



## Risk and Regulation Monthly

### October 2016

Last month the Financial Conduct Authority (FCA) launched a long-awaited consultation on its new “Mission Statement”, and also published the outputs of several thematic reviews. Elsewhere, senior figures from the European Central Bank (ECB) expressed concerns about the sustainability of the business models of European banks, while the European Banking Authority (EBA) consulted on the incorporation of information technology risk into the Supervisory Review and Evaluation Process (SREP). On Brexit, the most significant development came after the end of the month, with the UK High Court’s ruling that Parliament should have a role to play in relation to Article 50.

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#### Brexit

The House of Lords European Union Committee [said](#) that **Parliamentary committees should be actively involved in scrutinising negotiations** as they happen, given their complexity and potential impact on domestic policy. The report argued that “too much is at stake” for the Government to seek to limit Parliamentary scrutiny until “after the fact”. This report was issued ahead of the High Court ruling.

The Governor of the Banque de France, Francois Villeroy de Galhau, [wrote](#) in The Banker magazine on the **challenges of Brexit**, arguing that although financial markets had shown resilience in the wake of the referendum, the full consequences remained difficult to assess. He said that Europe should therefore prioritise work to reduce uncertainty, by preparing a deal in a “swift, orderly and consistent manner”. He also argued for the establishment of a “Financing and Investment Union” to facilitate the channelling of savings into productive investment.

### Capital (including stress testing)

Sam Woods, Chief Executive of the Prudential Regulation Authority (PRA), [spoke](#) at the **Mansion House**, indicating an intention to maintain continuity at the PRA following the departure of Andrew Bailey, and making a clear commitment to implement post-crisis regulatory reforms despite the uncertainty generated by Brexit. He announced new proposals to disclose bank balance sheet data, and also said that the PRA had argued at the Basel Committee on Banking Supervision (BCBS) for lower standardised risk-weights for low-loan-to-value (LTV) mortgages.

The Bank of England (BoE) [announced](#) that the **2016 stress test results** would be published on 30 November, with firms to be informed of the results on 29 November. The BoE also clarified that the seven banks participating in the 2016 stress test will be subjected to both the annual Cyclical Scenario and the new biennial Exploratory Scenario in 2017.

The FPC [published](#) the record of its September **policy meeting** at which it confirmed that the UK countercyclical capital buffer rate would be maintained at 0%, and was expected to remain at this level until at least June 2017. The financial system had “demonstrated resilience to spikes in uncertainty and risk aversion”, aided by the “substantial capital and liquidity” held by UK banks. The FPC remained committed to implementing regulatory reforms despite uncertainty regarding the UK’s future relationship with the EU.

The PRA [clarified](#) the concept of a “**durable link**” under the Capital Requirements Regulation (CRR) which is used to determine the capital treatment of an investment of below 20% in another entity. While the PRA said it used the accounting definition of “significant influence” to establish whether a durable link existed, it clarified that other factors would also be taken into account in the assessment, including the future intentions of the firm’s management and the strategic importance of the stake.

The PRA [published](#) a **supervisory statement on Solvency II** in relation to monitoring “model drift” and the reporting of standard formula Solvency Capital Requirement (SCR) information. The PRA will monitor the internal model SCR against various measures of risk, such as standard formula SCR, pre-corridor Minimum Capital Requirement, and net written premiums. Firms with an approved internal model are expected to maintain the ability to calculate their SCR using the standard formula.

HM Treasury [consulted](#) on technical changes to the **legal definition of life insurers’ distributable profits**. As a change in the PRA rulebook rendered the “long-term fund” concept inapplicable to regulated firms after the introduction of Solvency II, HM Treasury proposed a new methodology that would meet the original policy aim of ensuring that firms only made distributions out of realised profits.

The EBA [recommended](#) a number of changes to the **large exposures (LE) framework under the CRR**. It recommended alignment of the EU framework with the revised BCBS standard, including limiting the eligible capital base to Tier 1 capital, and an LE limit of 15% for exposures from Global Systemically Important Institutions (G-SIIs) to other G-SIIs.

The EBA [published](#) a set of recommendations on the **prudential requirements applicable to investment firms** which said that only investment firms that were identified as “other systemically important institutions” (O-SIIs – a category which also includes G-SIIs) should remain subject to the full scope of the capital requirements regime. However, it suggested that it was too early to consider specific changes to the prudential treatment of investment firms in general before there was more clarity on the European Commission’s forthcoming review of the capital requirements regime.

