Things (IoT), DLT, Artificial Intelligence (AI), their drivers and implications for the insurance sector. The IAIS concluded that InsurTech will have a significant impact on insurers' business models and supervisors will have to develop and apply insurance regulation in a way that ensures policyholder protection without stifling innovation.

The FSB [consulted](#) on proposed **governance arrangements for a global Unique Transaction Identifier (UTI)** designed to facilitate effective aggregation of transaction reports on OTC derivatives markets. It identified key criteria for assessment of UTI governance arrangements. The FSB also discussed possible governance options for different areas of UTI governance.

Rethinking the domestic and international architecture for regulation

The European Commission [consulted](#) on the **operation of the European Supervisory Authorities (ESAs)**. It discussed the possibility of (i) moving to a "twin peaks" model with a prudential authority and a market conduct/consumer protection authority; (ii) moving to an industry-funded model, away from the existing Member State-based approach; (iii) EIOPA gaining powers to approve and monitor internal models for cross-border insurers; and (iv) more direct supervisory powers for ESMA in certain areas of capital markets.

Sam Woods, the PRA's CEO, [spoke](#) about the PRA's role in maintaining a "**resilient insurance sector** which does not pass risk back to policyholders". On policyholder protection, he noted that the PRA does not "attempt to cover all policyholders equally" but focuses on protecting the most vulnerable, in particular annuitants and those suffering ill health.

The BoE's Independent Evaluation Office (IEO) [reported](#) on the **PRA's approach to its insurance objective**. It found "clear evidence of supervisors advancing policyholder protection" and "no evidence of supervisors stepping beyond their responsibilities". It recommended that the PRA could strengthen its approach through a more clearly defined interpretation of its policyholder protection responsibilities. The PRA welcomed the IEO's findings and agreed to take their recommendations forward.

EIOPA [published](#) its 2016 Market Development Report focusing on **occupational pensions** and the cross-border activities of Institutions for Occupational Retirement Provisions (IORPs). It concluded that despite a small increase in cross-border IORPs (from 76 to 79 active cross-border IORPs), further progress is needed in promoting cross-border schemes.

Gabriel Bernardino, Chairman of EIOPA, [spoke](#) about EIOPA's initiatives to "empower" the **pension sector**. EIOPA sees a "clear need to modernise the European regulation of pension funds". Bernardino also discussed EIOPA's work on private pensions and the pan-European Personal Pension Product, and announced that the upcoming IORP stress test will be launched in mid-May 2017.

Sabine Lautenschläger, Vice Chair of the ECB Supervisory Board, [commented](#) on the EU Commission's **CRD5/CRR2 proposal**, expressing a concern that some proposals could limit supervisors' ability to react to regulatory arbitrage, and a further that deviations by the EU from international standards could potentially increase regulatory risks.

ESMA [reported on trends, risks and vulnerabilities in the EU financial markets](#). It identifies political and policy uncertainty – such as potential repercussions from the upcoming elections in some EU Member States – as the main risk drivers for 2017. It also found improved liquidity in European sovereign bond markets, and noted that the very high volatility in foreign exchange markets that existed around the UK referendum decreased in the second half of 2016. Investment fund liquidity remains a concern, with bond funds registering outflows after the US election.

The ECB [reported](#) on **supervisory activities** in 2016 and priorities for the SSM in 2017. The latter includes business models and profitability drivers, credit risk focus on non-performing loans and concentrations and risk management, as well as new areas of focus such as Brexit preparations and competition from non-banks.

EIOPA [published](#) its 2016 year-end report on the functioning of **colleges of supervisors** and priorities for 2017. It found that interactions between college supervisors had increased, but more can be done to achieve a fully integrated approach to the supervision of cross-border groups in the EEA. In 2017, colleges will be expected to perform an in-depth review of the efficiency and quality of information exchange and risk assessment approaches, and to focus on ensuring consistent and reliable valuation methods in the Solvency II balance sheet.

