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Risk and Regulation Monthly
November 2016

November's highlights included publication of proposed revisions to the Capital Requirements Directive (CRD IV) and Regulation (CRR) (the CRD V / CRR II package) and the results of the UK 2016 bank stress test. The European Banking Authority (EBA) commented on implementation of the new Standardised Approach for Counterparty Credit Risk (SA-CCR) and the fundamental review of the trading book (FRTB), suggesting these would have significant impact on capital requirements. The EBA also outlined options for the design and calibration of new prudential rules for investment firms. As expected, the European Commission proposed extending the compliance deadline for the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs) till 2018. Other important updates included the UK High Court ruling on Brexit, a political agreement on the EU Money Market Funds (MMFs) Regulation and the European Commission's report on the review of the European Market Infrastructure Regulation (EMIR).

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

Brexit

The High Court ruled that the UK government does not have the power to **trigger Article 50** of the Lisbon Treaty and give notice of a decision to leave the EU without parliamentary approval. The government responded by appealing the decision to the Supreme Court. The Supreme Court hearing started on 5 December.

Capital (including stress testing)

The European Commission published legislative proposals on CRD V and CRR II. These intend to provide for more risk sensitive measures of **calculating capital requirements** in areas such as market risk and counterparty credit risk, and to legislate for the Net Stable Funding Ratio (NSFR) and a binding leverage ratio requirement. The revised rules also aim to be more proportionate and reduce the burden associated with disclosure, reporting and remuneration requirements. The package also proposes a requirement for an Intermediate Parent Undertaking (IPU) for non-EU banks that have more than EUR30 billion in assets across the EU. For more details, please read our blog.

The EBA responded to the European Commission's calls for advice on the EU implementation of the **new SA-CCR** and the **revised market risk framework** (FRTB) proposed by the Basel Committee on Banking Supervision (BCBS).

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The report showed that, if implemented without modifications, the SA-CCR and the FRTB could have a significant impact on capital requirements. For firms required to transition to the revised SA for market risk, the EBA estimated that the impact could amount to a 145% increase in capital requirements on a weighted average basis compared to the current SA.

The Bank of England (BoE) published the results of its **2016 bank stress test**. While it noted that the UK banking system was in aggregate sufficiently capitalised to withstand a severe stress, the impact of the stress scenario varied substantially across seven participating banks. RBS, Barclays and Standard Chartered did not meet some of the requirements, based on their balance sheets at end-2015. There were no capital inadequacies found at the other four banks. None of the banks was required to submit revised capital plans because of steps they had already taken to improve capital positions.

The BoE's Financial Policy Committee (FPC) published its **Financial Stability Report**. For its work plan for 2017 in the banking sector, the FPC included a review of its overall strategy for policy making in relation to mortgage markets, completing an in-depth assessment of financial stability risks arising from derivative transactions, and developing proposals to integrate Cyber Threat intelligence Operations (CBEST) into the supervisory process.

The Prudential Regulation Authority (PRA) consulted on **group supervision under Solvency II**, setting out proposed updates to its 2015 supervisory statement. The paper covered the PRA's expectations on the availability of group own funds, including for firms to provide evidence of the absence of legal and regulatory restrictions on the transferability of own funds and to demonstrate that group own funds could be made available to the group within nine months.

The PRA published a policy statement following its consultation on the **consolidation of Directors' letters in relation to Solvency II**. Alongside the policy statement, the PRA updated supervisory statements setting out its expectations for internal models as related to assessment, model change and the role of non-executive directors; longevity risk transfers; the own risk and solvency assessment (ORSA); counterparty credit risk in reinsurance; recognition of deferred tax; transitional measures on risk-free interest rates and technical provisions; and the treatment of pension scheme risk.

Danièle Nouy, Chair of the Supervisory Board of the European Central Bank (ECB), wrote to two Members of the European Parliament (MEPs) regarding the decision not to **disclose the results of the ECB internal stress tests**, conducted in parallel to the EBA EU-wide stress tests. She said no disclosure was foreseen as the results of the ECB internal stress tests were used exclusively as an input into the Supervisory Review and Evaluation Process (SREP). Disclosure could have risked a misinterpretation of the results, as the granularity of information requested varied across firms, she argued. Ms. Nouy also sent letters to a number of MEPs who enquired why the results of the **EBA stress test for Deutsche Bank** included the sale of its stake in the Chinese legal entity Hua Xia, which was agreed but not completed at the end of 2015.