The EBA [published](#) a second report on the **monitoring of Additional Tier 1 (AT1) instruments**. The EBA said that issuances were “generally quite standardised” with only a small number of provisions within existing issuances identified as to be avoided, or where revised wordings should be used. Specifically, it said the appropriate level of consolidation for loss absorption triggers needed to be specified. The EBA separately [issued](#) final standardised terms and conditions for AT1 issuances.

The European Commission [published](#) a Delegated Regulation specifying standards for the **assessment of firms’ internal approaches used to calculate capital requirements** under the Capital Requirements Directive (CRD) IV, and the procedures for sharing these assessments between supervisory authorities. Assessments are required to be conducted at least annually and reported in accordance with the template developed by the EBA.

The BCBS published a [consultation](#) and a [discussion paper](#) on **how accounting provisions under IFRS 9 interact with Basel III**. The paper set out a number of reasons why the introduction of transitional arrangements for moving to Expected Credit Loss (ECL) accounting might be justified, and put forward

transitional options. The discussion paper proposed possible options for treatment of provisions under regulatory capital, including the option to retain the current treatment permanently.

The BCBS [finalised](#) its standard on the **capital treatment of banks' investments in other banks' total loss-absorbing capacity (TLAC) instruments** which would require banks to deduct TLAC holdings from their Tier 2 capital to limit the potential contagion effect of a bail-in. The final standard included revisions granted in view of the need to maintain a "deep and liquid secondary market for TLAC instruments".

The BCBS [published](#) its eleventh progress report on the **adoption of the Basel regulatory framework**. It found that, at the end of September 2016, all 27 member jurisdictions had risk-based capital rules, LCR regulations and capital conservation buffers in force. Some member jurisdictions reported challenges in meeting implementation deadlines for some standards, including the revised Pillar 3 framework and the standardised approach for counterparty credit risk.

William Coen, the Secretary General of the BCBS, [spoke](#) at the **Annual Membership Meeting of the Institute of International Finance**. He restated the aim of finalising post-crisis reforms by the end of the year, and said he did not expect those reforms to increase overall capital requirements, although there could be "outlier banks" that may see an increase in capital requirements. He also provided an update on each of the BCBS' open policy areas, including the potential for "refinements" to the BCBS' operational risk proposals. Elsewhere, he was also quizzed by the European Parliament's ECON committee on the **finalisation of Basel III**, in which session he took pains to emphasise that BCBS rules had no legal force, and that it was up to national legislators to determine their implementation.

### Liquidity

The European Systemic Risk Board (ESRB) [published](#) a preliminary analysis on **how the introduction of a leverage ratio would affect market liquidity**, although it said that it was difficult to assess due to the large number of factors to be considered and the challenge of quantifying costs and benefits.

The ESRB [found](#) mixed results in its analysis of **market liquidity and market making in Europe**. Although the overall demand for liquidity had heightened and liquidity in corporate bond markets had declined, market-making inventories had increased or remained unchanged in other markets, such as government bonds and covered bonds, with various indicators of liquidity providing mixed signals.

### Governance and risk management (including remuneration)

BoE Deputy Governor Minouche Shafik [spoke](#) on **reforming culture in financial services**.

While acknowledging that misconduct could never be fully eliminated, she cited UK examples such as the Fair and Effective Markets Review and the Senior Managers' Regime as efforts to combine "hard law" and "soft law" to decrease the frequency and severity of misconduct.

Andrew Tyrie MP [wrote](#) to the Institute of Chartered Secretaries and Administrators (ICSA) to ask it to make additional revisions to its **guidance on bank Board minute taking**. Tyrie commented, "ICSA's revised guidance on minute taking has been written as if the second worst banking failure in British history never happened." He said the practice of requiring a director to demand that his or her dissent be noted before inclusion in the minutes was "deeply flawed," as there should be a presumption that such important elements of board discussions were recorded.

The UK's Banking Standards Board [published](#) a report on the **role of professional bodies and professional qualifications in the UK banking sector**. The report identified five cross-sector challenges, including the need for qualifications to provide grounding in the fundamentals of the business of banking.

The EBA [published](#) revised **draft guidelines on internal governance** aimed at further harmonising institutions' arrangements in line with new requirements introduced in CRD IV. The draft guidelines capture areas such as the independence of internal functions, and the robustness of new product approval policies and processes. The EBA also emphasised the principle of "know your structure", whereby senior management should "fully know and understand" the organisation and operational structure of the firm.