The EBA [published](#) an annual assessment of the **functioning of supervisory colleges**. It concluded that the quality and depth of the engagements in supervisory colleges improved in 2016, although some topics (such as NPLs and business model sustainability) received more attention than others (e.g. SREP implementation). In many colleges, the mandatory risk-by-risk decomposition of the capital requirement was not shared and discussed, which is not in line with guidelines, but also means that the joint decisions missed the clear link between the outcome of the risk assessment and the reasoning for setting additional capital requirements. Key topics outlined for supervisory attention in 2017 include NPLs and balance sheet cleaning, business model sustainability, and operational risk (conduct and IT).

G20 Finance Ministers and Central Bank Governors [published](#) a communique reiterating support for the ongoing implementation of the **G20's financial regulatory reform agenda**, including the BCBS's outstanding work, and welcoming the FSB's work in a range of areas, including on OTC derivatives and misconduct risk. The FSB was called upon to prepare a "stock-take report" by October on information and communication technology risks. The FSB also [published](#) a letter from Mark Carney urging G20 Finance Ministers and Central Bank Governors to resist financial "reform fatigue" and to consider how to "reinforce" international cooperation.

The FSB [reviewed](#) progress on a variety of **post-crisis reforms**, and discussed its work to develop a framework for evaluating the post-implementation effects of reforms. The FSB committed to the delivery of a number of reports and policy proposals ahead of the G20 Leader' Summit in July, including implementation reviews of shadow banking and OTC derivatives reforms, and consultation papers on financial technology and the role of remuneration in addressing misconduct risks.

Disclosure, valuation and accounting

The EBA [published](#) final guidelines on the disclosure of the **Liquidity Coverage Ratio (LCR)**, providing a harmonised table for the disclosure of key information, primarily on liquidity risk management, and harmonised templates for the disclosure of the LCR composition and levels. The EBA also provided a methodology for omitting non-material, proprietary or confidential disclosures.

EBA [published](#) its final draft RTS on the disclosure of **encumbered and unencumbered assets**. The RTS provides disclosure templates and a box for narrative information to be filled in by institutions in respect of the importance of encumbrance in their funding model.

EBA [issued](#) an opinion on improving the decision-making framework for adopting **supervisory reporting requirements**. It proposes to replace ITS requiring the Commission's approval with decisions adopted directly by the EBA. It also suggests several mechanisms to maintain accountability, including through consultation and cost-benefit analysis, a streamlined scrutiny right for the Commission and a regular report on the compliance burden.

Benoît Cœuré, Member of the Executive Board of the ECB, [spoke](#) about the importance of **setting standards for granular data** to feed into the assessment of monetary policy, systemic risks, and supervisory priorities. Significant progress has been made in the establishment of the legal entity identifier (LEI) with 470,000 LEIs being issued by the end-2016. Regarding transparency in the derivatives markets, rules for trade reporting are in place in most jurisdictions and, worldwide, more than 90% of trades were reported to trade repositories.

The BCBS [enhanced](#) the **Pillar 3 disclosure framework**. It includes consolidation of all existing Basel Committee disclosure requirements into the Pillar 3 framework, introduction of a 'dashboard' of banks' key prudential metrics, and updates to reflect ongoing reforms to the regulatory framework, such as total loss-absorbing capacity (TLAC) and the revised market risk framework published by the Committee in January 2016.

The BCBS [released](#) details of the **interim regulatory treatment of accounting provisions and standards for transitional arrangements** in response to the forthcoming international accounting standards on expected credit loss (ECL) provisioning. The Committee encourages the application of ECL approaches in a manner that will achieve earlier recognition of credit losses than incurred loss models, while recognising that their implementation is likely to have implications for regulatory capital.

The BCBS [issued](#) the fourth report on progress in adopting the principles for **effective risk data aggregation and risk reporting**. To promote further adoption of the principles, the Basel Committee recommends that banks should develop clear roadmaps to achieve full compliance with the principles and to comply with them on an ongoing basis. Supervisors are advised to communicate the assessment results to their banks and provide the necessary incentives to achieve full compliance, and continue to refine their techniques to assess banks' compliance with the principles.

