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Risk and Regulation Monthly

December was a busy month on several fronts, with the publication of the **UK stress testing results**, and a large number of technical standards on **Solvency II**, the **Capital Requirements Directive IV and Regulation (CRD IV/CRR)**, and the **Bank Recovery and Resolution Directive (BRRD)**. The Basel Committee on Banking Supervision (BCBS) also published proposals for a **revised standardised approach to credit risk**.

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

Capital (including stress testing)

The Bank of England *published* the results of the 2014 **UK bank stress test,** assessing the resilience of eight major UK banks and building societies to a severe housing market shock and a sharp rise in interest rates. There was substantial variation in the impact of the stress scenario. At end-2013, three firms (Co-operative Bank, Lloyds Banking Group and Royal Bank of Scotland) were judged to need a stronger capital position, although given subsequent developments only the Co-operative Bank was required to submit a revised capital plan. The Bank of England will continue to develop its stress testing framework, and will publish a document on the proposed way forward in 2015, after gathering feedback on the 2014 exercise.

The BCBS assessed the implementation of the Basel capital framework in the *EU* and *USA* as part of its **regulatory consistency assessment programme** (RCAP). The EU rules were found to be 'materially non-compliant' with the minimum Basel standards, mainly due to its implementation of the Internal Ratings-Based (IRB) approach for credit risk and (to a lesser extent) the counterparty credit risk framework. In its response the EU authorities said they would not take immediate action to change legislation.

The BCBS *consulted* on outstanding issues for its **fundamental review of the trading book**, suggesting a number of refinements to its previous proposals. These covered the treatment of transfers of equity risk and interest rate risk between the banking book and the trading book, a 'sensitivities'-based methodology in the revised standardised approach to replace the cash-flow-based approach, and a simpler method for incorporating the concept of 'liquidity horizons' into internal models.

The BCBS *consulted* on revisions to the **standardised approach for credit risk**, to reduce reliance on external credit ratings, enhance the granularity and risk sensitivity of the standardised approach, update risk weight calibrations, and provide more comparability with the IRB approach.

References to external ratings would be replaced by a set of risk drivers, with bank exposures risk-weighted by capital adequacy and asset quality, and corporate exposures by revenue and leverage. Risk weights for other categories of exposures, such as those secured by property, would also be amended. Additionally, the framework would reduce the number of approaches available for risk mitigation by recalibrating supervisory haircuts and updating the corporate guarantor eligibility criteria.

The BCBS *consulted* on the design of a **capital floor framework** based on its revised standardised approaches, to complement the leverage ratio in Basel III. The floor would prevent capital levels from falling below a certain level in order to mitigate model risk and measurement error. The proposals covered design issues such as the scope of aggregation, adjustments for differences in the treatment of provisions between the standardised and internal model approaches to credit risk, and the choice of the relevant standardised approach. However, calibration of the floor was not covered.

The European Insurance and Occupational Pensions Authority (EIOPA) *published* eighteen documents containing the final versions of most of the first set of guidelines required under **Solvency II**, together with a *cover note*. These did not include the guidelines on the own risk and solvency assessment (ORSA) and governance, which EIOPA intends to finalise in February 2015. It also *published* seventeen consultations on the second set of draft Implementing Technical Standards (ITS) and guidelines required by Solvency II. Seven were on areas linked to Pillar I (quantitative requirements), four on Pillar II (governance and supervision) and six on Pillar III (reporting and disclosure). Guidelines on third country branches were also published.

EIOPA *published* a common application package (CAP) for internal models under **Solvency II**, intended to promote a consistent supervisory approach to the application processes related to internal models, and to help insurers to understand the granularity of documentation required for the formal application process.

The Prudential Regulation Authority (PRA) *published* a **Solvency II** directors' update by Andrew Bulley and Chris Moulder, directors of Life and General Insurance at the PRA. In Q1 2015, the PRA will focus on the internal model approval process pre-application phase and the start of the formal application process. The PRA's existing self-assessment template will be replaced by EIOPA's common application template for all firms applying for internal model approval.