The EBA and the European Securities and Markets Authority (ESMA) [issued](#) guidelines in accordance with CRD IV and MiFID II requirements aimed at **improving and harmonising suitability assessments within the EU** and ensuring sound governance arrangements. The joint Guidelines will apply to credit institutions and investment firms and should be implemented by mid-2017.

### Conduct of Business (including MiFID)

The FCA [consulted](#) on a new **Mission Statement**, intended to explain how it will approach the challenges it faces and choose between the tools it has at its disposal. Andrew Bailey attributed the context of the report to a “second crisis” caused by conduct of business, following the first precipitated by prudential issues. He promised proportionate and targeted regulation, particularly for consumer protection, where there will be more focus on vulnerable customers. He also [spoke](#) at the Mansion House, elaborating on his views of the FCA's role.

The FCA [published](#) findings from its thematic review of **packaged bank accounts** which found that although new rules had raised standards in the market, firms had more work to do on sales and complaints handling. In particular, firms did not “consistently deliver fair outcomes” for those who had complained about mis-selling, in the files reviewed by the FCA from the end of 2014.

The FCA [published](#) a final report on the findings of its **investment and corporate banking market study** and set out a package of remedies to ensure effective competition in the market. The final package included a [proposal](#) to ban contractual clauses which restrict competition, as well as proposals for further work with trade bodies and league table providers to address the incentive for banks to conduct trades purely to generate a higher place in league tables. The FCA said additional supervisory work with banks to address certain issues relating to IPOs would also follow.

The FCA [published](#) the findings of its thematic review on **non-advised annuity sales practices** and found a relatively high incidence of failures to adhere to the annuity sales processes set out in its rules. In a small number of firms, the failures were likely to have changed the customer's behaviour in a way which may have caused them losses. The FCA said a small number of firms that had “repeatedly failed” to provide customers with the required information during the relevant sales process would be asked to review all non-advised annuity sales from July 2008 and pay any relevant redress to customers – these firms were also being investigated by the FCA's Enforcement Division. Some larger firms outside the original sample will also be asked to review their sales practices.

The FCA [consulted](#) on guidance on the fair treatment of **mortgage customers in payment shortfall** and the impact of automatic inclusion of payment shortfalls in contractual monthly instalment calculations. It found that such automatic inclusion may have led, and may continue to lead, to unfair customer outcomes.

The FCA estimated that firms will have to pay out to over 750,000 customers, although the financial impact on the majority of affected customers was likely to be small.

The FCA consulted on [revised guidance on guarantor loans](#), addressing several concerns expressed by trade bodies and industry respondents. The revised proposals suggested that where a guarantee is enforced, lenders have three main options: issuing a default notice and waiting 14 days; obtaining the guarantor's express consent to payment being taken; or pre-notification to the guarantor followed by waiting a reasonable period during which the guarantor can cancel the authority (although recognising that cancellation would not eliminate the guarantor's obligations under the terms of the guarantee).

The FCA's latest [complaints data](#) indicated a continuing fall in **complaint volumes**, though PPI remained the most complained about product. Christopher Woolard, Director of Strategy and Competition, said that although more work remained to be done to reduce consumer dissatisfaction, the declining figures were encouraging.

Peter Andrews, FCA Chief Economist, [spoke](#) on how regulators might **improve conduct in banking**. He argued that good culture could involve a shared belief in the importance of delivering value for clients, an emphasis on long-term relationships with clients, and a habitual practice of acting with honesty, prudence and personal accountability. To increase the salience of penalties for misconduct, he suggested that firms could ensure that whenever a regulatory fine or penalty was published, it made its own staff working in the relevant area aware of the enforcement action.

The FCA's Christopher Woolard [spoke](#) on the role of consumer decision-making in ensuring good **market dynamics in the mortgage sector**. He highlighted the FCA's work to understand consumers, including efforts to apply behavioural economics, and said that the FCA had evidence that behavioural biases were impinging on consumers' ability to shop around. The FCA will look at whether there is “room for improvement and adjustment” in its implementation of the Mortgage Market Review through a market study being launched soon.