The ECB published a consolidated version of the guide on exercising **options and discretions** provided in CRD IV and CRR. The guide aims to enhance coherence, effectiveness and transparency of the supervisory policies in the Single Supervisory Mechanism (SSM) and sets out the general aspects to be taken into account when determining the prudential requirements for significant credit institutions.

The EBA published final guidelines on information on the **internal capital and liquidity adequacy assessment processes** (ICAAP and ILAAP respectively) that should be collected by competent authorities for SREP purposes. The guidelines aim to enhance consistency in the supervisory assessment of the ICAAP and ILAAP frameworks and do not set any new requirements or criteria for such assessment.

The EBA published final draft regulatory technical standards (RTS) on the **assessment methodology for validating market risk models**, setting out how competent authorities should assess the significance of positions in the scope of the model and the compliance of firms with requirements for the Internal Model Approach (IMA). The RTS establishes two different methodologies for general and specific risk categories, both of them based on the standardised rules for market risk.

The EBA consulted on draft guidelines on the **estimation of risk parameters** for both defaulted and non-defaulted exposures as a part of a review of the Internal Ratings-Based (IRB) approach for credit risk. The guidelines provide clarifications on the estimation of probability of default (PD), loss given default (LGD), expected loss best estimate (ELBE) and LGD in-default parameters.

The EBA published the list of **public sector entities** that can be treated as regional governments, local authorities or central governments for the calculation of capital requirements for credit risk under the Standardised Approach.

The EBA published a discussion paper setting out options for a new **prudential regime for investment firms** that are not deemed systemic and bank-like. The EBA proposed setting fixed overheads requirements and initial capital acting as de minimis requirements for all firms and for capital calculation to take into account proportionality and different business models. Capital requirements should be calculated based on capital factors attributed to each of two broad types of risks that investment firms pose: risk to customers, and risk to markets and liquidity. The EBA also considered other parts of the prudential regime for investment firms, including the application of liquidity requirements. For more details, please read our blog.

Roberto Gualtieri, Chair of the European Parliament's Committee on Economic and Monetary Affairs (ECON), wrote to Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA), about the review of the methodology to calculate the **ultimate forward rate (UFR) under Solvency II**. The letter commented on the timing of the review proposed by EIOPA, suggested that an impact assessment of the proposed review should “reflect the full market” and raised questions about the phasing-in of the implementation and appropriateness of annual changes in the UFR.

Liquidity

The EBA consulted on updates to the implementing technical standards (ITS) on **additional monitoring metrics for liquidity**. It proposed to re-introduce a maturity ladder in line with the reporting requirements laid down for the the Liquidity Coverage Ratio (LCR). The revised maturity ladder would require less detail on assets apart from high quality liquid assets and credit steps.

Governance and risk management (including remuneration)

The EBA reported on the **proportionate application of remuneration requirements** following the EBA's opinion on the principle of proportionality to the remuneration provisions in CRD IV from December 2015. The report provided an overview on the applicable framework by Member State and estimated that in total around 75%-90% of all EU credit institutions, representing 3%-15% of the aggregated total balance sheet of all credit institutions, and 35%-60% of their identified staff, would benefit from waivers. This is in addition to staff that could benefit from waivers based on low levels of remuneration.

The ECB consulted on its **draft guide to fit and proper assessments** setting out the principles and criteria that will be used to assess board members for banks under the direct supervision of the ECB. The guide sets out principles, scope and criteria of the ECB's assessment, and provides an overview of the assessment process and decisions that could be adopted following the assessment.

The ECB issued a draft guidance on how banks should **assess and manage leveraged transactions**. It offered a definition of leveraged transactions that banks were expected to implement and recommended that they clearly define their risk appetite, strategy, policy framework, and internal management information relating to leveraged transactions.

Conduct of Business (including MiFID)

The FCA reported on interim findings of its **asset management market study**. It found evidence of high profitability relative to market benchmarks and weak price competition, especially in actively managed retail investment funds. It proposed remedies that are primarily intended to improve the transparency of fund charges and fund performance, reform governance standards for UK authorised funds, and increase scrutiny of the unregulated investment consultancy market. The FCA also proposed to carry out further research on how asset management services and products are distributed to retail investors. For more details, please read our blog.