Individual feedback from the matching adjustment pre-application process will be provided in March, shortly before the formal application window opens in April. The PRA intends to publish a consultation on transitional arrangements in January 2015, while a consultation on volatility adjustment depends on consideration of replies to an earlier paper from Her Majesty's Treasury (HMT).

The International Association of Insurance Supervisors (IAIS) *consulted* on the risk-based **global insurance capital standard** (ICS), part of its Common Framework for internationally active insurance groups and global systemically important insurers. The consultation covered valuation; qualifying capital resources; an example of a standard method for determining the ICS capital requirement; and an exploration of other methods for determining the ICS capital requirement. The ICS is due to be finalised by the end of 2016 and groups will begin reporting on it to their supervisors from 2017. It is then expected to be included in the final version of the Common Framework to be adopted by IAIS members in late 2018.

The BCBS and the International Organization of Securities Commissions (IOSCO) *published* a consultative document identifying criteria for **simple, transparent and comparable (STC) securitisations**. The criteria were mapped by asset risk, structural risk and fiduciary or servicer risk. The BCBS also *issued* revisions aimed at resolving certain shortcomings in the Basel II securitisation framework and at strengthening capital standards for securitisation exposures, to apply from 2018. It will consider further revisions to the framework in 2015 to incorporate the criteria for STC securitisations.

The European Banking Authority (EBA) *published* an opinion on how to improve the functioning of the **securitisation market**. The opinion included nine recommendations, following a review of compliance by national regulators with securitisation risk retention, due diligence and disclosure requirements. One of the main recommendations was to implement a 'direct approach', whereby the obligation to comply with retention requirements would fall on originators, lenders and sponsors, to complement the 'indirect approach' whereby the obligation is on investors. The EBA also recommended a narrowing of the definition of 'originator'.

The EBA *published* its final guidelines for common procedures and methodologies for the **supervisory review and evaluation process (SREP)** which determines Pillar II capital requirements. The final guidelines provided further clarification on topics such as proportionality, business model analysis and liquidity.

The Commission *published* its Implementing Decision on the **equivalence of supervisory and regulatory requirements** of certain third countries for the treatment of exposures according to the CRR**.** The Decision also provided a list of third countries with supervisory and regulatory arrangements considered to be EU-equivalent with respect to credit institutions, investment firms, and exchanges. EU banks will be allowed to apply preferential risk weights for entities located in these countries. The Decision came into force on 1 January 2015.

The EBA *repealed* its recommendation on the **preservation of Core Tier 1 capital** during the transition to the CRD IV framework, which required EU banks to maintain the capital accumulated as a result of the 2011 EU-wide recapitalisation exercise. The recommendation was considered no longer necessary as major EU banks had significantly strengthened their capital positions since 2011, and many were already able to meet the CRR/CRD fully loaded capital requirements, including the capital conservation buffer.

The European Commission *published* the final draft Delegated Regulation supplementing the CRR with regard to the **specification of margin periods of risk** (MPOR) used for the treatment of clearing members' exposures to clients. This confirmed that the MPOR of netting sets for transactions cleared with a qualifying Central Counterparty (CCP) and those not cleared with a CCP will be a minimum of five and ten days, respectively.

The EBA *published* final draft ITS on joint decisions related to the **approval of internal risk models** under the CRR. The ITS set out the process to be followed by multiple regulators when assessing permissions for firms to use the IRB approach for credit risk, the internal model method for counterparty risk (IMM), the advanced measurement approach for operational risk (AMA) and internal models for market risk.

The PRA *clarified* that a **netting agreement** is not an eligible form of credit risk mitigation under the CRR, if a resolution authority has the power to bail-in the relevant liabilities on a gross basis. However, the UK's proposed bail-in framework in general aims to ensure that liabilities subject to netting can only be bailed-in on a net basis, after close-out of the positions. The PRA does not expect the enforceability of netting agreements to be adversely affected by a resolution authority having a power to bail-in on a net basis.