The FCA [fined](#) Aviva Pension Trustees UK Limited and Aviva Wrap UK Limited £8,246,800 for **failings in their oversight of outsourced service** providers in relation to the protection of client assets. It said Aviva had failed to rectify issues raised by past breaches of CASS rules, and a skilled persons review by the FCA had identified



a number of further failings. The fine marked the FCA's first case of this kind, with the regulator reiterating that firms remain fully responsible for compliance with the FCA's CASS rules under outsourced arrangements.

The PRA [published](#) a policy statement on the **implementation of MiFID II** setting out final rules for the extension of scope and harmonisation of the passporting regime for investment firms, and controls for firms which undertake algorithmic trading and provide direct electronic access to trade venues. A number of amendments were made to clarify the scope of the rules and to clarify record keeping requirements for firms engaged in high frequency algorithmic trading.

HM Treasury [published](#) its response to the Treasury Committee's review of the **reports into the failure of HBOS**. The report commented on the timeliness of the Government's response and the independence of future inquiries into bank failures in response to the Treasury Committee's recommendations, but made clear that the Government had no intention of creating a separate enforcement body outside the existing regulatory institutions.

HM Treasury [announced](#) that the government would **cancel plans to create a market for secondary annuities**. The Government concluded that there would be insufficient purchasers to create a competitive market, which may have led to consumers receiving poor value for their annuity income stream and suffering higher costs.

The UK Competition and Markets Authority (CMA) [published](#) an update to its work into **competition in retail banking**, including research findings and proposals in relation to the implementation of its remedies. It proposed a standard for presenting service quality indicators, and procedures for opening bank accounts as suggested by the British Bankers Association (BBA).

The Financial Ombudsman Service [consulted](#) on how it **publishes complaints data**. It sought feedback on changes related to the content and frequency of publications, the granularity of the data used, and a proposal to change the categorisation of endowment complaints to reflect changes to the FCA's new complaints handling rules.

The FCA [banned](#) Andrew Hart, the sole director, controller and owner of **Wage Payment and Payday Loans Limited (WPPL)**, and cancelled his firm's interim permission.

The regulator found that Mr Hart lacked integrity and the competence to ensure fair treatment of customers and compliance with regulatory obligations, and that he had advanced a false case in the High Court supported by forged documents which, to his knowledge, contained false information.

ESMA published [final guidelines](#) on **transaction reporting and record keeping** under MiFID II/MiFIR, along with [feedback](#) on its previous consultation. The guidelines provided guidance on specific legislative provisions such as the meaning of "transaction", the concepts of "order" and "member or participant of a Trading Venue", and reporting and record keeping scenarios. ESMA also published further MiFIR and MAR reporting instructions in relation to reference data collection and publication, and collection and processing of additional data to support the MiFIR transparency regime.

ESMA consulted on a series of **guidelines under MiFID II**, including on the publication and reporting of [trading halts](#), the [management body](#) of market operators and data reporting service providers, and product governance in relation to the target market assessment required to be carried out by manufacturers and distributors of financial products.

ESMA [consulted](#) on draft technical standards regarding the creation of a **consolidated tape for non-equity instruments** under MiFID II. The draft rules would allow consolidated tape providers (CTPs) to choose to specialise in only one asset class or a group of asset classes. The proposals also set out which trading venues and approved publication arrangements (APAs) should be mandatorily included in the tape, and details relating to the inclusion/removal of trading venues and APAs from the tape.

Verena Ross, ESMA's Executive Director, [spoke](#) about the **future of capital markets**. She discussed the Capital Markets Union (CMU) initiative, arguing that the CMU needed to make investor protection "one of its main guiding principles". ESMA's work on PRIIPs, MiFID II and supervisory convergence exemplified this focus. She also emphasised the need to have better data on securities markets and mentioned that ESMA is developing two major data-related IT projects under MiFID II.

ESMA [confirmed](#) its support for a renewal of the **short selling ban** on shares in **Banca Monte dei Paschi de Siena spa (BMPS)**. The ban was justified in ESMA's view to tackle the selling pressures and unusual volatility in BMPS shares, which it said could undermine the stability of the bank and the Italian banking sector.

The European Insurance and Occupational Pensions Authority (EIOPA) [published](#) a peer review of the Statement of Investment Policy Principles (SIPP) for **Institutions for Occupational Retirement Provision** (IORPs). The finding on the diversity in the content and application of the SIPP as a supervisory tool in different Member States led to the formulation of eight best practices to improve supervisory practices and convergence as well as the identification of the need for further work on the interaction between the SIPP and other supervisory tools to be introduced by the IORP II Directive.