The FCA and HM Treasury published responses to the UK Competition and Markets Authority's (CMA's) final report on **competition in retail banking**. In response to the recommendations made by the CMA, the FCA outlined a series of actions, including increasing transparency around the use of overdrafts and improving the customer experience by publicising service quality information. HM Treasury also laid out a package of work, including giving authority powers for regulatory oversight of the current account switching service to the Payment Systems Regulator (PSR), and working with credit reference agencies and small and medium enterprise (SME) lenders, particularly around the availability of data.

The CMA consulted on its draft **Retail Banking Market Investigation Order 2017**, which aims to remedy, mitigate and prevent the adverse effects on competition identified in its previous investigation. Separately, it published a draft explanatory note setting out guidance on complying with the order.

The FCA published a statement on its review of RBS's **treatment of SME customers** in financial difficulty who were referred to RBS' Global Restructuring Group between 2008 and 2013. The FCA found that there were “areas in which inappropriate treatment of SME customers by RBS was widespread”, and “some elements of this inappropriate treatment of customers should also be considered systematic”.

The FCA called for input on **high-cost credit and overdrafts** to inform its current work in this area, including a review of the payday loan price cap.

The FCA consulted on its approach to regulating the **promotion and distribution of the Lifetime Individual Savings Account** (LISA). It proposes regulating the LISA in the same way as other ISA products, with some additional protections for investors, including provision of information on how a LISA works and risk warnings about the early withdrawal charge, initial disclosure documents in relation to the underlying investments, a 30-day cancellation period or a 14-day pre-contract right to withdraw without charge, and confirming LISA products should be covered by the Client Assets (CASS) regime.

The FCA consulted on implementing **information prompts in the annuity market** aimed at helping consumers understand the benefits of shopping around and, if appropriate, switching providers. It proposed requiring firms to include certain information as part of pre-sale disclosure when they communicate an annuity quote to a consumer, including the difference between the provider's own quote and the highest guaranteed quote available to the consumer on the open market.

The European Commission proposed to extend the application date of the **Packaged Retail and Insurance-based Investment Products Regulation** (PRIIPs Regulation) by one year, to 1 January 2018. The European Supervisory Authorities (ESAs) received a letter from the European Commission setting out proposed amendments to the Delegated Regulation on key information documents (KIDs) for PRIIPs. The letter was accompanied by proposed changes to the text of the Delegated Regulation. For more details, please read our blog.

The European Securities and Markets Authority (ESMA) consulted on draft RTS on the **treatment of package orders under the Markets in Financial Instruments Directive and Regulation** (MiFID II and MiFIR). It proposed a methodology for determining package orders for which there was a liquid market in the EU, and which could not be waived from pre-trade transparency requirements.

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

The BoE finalised its policy approach towards implementing on the **minimum requirement for own funds and eligible liabilities** (MREL), keeping it largely in line with the proposals published for consultation a year ago. However, the deadline for meeting end-point MREL requirements for banks was extended until 2022. Some issues, including internal total loss-absorbing capacity (internal TLAC), remain unsettled. The PRA published a policy statement reflecting on responses to its consultation on buffers and threshold conditions for MREL. It concluded that no major changes were needed to its initial proposals. The PRA also published a supervisory statement setting out its expectations on the relationship between MREL and both capital and leverage ratio buffers, as well as the implications of a breach of MREL for the consideration of whether a firm continues to satisfy the threshold conditions.

The PRA proposed to reset the value of **deposits protected under the Financial Services Compensation Scheme** at £85,000 to ensure compliance with the EU Deposit Guarantee Schemes Directive to cover an equivalent of €100,000.

The European Commission proposed **amendments to the Bank Recovery and Resolution Directive** (BRRD) aimed at integrating the TLAC requirement into the EU rules. The proposal introduced limited adjustments to the MREL rules to align them with the TLAC standard, including changes in relation to the denominators used for measuring loss-absorbing capacity, the interaction with capital buffer requirements, disclosure of risks to investors and their application in relation to different resolution strategies. The Commission also issued a proposal on introducing the ranking of unsecured debt instruments in insolvency hierarchy. In addition, it set out targeted amendments to the **Single Resolution Mechanism Regulation** concerning the institutional framework of resolution authorities in the Banking Union.

The Financial Stability Board (FSB) updated the lists of **global systemically important banks and insurers** (G-SIBs and G-SIIs, respectively). While the same 30 banks and nine insurers remained on the lists, four banks moved into a higher bucket and will face higher capital buffers from 2018, whereas three banks moved into a lower bucket. The BCBS published an update on the information used in this year's assessment process, including the G-SIB assessment sample, the denominators used to calculate the scores, and bucketing information.