The Financial Conduct Authority (FCA) *consulted* on simplified **rules and guidance for non-bank lenders** (NBLs) covered by the prudential sourcebook for mortgage and home finance firms, and insurance intermediaries (MIPRU 4).

The first phase of MIPRU 4 revisions resulted in NBLs becoming subject to the same capital requirements for mortgage lending as banks and building societies. The FCA has now proposed a simplification of first-phase rules for credit risk by incorporating some elements of the prudential sourcebook for banks, building societies and investment firms (BIPRU), and deleting those that are not relevant for NBLs, as well as simplifying any remaining complex and lengthy rules and guidance.

The EBA *published* its final draft Regulatory Technical Standards (RTS) on the conditions under which regulators may allow institutions to make use of a **data waiver** when estimating risk parameters. Firms may ask for permission to use shortened data series – in the absence of longer alternatives – when calculating parameters such as probability of default (PD), loss given default (LGD) and the conversion factor (CF). The EBA also introduced some conditions that would exclude low-default-probability portfolios from the waiver.

The EBA *published* an updated **list of capital instruments** that regulators across the EU have classified as Common Equity Tier 1 (CET1). Some new CET1 instruments have been assessed and evaluated as being compliant with the CRR while two instruments were deleted.

Liquidity

The BCBS *consulted* on disclosure standards for the **Net Stable Funding Ratio** (NSFR). This covered the scope of application, implementation date, frequency and location of reporting, and a common template, which included major sources and uses of stable funding, and qualitative requirements.

The PRA *announced* plans to collect **intraday liquidity** data on a more systematic basis to inform its assessment of intraday liquidity risk in normal and stressed conditions. UK banks, building societies and designated investment firms will be required to start reporting their intraday liquidity positions from July 2015.

Governance and risk management (including remuneration)

The PRA and FCA *published* new material on the **Senior Managers and Certification Regime** for UK banks in order to provide firms with "an early indication of [their] thinking." The regulators outlined details of proposed changes to the PRA and FCA Handbooks; transitional arrangements for existing approved persons, including details of the roles that were eligible to be 'grandfathered' from the existing regime; and a set of new forms and templates. While the PRA and FCA each plan to publish final rules on the regime in 2015, HMT will announce in due course when the regime will enter into force.

Martin Wheatley, Chief Executive of the FCA, *spoke* about **"the importance of culture to industry,"** commending the leaders of the financial sector for being "wholly committed to achieving reform". "Important improvements" have been made by regulators to reduce barriers to entry in the past eighteen months, and the commercial risks from misconduct are increasing for firms, due to the competition posed by new entrants. Priorities for the future included maintaining a focus on future standards as much as past indiscretions, and the continued importance of business leaders questioning the appropriateness of products and strategies for clients' long-term interests.

Conduct of Business (including MiFID)

ESMA published its *final technical* advice to the European Commission on Delegated Acts under the revised **Markets in Financial Instruments Directive and Regulation** (together, MiFID 2), along with a *consultation paper* and draft *technical standards*. The documents cover the trade transparency rules for non-equity instruments; the trading obligation for shares and the double volume cap mechanism for shares and equity-like instruments; the obligation to trade certain derivatives on trading venues; position limits and reporting requirements for commodity derivatives; rules governing high frequency trading; access rights to CCPs, trading venues and benchmarks; requirements for a consolidated tape of trading data; and provisions to improve investor protection. Prior to publication, Verena Ross, ESMA's Executive Director, *delivered* a speech on MiFID 2 focusing on transparency, market data and best execution.

ESMA *conducted* a peer review of how national competent authorities supervise MiFID rules on **fair and clear information for clients**. The review noted several areas for future work including development of a clear definition of information and marketing material; assessment of monitoring of distribution channels; a requirement for investment firms to submit details of information and marketing materials to national regulators; and the use of proportionate sanctions.

ESMA published a *consultation paper* on draft technical standards under the **Central Securities Depositories Regulation** (CSDR). This covered settlement discipline measures; authorisation and recognition of CSDs; supervision, organisational and prudential requirements; access requirements; and internalised settlement reporting. ESMA also published draft *technical advice* on penalties for settlement failure, the identification of CSDs of substantial importance for the functioning of securities markets, and draft *guidelines* on access to central counterparties or trading venues by CSDs.