The Financial Action Task Force (FATF) published [guidance](#) on **correspondent banking services**. The guidance was developed as part of the Financial Stability Board's (FSB) action plan to clarify regulatory expectations around customer due diligence. The guidelines emphasised that due diligence was not required on each individual customer of respondent institutions' customers and that, given that not all correspondent banking relationships carry the same level of money laundering or terrorist financing risks, any enhanced due diligence measures should be commensurate to the extent of risks identified.

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

The Chair of the Treasury Committee, Andrew Tyrie MP, [raised](#) concerns about HM Treasury's [finalised](#) technical **amendments to the ring-fencing** regime, including that large corporates are no longer required to complete a qualifying declaration before being moved outside the ring-fence, and a new exemption to allow ring-fenced banks to interact with special purpose vehicles (SPVs) in order to fund infrastructure. Through an [exchange of letters](#), HM Treasury provided an assurance that the robustness of the ring-fencing regime would not be affected by the changes.

In line with the **Deposit Guarantee Schemes Directive (DGSD)**, the PRA [broadened](#) the applicability of the available **waiver by consent** in relation to the requirement for firms to have systems which ensure depositors have continued access to insured deposits in resolution or insolvency through the transfer of relevant deposits.

The EBA [recommended](#) that the **target levels of national resolution financing arrangements** under the Bank Recovery and Resolution Directive (BRRD) should be expressed on the basis of the total liabilities of all banks in scope of the Directive within their respective national territories, rather than their covered deposits, in order to align the calculation

method for national target levels with that used to calculate firms' individual contributions.

The ECB [decided](#) to maintain, for the time being and subject to additional risk control measures, the **eligibility of unsecured bank bonds as collateral** which may otherwise have become ineligible due to new loss-absorbency requirements for banks arising from implementation of the BRRD.

The FSB [published](#) its methodology for assessing how jurisdictions comply with the **Key Attributes of Effective Resolution Regimes for Financial Institutions**. The assessment methodology will be deployed as part of the IMF's Financial Sector Assessment Programme (FSAP) visits. The criteria take into account the structure and complexity of the financial sector, its relative systemic importance and the market environment.

#### **Regulatory perimeter**

The FCA's Christopher Woolard [gave](#) a speech titled "Getting regulation right". He focused on the changing market, in particular the development of crowdfunding, noting that the FCA expected to conduct major authorisations work in the sector soon, and would publish a feedback statement on its July 2016 call for input by the end of the year.

Following feedback on its call for input, which was launched to better understand the risks and benefits associated with the growing market activity in social investments, the FCA [concluded](#) that regulation does not create barriers to **social investments**, but would ensure the development of "strong practices" and promote investor confidence.

The PRA [published](#) an occasional consultation paper setting out various **proposed changes to parts of its Rulebook** and existing and new supervisory statements. Amendments related to liquidity reporting for UK branches of third country firms, pre-issuance notification rules, internal model approvals, amendments to ring-fencing rules, and other areas.

The BoE [consulted](#) on **reforms to the SONIA benchmark**, a sterling unsecured overnight interest rate benchmark administered by the BoE. The key change to SONIA proposed was to capture a broader range of unsecured overnight deposits, by including bilaterally negotiated transactions alongside brokered transactions. The BoE asked for feedback on the calculation methodology, the definition of SONIA, transition planning, and publication policies.

In order to understand the impacts and the industry's view of developments in relation to **access to payment systems**, the Payment Systems Regulator (PSR) [launched](#) a survey for payment service providers to which they were invited to respond by 10 November.

The PSR [consolidated](#) its guidance for how it will monitor the implementation of the **Interchange Fee Regulation** (IFR) in the UK. It set out how it will enforce compliance with IFR requirements, such as in relation to the separation of payment card schemes and processing entities, co-badging, and investigating complaints.

The PSR [announced](#) the appointment of Robert Stansbury as independent chair of the **Payment System Operator Delivery Group**, tasked with overseeing the proposed consolidation of Bacs, Faster Payments Service and Cheque and Credit Clearing Company. Proposals from the group are expected by the end of March 2017.