The FSB released its **workplan for 2017**. Before the end of 2016, it will consult on TLAC and publish its final recommendations to address structural vulnerabilities relating to asset managers. In early 2017, the FSB will consult on guidance for central counterparty (CCP) resolution planning. The agenda for next year also includes work on addressing misconduct risk; shadow banking; and FinTech.

Regulatory perimeter

David Bailey, Director of Financial Markets Infrastructure Supervision at the BoE, spoke about **default management by CCPs** at the Market Risk Advisory Committee of the US Commodity Futures Trading Commission (CFTC). Talking about how CCPs tested their default management procedures via default management 'fire drills', he mentioned that the 2016 fire drill exercise identified under-developed operational systems in relation to the capacity of clearing members to process auction files from two CCPs. Demand for trading resource was likely to increase as more CCPs were expected to compete and clear similar products, he argued.

Edwin Schooling Latter, Head of Markets Policy at the FCA, spoke about **conduct risk in FX markets**. He said that firms needed to improve conduct following the FX remediation programme, while those who did not participate must implement their own remediation programmes. He noted that the FX Global Code is an opportunity to set higher minimum standards in areas where conduct risk persisted, including around the practices of the 'last look', mark-up and time-stamping.

The FCA published feedback on its call for input on its approach to the current **payment services regime**. The FCA announced it would consult on its approach towards the revised regulatory framework for payment services in 2017 and publish final guidance before January 2018.

The Payments Strategy Forum published its final strategy outlining proposals in relation to the **UK payments architecture**. The strategy proposed a number of solutions aimed at promoting competition and better products for customers. Hannah Nixon, Managing Director of the PSR, spoke at the Forum about implementation of the strategy. The PSR published Board minutes from 14 September 2016.

The PSR consulted on its draft **Financial Penalty Scheme**, proposing to use the money it retains from penalty payments to reduce its regulatory fees from payment service providers the following year.

The FCA published the minutes of the meeting of the **Payment Services Stakeholder Liaison Group** on 14 October 2016. Points discussed included clarifications on compliance with certain provisions under the Payment Services Directive II (PSD II).

The PRA and FCA jointly consulted on the **authorisation and supervision of insurance special purpose vehicles (ISPVs)**. Draft supervisory statements outlined the regulators' expectations in relation to the content and quality of ISPV applications, and ongoing compliance with the applicable regulatory requirements, including Senior Managers Regime implications. Separately, HM Treasury consulted on a new framework for Insurance Linked Securities. It published sets of draft regulations introducing a new corporate structure for MISPVs and a new regulated activity of insurance risk transformation, and setting out the tax treatment of ISPVs.

The FCA published the list of firms that met eligibility criteria of the **regulatory sandbox** and were accepted to develop towards testing as part of Project Innovate, including early stage start-ups, challengers and incumbent firms. Out of 69 applications, the FCA accepted 24 firms, most of which are expected to begin testing soon.

Andrew Bailey, Chief Executive at the FCA, spoke about **challenges for insurers and regulators in a Big Data world** at the Association of British Insurers (ABI) annual conference. He said that the FCA would take action if firms used Big Data to exploit certain types of consumer behaviour to the detriment of consumer welfare.

Peter Andrews, Chief Economist at the FCA, spoke about the economic challenge of **regulating the mortgage market** and outlined a number of constraints on the FCA as policy-maker and how consumer decision-making in the mortgage market was a challenge for the regulator. One of the questions for consideration was whether consumers would be "best-served by attempts to empower them or by more intrusive regulations".

The FCA published its final rules on **capping early exit charges** for consumers eligible to access the government's pension reforms from age 55. Exit charges will be banned for new personal pension contracts, a cap of 1% of the member's benefits will apply in relation to existing contracts and where existing early exit fees are set below 1%, they cannot be raised to a higher level. Providers of personal and stakeholder pensions will need to comply with the FCA's rules from 31 March 2017. The Department of Work and Pensions (DWP) set out how a cap on early exit charges will work in relation to occupational pension schemes. Providers of occupational pension schemes will need to comply with the DWP's new rules once they come into force, expected in October 2017 and subject to Parliamentary approval.