Information security and data privacy

The TSC published correspondence between Philip Hammond, Chancellor of the Exchequer, and Andrew Tyrie, TSC Chairman, on **cyber security** in the UK financial services sector. The Chancellor [noted](#) that action on the cyber resilience was "well-coordinated" between the PRA, FCA and wider government, in particular through a Director-level group chaired by HMT that oversees work on cyber security between the financial authorities, Cabinet Office, the National Cyber Security Strategy, and the National Crime Agency. In response, Tyrie [stressed](#) his view that lines of accountability in this framework are "opaque" and asked for further clarifications.

John Griffith Jones, Chairman of the FCA, [wrote](#) to Andrew Tyrie, TSC Chairman, on the **issue of contactless payment fraud**. He outlined key controls, operated by payment schemes, individual card issuers and the industry, aimed at limiting fraud losses or the impact on customers. These include limits on the value of each contactless transaction and the number of consecutive transactions, as well as checks against the Industry Hot Card File, which contains information on over 7.2m UK cards reported lost, stolen or compromised.

Steve Wood, Head of International Strategy & Intelligence for the Information Commissioner's Office (ICO), [spoke](#) about enforcing the requirements of the forthcoming **General Data Protection Regulation** (GDPR). He noted that the ICO would take a 'common-sense, pragmatic approach to regulatory principles' but that there will be no 'grace period' for complying with the GDPR when it comes in to force from 25 May 2018.

The EU Parliament's Civil Liberties, Justice and Home Affairs Committee (LIBE) [adopted](#) a resolution criticising the **EU-US trans-border data** transfer framework 'Privacy Shield'. It highlighted a number of the framework's perceived deficiencies. The resolution came shortly before Věra Jourová, Commissioner for Justice, Consumers and Gender Equality [announced](#) that the first annual joint review of the Privacy Shield will be held in September 2017.

Financial Crime

HMT [published](#) an advisory notice on **money laundering (AML) and terrorist financing (ATF) controls** in overseas jurisdictions. It identifies a number of jurisdictions as high risk for the purposes of the Money Laundering Regulations 2007 and advises firms to apply enhanced due diligence measures to address AML/ATF risks. HMT also [consulted](#) on draft Money Laundering Regulations 2017 transposing the Fourth Money Laundering Directive into the UK law and [published](#) its response to the consultation on the anti-money laundering supervisory regime. The Government intends to clarify the obligations on all supervisors through the new regulations, to improve the effectiveness and consistency of the supervisory regime.

The European Parliament [reported](#) on the fifth Money Laundering Directive (MLD 5). It set out amendments to the Commission's proposal, with a particular emphasis on tackling the "increasing convergence" between organised crime networks and terrorist financing.

Other

The PRA [published](#) a policy statement and final rules on the Financial Services Compensation Scheme (FSCS) **Management Expenses Levy Limit** (MELL) 2017/18. Following the feedback received, the PRA did not alter its proposal and set the MELL at £74.5 million for 2017/2018.

The PRA [consulted](#) on **regulated fees and levies rates** proposals for 2017/18. The proposals include the fee rates to meet the PRA's 2017/18 annual funding requirement, amendments to the definition of the general insurer fee block concerning insurance special purpose vehicles, ring-fencing implementation fee rules, amendments, rules and supervisory guidance concerning regulatory transaction fees and rules and supervisory guidance concerning special project fees and introducing an IFRS 9 implementation fee.

PSR [decided](#) to continue allocating its funding requirement equally across regulated pan-UK payment systems in the coming year, with **fees** for individual payers based on their relative transaction volumes, and set out proposals for the calculation methodology. The PSR announced that it will return last year's expected underspend of £4.2m to fee payers through this year's fees collection process.

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