The Financial Markets Law Committee [examined](#) whether there were any conflicts between the EU regulations and the property law of England and Wales in relation to the **default management processes implemented by CCPs and Clearing Members (CMs)** in an insolvency context. The FMLC suggested a number of revisions to UK law to address uncertainties in relation to the definition of margin, the practical steps typically taken by CMs to protect themselves from becoming unhedged on the default of a client, and the exercise of termination rights by clients.

The EBA [published](#) final Guidelines on implicit support for **securitisation transactions** under the CRR, laying down restrictions on both sponsor and originator institutions providing support to securitisations beyond their contractual obligations. The Guidelines recognised that implicit support should only apply to transactions that an institution is under no contractual obligation to enter into at all, or is not under a contractual obligation to enter into under that specific transaction.

The European Commission [adopted](#) its Delegated Regulation on **margin requirements for non-cleared derivatives**. The Regulation is expected to be published before the end of the year so that the exchange of Initial Margin (IM) and Variation Margin (VM) for the first wave firms can take place in January 2017. One of the most notable changes was the Commission's decision not to apply concentration limits to IM posted by pension funds, contrary to the

recommendations of the European Supervisory Authorities (ESAs).

The European Commission [adopted](#) a Delegated Regulation on the **minimum details of the data to be reported to trade repositories** under EMIR. The revised Regulation clarified a number of data fields and their description, adapted existing fields to the reporting logic prescribed in existing Q&A, and introduced new fields and values to reflect market practice.

ESMA [published](#) Guidelines on **Sound Remuneration under UCITS** which stated that management companies should ensure that variable remuneration was not paid through vehicles or via methods aimed at artificially evading the provisions of the UCITS Directive and the Guidelines. The Guidelines make clear that the management body of each management company has primary responsibility for ensuring that the ultimate goal of having sound and prudent remuneration policies and structures is not improperly circumvented.

ESMA [published](#) a report on **shadow banking, securities financing transactions** (SFTs), leverage and pro-cyclicality in the EU's financial markets, in cooperation with the EBA and the ESRB, although ESMA noted a difference of views on some issues compared to the ESRB's separate opinion. ESMA recommended that the FSB's qualitative standards on the methodology used to calculate haircuts in non-centrally cleared STFs should be introduced, and also said that the procyclicality of collateral haircuts used by CCPs should be addressed in the context of the EMIR review.

Steven Maijoor, chair of ESMA, [appeared](#) in front of the ECON Committee of the European Parliament concerning the **application of the Alternative Investment Fund Managers Directive (AIFMD) passport** to non-EU AIFMs and AIFs. He said ESMA's consideration of Bermuda and the Cayman Islands would continue, and assessments will begin for a third group of non-EU countries beyond the first two waves already conducted.

The Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions (CPMI-IOSCO) [consulted](#) on the **harmonisation of critical OTC derivatives data elements** (other than Unique Transaction Identifier and Unique Product Identifier). The guidance aimed to provide consistent definitions of data elements with the same characteristics, and refer to existing industry standards where these exist.

### Rethinking the domestic and international architecture for regulation

Minouche Shafik, Deputy Governor of the BoE, [spoke](#) on the **risks and benefits of open capital markets**, and how macroprudential policies could mitigate risks from abroad. She spoke about the rise in market-based finance and its benefits, but said there was a need for further work to understand how to address the risks associated with volatility, pro-cyclicality, and how to avoid “regulatory leakage” as credit was transferred to the market-based sector.

The EBA [published](#) its **2017 work programme**. It plans work on the consistency of risk-weighted assets, and was due to deliver an additional report to the European Commission on the prudential treatment of investment firms. The EBA said it was preparing for significantly more work as a result of the European Commission’s forthcoming CRD V/CRR II proposal. Risks arising from new financial technologies also featured on its agenda.

ESMA [published](#) its **2017 Work Programme** which set out its priorities and areas of focus for the forthcoming year. ESMA’s 2016-20 Strategic Orientation also described an evolution in ESMA’s work from building the single rulebook towards supervisory convergence. Key areas of focus are MiFID II implementation; considering the opportunities for conducting stress tests of investment funds; single rulebook work on the Benchmark Submission and Administration and the CMU; and direct supervision of credit rating agencies and trade repositories.

EIOPA [published](#) its “Single Programming Document” for 2017-2019 which included its **2017 Annual Work Programme**. EIOPA’s focus over 2017-2019 will be on three main strategic priorities: enhancing supervisory convergence, reinforcing preventive consumer protection, and preserving financial stability. EIOPA’s priorities for 2017 specifically included strengthening consumer protection and conduct of business supervision, monitoring and supporting the implementation of Solvency II, and maintaining and developing a common supervisory reporting and data framework.