The European Parliament and the Council of the EU have reached political agreement on the proposed **Money Market Funds (MMFs) Regulation**, setting out rules for such funds on composition of portfolios, valuation of assets - including liquidity and diversification requirements - assets in which MMFs can invest, and transparency requirements.

The European Commission published a **proposal for a Regulation on Recovery and Resolution for CCPs** setting out recovery and resolution planning arrangements, including the tools and powers available to resolution authorities with respect to CCPs. The proposed Regulation grants resolution authorities extensive discretionary powers on deploying resolution tools, such as terminating contracts and imposing haircuts on outgoing variation margin payments to non-defaulting members.

The European Commission reported on **a review of EMIR** to the European Parliament and the Council of the EU. It suggested a number of reforms to ensure the proportionate and efficient application of some of the requirements, which will form part of the EMIR Review (expected to be published in 2017). According to the Commission "no fundamental change should be made to the nature of the core requirements of EMIR".

ESMA reported on the **clearing obligation** for financial counterparties with limited activity volume and suggested postponing the implementation of the clearing obligation for interest rate derivatives and CDS applicable to such counterparties (those with derivatives portfolios below EUR 8 billion) to 21 June 2019.

ESMA issued an opinion defining a **common supervisory approach** for supervisors dealing with CCPs wishing to extend their existing authorisation or change their risk models under EMIR.

The European Commission adopted a package of measures under the **Central Securities Depositories Regulation** (CSDR) including a delegated Regulation for the calculation of cash penalties for settlement fails and the operations of CSDs in host Member States; regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories; regulatory technical standards specifying the content of the reporting on internalised settlements; regulatory technical standards on prudential requirements for CSDs and designated credit institutions offering banking-type ancillary services, implementing technical standards on standard forms, templates and procedures for authorisation, review and evaluation of central securities depositories; and implementing technical standards with regard to the templates and procedures for the reporting and transmission of information on internalised settlements.

ESMA finalised its technical advice to the European Commission on the **regulation of benchmarks**. The report covered proposals in relation to measurement of the reference value of benchmarks, criteria for the identification of critical benchmarks, and endorsement of benchmarks provided in a third country.

ESMA published its guidelines on the validation and **review of Credit Rating Agencies' (CRAs) methodologies**. The guidelines outlined measures for demonstrating the discriminatory power, predictive power and historical robustness of methodologies, as well as measures that CRAs should implement when validating and reviewing methodologies with limited quantitative evidence.

The European Commission reported on a follow-up to its call for evidence on the **EU regulatory framework for financial services**. Based on received responses, the report concluded that the financial services framework was working well but a number of actions were required to reduce unnecessary regulatory constraints on financing the economy, enhance the proportionality of rules, reduce undue regulatory burdens, and make the rules more consistent and forward-looking.

Steven Maijoor, Chair of ESMA, spoke about **investor protection** in the context of the CMU, stressing that it should aim to improve retail investor participation and consumer protection. He discussed a number of achievements in this area particularly in relation to MiFID II, including strengthened corporate governance and product governance requirements, changes to rules on third parties' payments, and new disclosure requirements with respect to financial advice.

ESMA responded to the European Commission's consultation on a **potential EU personal pension framework**, considered as part of the CMU framework. ESMA was generally supportive of the initiative and provided specific feedback on a number of issues, including product characteristics of a possible EU personal pension product, disclosure of information to individuals, and distribution rules. It stressed that consistency with existing rules on PRIIPs, the Insurance Distribution Directive (IDD) and MiFID should be maintained.

The EBA consulted on draft guidelines for firms seeking **authorisation as payment and electronic money institutions** and those looking to register as account information providers under PSD II. The proposed guidelines require firms to provide detailed information on their programme of operations, a business plan, evidence of initial capital, measures for safeguarding users' funds, governance and internal controls, security procedures and suitability of management.

Andrea Enria, Chair of the EBA, informed the European Parliament's ECON committee hearing on PSD II that the final draft RTS on **strong customer authentication and common and secure communication**, alongside two other outstanding consultations on PSD II, will be delivered in February 2017.

Rethinking the domestic and international architecture for regulation

Victoria Saporta, Chair of the Executive Committee of the International Association of Insurance Supervisors (IAIS) and Executive Director of Prudential Policy at the BoE, spoke about **macro prudential policy for insurers**. She set out the IAIS agenda in developing a robust stress-based micro prudential framework that embeds macro prudential elements and tools, as well as its plans to make further improvements to the framework.