The Joint Committee of the ESAs [published](#) its **2017 Work Programme** which indicated that the Joint Committee will prioritise consumer protection, risk assessment, anti-money laundering, and financial conglomerates. Another key focus will be on financial innovation, including monitoring the developments of automated advice and big data.

The European Commission [set out](#) its **2017 Work Plan** across a variety of sectors. In the area of financial services, key policy initiatives are the implementation of the **CMU Action Plan**, including a mid-term review on the progress of implementation and potential additional measures that could be required to improve the financing of the economy. The Commission will also prioritise a review of the **European System of Financial Supervision** to strengthen the effectiveness and efficiency of oversight at both macroprudential and microprudential levels.

The ESRB [recommended](#) the establishment of a single activation procedure for **EU macroprudential policy tools**, as well as the extension of the macroprudential policy framework beyond banking, in its response to the European Commission’s August consultation on macroprudential policy in the EU.

Valdis Dombrovskis, European Commission Vice-President, [spoke](#) at SIFMA on the **CMU and the Commission’s approach on international rulemaking**. He said that the Commission would shift its focus onto dismantling some longstanding barriers to the free flow of capital, including differing insolvency and tax regimes. On an international level, the EU “would like to see Basel measures that take account of the individual banks’ situations and maintain a risk sensitive approach to setting capital requirements”.

Ignazio Angeloni, Member of the Supervisory Board of the [ECB](#), spoke on **challenges for the Single Supervisory Mechanism (SSM)**, focusing on non-performing loans (NPLs) and changes being introduced to this year’s SREP. He noted that aggregate CET1 capital requirements would “remain broadly stable” compared to 2015. Business models had become one of the ECB’s supervisory priorities: he urged banks to “rethink their business models” and to “develop alternative sources of income and contain costs”.

Danièle Nouy, Chair of the Supervisory Board of the ECB, [spoke](#) on **the reshaping of the European banking industry**. She pointed to four “tectonic shifts” redefining the banking business: supervisory reform, regulatory reform, macroeconomic change, and technological change. She argued that banks needed to adapt to the new environment by rethinking their business models and becoming less dependent on interest income. The ECB also [published](#) slides from a separate speech on the **benefits and challenges of European banking supervision** in which Ms Nouy highlighted the harmonisation of national options and discretions, the need to address regulatory fragmentation, and work to build a community of



European banking supervisors as challenges for a common supervisory approach.

Yves Mersch, Member of the Executive Board of the ECB, [spoke](#) about the **challenges associated with low or negative interest rates for banks**. While recognising that negative rates create “side effects”, he defended the monetary policy actions of the ECB, arguing that the overall impact on bank profitability was “net positive” compared with no action at all. He said the low rate environment also caused increased competition from non-banks and introduced additional challenges for insurers and pension funds, as well as new financial stability concerns, which had to be monitored closely.

Gabriel Bernardino, Chairman of EIOPA, [spoke](#) at **EIOPA's sixth annual conference**. He addressed EIOPA's approach to supervisory convergence, the development of the Pan-European Pension product in the context of CMU and the priorities of EIOPA's consumer protection agenda, from the implementation of the Insurance Distribution Directive through to digitisation.

### Disclosure, valuation and accounting

As indicated by Sam Woods in his Mansion House speech, the PRA [announced](#) the launch of a new quarterly statistical release of **aggregate regulatory capital data**. The data will cover developments in levels of capital and risk-weighted assets since the first quarter of 2014, broken down into tiers of capital and risk exposure types. The data set will likely be expanded over time, and the first set of disclosures is due to appear on 16 December 2016.

The PRA [published](#) a supervisory statement on **reporting requirements for non-Solvency II insurance firms**. It provided guidance on completing data items relating to statements of solvency, components of capital resources, liabilities and other technical analyses for the general insurance business, long-term insurance business and marine mutuals.

The FCA [consulted](#) on rules and guidance to improve the **disclosure of transaction costs in workplace pensions**. The new standards will require investment managers to provide independent governance committees and trustees, on request, with a standardised disclosure of the transaction costs that pension investments incur. The rules are broadly similar to new rules in MiFID II and PRIIPS requiring disclosure of transaction costs for investment products other than pensions.

The FCA [removed](#) a variety of “ineffective” disclosure requirements from its Handbook. It also published a [feedback statement](#) as part of its work on “**Smarter Customer Communications**”, which included examples of how firms were using innovative forms of customer communication, such as video messaging, changes to the presentation of terms and conditions, and the use of infographics.

ESMA and the IFRS Foundation [announced](#) an updated set of protocols under which the two organisations will deepen their **cooperation on the development of IFRS Standards**, including providing support for their consistent application across the European Union and identifying implementation issues.

ESMA [published](#) its annual public statement on its **enforcement priorities in relation to listed companies' financial statements**. ESMA emphasised consistent, high quality presentation of performance, making the correct distinction between instruments where a certain level of judgment is required, and preparing for the significant changes in accounting standards, such as IFRS 9, IFRS 15 and IFRS 16, coming into force in the near future. ESMA also highlighted the need for transparency in disclosing the risks and potential impact of Brexit on issuers' financial statements.

### Information security and data privacy

Karen Bradley MP [confirmed](#) in front of a Parliamentary Committee that the **EU's General Data Protection Regulation (GDPR)** will be implemented in the UK. The GDPR, enforceable from 25 May 2018, will usher in a new era in data privacy across the European Union, with monetary penalties of up to 4% of annual global turnover for non-compliance, enhanced transparency rules, and new breach notification requirements.

The EBA [consulted](#) on **guidelines for assessments of Information and Communication Technology (ICT) risk** as part of the SREP. The EBA said it had chosen to prepare the Guidelines in view of the growing importance and complexity of ICT risk within the banking industry. The Guidelines covered the assessment of a number of different kinds of ICT risk in institutions and provided a methodology for integrating ICT risk assessments into the operational risk score of the SREP.

The G7 Cyber Expert Group [published](#) the **fundamental elements of cybersecurity for the financial sector**, which was endorsed by HM Treasury, the ECB, the European Commission and a host of central banks and other official sector bodies.

Recognising that “cyber risks are growing more dangerous and diverse”, the non-binding principles covered cybersecurity strategies and frameworks, governance, risk and control assessments, monitoring, response, recovery, information sharing and continuous learning for financial sector private and public entities.

### Financial crime

Following consultation on its action plan, the UK Government [announced](#) reforms to the **anti-money-laundering and counter-terrorist finance regime**, by enhancing Suspicious Activity Reports (SARs) and information sharing between firms, requiring individuals to explain the origin of assets that seem disproportionate to their income, and facilitating the seizure of assets and portable items.

The FCA imposed penalties on [Sonali Bank \(UK\) Limited](#) and its former [money laundering reporting officer](#) (MLRO) for serious failings in relation to **financial crime and anti-money-laundering**. The former MLRO was prohibited from performing the MLRO or compliance oversight functions in future.

The European Commission's [roadmap](#) for introducing a **Directive on the criminalisation of money laundering** presented two policy options on which it intended to launch a consultation. It could either introduce “soft law” to enhance the effectiveness and cooperation among competent authorities, or “hard law” measures in order to transpose international standards and treaties into EU law.

In a [report](#) to the G20, the FATF set out proposals for how it intended to reinforce the implementation of international standards on **transparency and beneficial ownership**. They included greater emphasis on beneficial ownership in FATF mutual evaluations, clear and consistent recommendations to assessed countries, and enhanced cooperation between the FATF and the Global Forum. The FATF also called on the G20 members to commit publicly to meeting the FATF standards.

### Other

The FCA [published](#) guidance on regulations for **small and medium sized business (SMEs) credit information and finance platforms**. The guidance defines the scope of the arrangements set out in the Small Business, Enterprise and Employment Act 2015, namely for banks to share credit information about SMEs to dedicated credit reference agencies and to share specified information about rejected SME loan applications.

HM Treasury [announced](#) that it would set up a new public body offering **debt advice, money and pensions guidance**. It said that it would replace three existing bodies: the Money Advice Service (MAS), the Pensions Advisory Service (TPAS) and Pension Wise. HM Treasury promised to consult on the best way to design a single body model.

Katharine Braddick was [appointed](#) to the role of **Director General for Financial Services at HM Treasury**. She joined HM Treasury on secondment from the BoE in 2014 and is currently the Director for Financial Services.

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Designed and produced by The Creative Studio at Deloitte, London. J10367