The ECB published the list of **significant supervised entities** and less significant institutions in the Single Supervisory Mechanism (SSM). The ECB will directly supervise 127 banks (compared to 129 in 2016), including Citibank Holdings Ireland Limited, which was newly identified as significant.

Danièle Nouy, Chair of the Supervisory Board of the ECB, spoke about the **"new normal" for banks and supervisors**. To remain profitable in the "new normal" of low interest rates and stronger regulation, banks needed to rethink their business models. From the supervisory perspective, the main issues were around banks' business models, governance structures and high-quality data, credit risk and reducing the amount of non-performing loans (NPLs).

Sabine Lautenschläger, Vice-Chair of the Supervisory Board of the ECB, spoke about changes in **European banking supervision** over the past two years and the ECB's current work on developing a SREP methodology for smaller banks. She also encouraged banks to rethink their business models and ensure effective risk management through sound governance structures and high-quality data.

Julie Dickson, Member of the Supervisory Board of the ECB, spoke about "dealing with diversity in the European banking sector". As part of its supervisory work, the ECB identified a number of **emerging risks**, including around bank profitability and business models, cyber risk and leveraged finance. The ECB will enhance its assessments of banks' controls in the area of IT, and will develop supervisory expectations for IT risk control for all SSM banks.

Valdis Dombrovskis, European Commission Vice-President, spoke on the Commission's approach to **regulation of the European banking sector**. He stressed that the completion of the Banking Union and integrating standards recently agreed by the BCBS remain a priority. Areas of focus for the Commission include digital transformation, introducing a minimum TLAC, a binding leverage ratio and an NSFR to tackle risks related to G-SIBs, strengthening proportionality of prudential legislation, reducing NPLs, reducing administrative burden of rules, and supporting SMEs.

Steven Maijoor, Chair of ESMA, spoke at the EU Commission's hearing on the **review of the EU macro prudential framework**. He noted the importance of extending the regulatory framework to the non-banking sector, and the experience of securities markets regulators was crucial for this. He said that relevant macro prudential policy tools need to be "fit for purpose" and not a "mechanistic transposition" of tools applied to banking.

The European Systemic Risk Board (ESRB) reported on **macro prudential policy issues** arising from low interest rates and structural changes in the EU financial system. The report suggested that the low interest rate environment could lead to financial stability risks associated with weakening resilience and sustainability of business models, broad-based risk taking, and the move towards market-based finance. The ESRB discussed a number of potential policy responses to address these risks, including increases in reserves and capital, a future review of Solvency II, resolution tools, a harmonised assessment and regulation of interest rate risk in the banking book, using margins and haircuts as macro prudential instruments, and a system-wide stress testing framework. Mario Draghi, Chair of the ESRB, spoke about the report at the European Parliament's ECON hearing.

The European Commission published a joint statement on **EU-US negotiations for a bilateral agreement on prudential insurance and reinsurance measures**. Both sides continued to discuss matters relating to group supervision, exchange of confidential information between supervisory authorities on both sides, and reinsurance supervision, including collateral.

Disclosure, valuation and accounting

The PRA published final rules, as well as templates and instructions, in relation to new **reporting requirements for forecast capital data**. Initial proposals on future reporting requirements for balance sheet and statements of profit or loss were deferred in order to harmonise them with the upcoming changes relating to the application of the International Financial Reporting Standard 9 (IFRS 9).

The PRA consulted on the **Solvency II reporting format** of national specific templates (NSTs) and reporting clarifications. It proposed changes to NSTs in respect of reporting format for the 2016 financial year end and future financial year ends, and presented a number of reporting clarifications and technical corrections.

The FCA confirmed its intention to comply with ESMA's **guidelines under the Market Abuse Regulation (MAR)** on legitimate interests to delay disclosure of inside information, situations in which the delay of disclosure is likely to mislead the public, and on persons receiving market soundings. It also consulted on changes to the Handbook to comply with ESMA's Guidelines on delay in the disclosure of inside information.

The FCA consulted on regulatory reporting of **retirement income data** aiming to protect consumers and promote effective competition. It proposed two new data items to be completed at group level by providers of pensions, annuities and income drawdown products: a six-month retirement income flow data return, and an annual retirement income stock data and withdrawals flow data return. The returns should cover data on all UK Defined Contribution (DC) personal and stakeholder pensions and DC occupational schemes where the firm is the provider of the pension scheme or the retirement income.

The PRA consulted on amendments to its rules on **loan to income (LTI) ratios in mortgage lending** proposing a move to a four-quarter rolling basis for reporting LTI flow limits. The FCA also published a consultation on the same issue.

ESMA published a statement on issues with the implementation of IFRS 9. It highlighted the need for consistent, high-quality **implementation of IFRS 9** and the need for transparency on its effect on users of financial statements.

The EBA updated draft ITS on **reporting of financial information** reflecting the new requirements introduced by IFRS 9. It made changes to a number of concepts such as gross carrying amount, non-performing and forborne exposures, and mortgage exposures, as well as reviewing parts of the financial reporting (FINREP) framework. The EBA reported on qualitative and quantitative observations of its first impact assessment of IFRS 9 and launched a second impact assessment of IFRS 9.

The EBA consulted on revised ITS on **supervisory reporting of sovereign exposures and operational risk**. It said the amendments were necessary to overcome several shortcomings of existing data on sovereign exposures. Improvements to the collection of operational risk data were also necessary to enable better analysis of operational risk events and to better understand the drivers behind those events.

The EBA consulted on draft RTS and ITS setting out the procedures and information provided as part of an initial **application for authorisation** for credit institutions. The information covers a wide range of items including identification details, historical information relating to existing licenses and any significant events, as well as information concerning compliance programmes.

Information security and data privacy

The PRA published a "Dear CEO" letter on **cyber underwriting risk**. It outlined the findings of its work on underwriting risks from both affirmative cyber insurance policies and implicit cyber exposure, and the related challenges facing the insurance industry. It warned about the materiality of implicit cyber exposure and the lack of robust methods for its quantification and management at most firms.

Accompanying the Dear CEO letter, the PRA published a consultation setting out expectations for the **prudent management of cyber underwriting risk** for all UK non-life insurance and reinsurance firms and groups within the scope of Solvency II.

The ECB published its **stocktake on IT risk supervision practices**. The report did not include policy recommendations but reflected on experiences of prudential banking supervisors in the United States, Canada, Singapore, Hong Kong and the UK, as well as chief information officers of G-SIBs with parent companies supervised by the ECB. The ECB also found that "most G-SIBs" that were dealing with IT risks that exceeded their risk appetite, and said it intended to carry out further work in this area.

Financial crime

Rob Gruppetta, Head of the Financial Crime Department at the FCA, spoke about effectiveness and proportionality in the **FCA's financial crime priorities**. He noted that the FCA's perception of firms' efforts to tackle financial crime had improved from a few years ago and acknowledged that unintended consequences could arise in relation to the anti-financial crime regime.

Andrew Bailey, Chief Executive at the FCA, spoke about **fighting financial crime**. He said that it continued to be of high priority to the FCA and outlined that the main challenges related to technological innovation, rule-making and ensuring consistent adherence with global policies by firms. The FCA's approach should be guided by "the right balance in setting rules and expectations between enabling change and having a predictable and clear framework of rules", and the use of technology "to harness the power of Big Data alongside distributed ledger technologies" in fighting financial crime, he argued.

The FCA published its guide to financial crime for **consumer credit firms**. It provided practical information for firms to reduce financial crime risk and examples of good and poor practice in the area of financial crime systems and controls, including risk assessment, policies and procedures, governance, staff awareness, data security, customer due diligence, enhanced due diligence, ongoing monitoring and suspicious activity reporting and record-keeping.

The Joint Committee of the ESAs published final guidelines on the characteristics of a risk-based approach to **anti-money laundering and terrorist financing supervision** and the steps to be taken by national authorities when conducting supervision on a risk-sensitive basis.

The BCBS consulted on revisions to the guidelines on combating **money laundering and terrorist financing in correspondent banking**. It proposed a risk-based approach for correspondent banking relationships and provided risk indicators to help banks conduct their risk assessment.

Other

The FCA consulted on policy proposals for **regulatory fees and levies** for 2017/18. It proposed a new levy on consumer credit firms to recover HM Treasury's expenses in tackling illegal money lending, fee-blocks to recover costs in implementing MiFID II, proposed to base the fees of recognised investment income exchanges and benchmarks administrators on income, and to adjust the charging structure for service companies.

The PSR consulted on **regulatory fees allocation, calculation and collection** to fund functions and activities under the Financial Services Banking Reform Act and Interchange Fee Regulation (IFR) for 2017/18.

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Designed and produced by The Creative Studio at Deloitte, London. J10740