HMT *summarised* responses to its consultation on implementing the recommendations of the **Fair and Effective Markets Review** (FEMR) on financial benchmarks. In addition, the FCA *consulted* on extending its approach for regulating LIBOR to other benchmarks. This would take account of the differences in how LIBOR and other benchmarks operate, such as how far benchmark administrators rely on information provided by submitters relative to other sources.

The FCA *published* the findings of the first stage of its post-implementation review of **the Retail Distribution Review** (RDR), and the results of a *thematic review* into adviser charging and services. These highlighted a reduction in product bias, particularly for high-commission offerings; an improvement in professionalism, with a high number of advisers achieving or going beyond the minimum qualification criteria; and little evidence to suggest that the RDR had caused an advice gap. Firms had "materially" improved disclosures on costs and the scope of their services, although there was room for improvement in disclosing the cost of ongoing services.

The FCA *published* the findings of its thematic review into the non-advised sales practices of pension providers offering **annuities** to their existing customers. In general firms were not doing enough to encourage customers to shop around. The FCA also *released* the interim findings of its market study **into retirement income**, concluding that competition in the retirement income market is "not working well for consumers," with many consumers missing out on a higher income by not shopping around or failing to purchase the best annuity for their circumstances. It also *published* an occasional paper on the value for money of annuities and other retirement income strategies in the UK, finding that while annuities bought in the open market provided "reasonably good value for money," this was less true for those bought internally from the provider with which the consumer had accumulated their funds.

Alex Chisholm, Chief Executive of the Competition and Markets Authority (CMA), *spoke* about the ongoing inquiry into **personal current accounts and certain banking services for SME customers**. The full market investigation into retail banking was prompted by evidence of "muted competition" with low switching levels among customers and considerable barriers to market entry and expansion. Provisional findings are due in September 2015. He also noted the CMA's involvement in the FCA's work on competition in wholesale financial markets and its contribution to the Fair and Effective Markets Review.

The CMA *consulted* on amendments to the measures proposed in its **payday lending investigation**. It outlined a material change to its proposed price comparison website (PCW) remedy, relating to the accreditation of PCWs by the FCA. Among other changes, the CMA proposed to require the summaries of the cost of borrowing, which lenders will be required to provide to customers, to cover a 12-month period.

The FCA *consulted* on proposed rule changes to improve competition in the **guaranteed asset protection (GAP) insurance market**. The proposals included a four-day deferred opt-in period and enhanced disclosure to encourage consumers to shop around.

EIOPA *published* its third **consumer trends** report. Transparency and disclosure issues were a major concern, and the report highlighted misleading practices in advertising and marketing literature, as well as incomplete or complex costs and charges, and performance or investments return information. Inconsistent disclosure also continued to make comparisons between products difficult. Some of these trends might warrant further investigation from a consumer protection perspective.

The EBA *consulted* on creditworthiness assessment under the **Mortgage Credit Directive** (MCD), including requirements on the verification of consumer income, documentation and retention of information, identification and prevention of misrepresentation of information by consumers or others, and assessment of consumers' ability to meet their obligations. It also *consulted* on guidelines on arrears and foreclosure requirements under the MCD, including policies and procedures, engagement with consumers, provision of information and assistance to consumers, the resolution process, documentation of dealings with consumers and retention of records, and *requirements* on passport notifications and notification forms for mortgage credit intermediaries.

The FCA *consulted* on **improving complaints handling**. The proposals included an extension of the time period for dealing with a complaint less formally; a requirement for firms to send a written communication to all consumers whose complaints are handled within three business days, explaining they have the right to refer a complaint to the ombudsman service if unsatisfied; and a requirement for firms to report and publish all complaints to the FCA, including those resolved by the close of the next business day. The FCA also proposed measures to increase transparency around complaints data through a new 'complaints return' that firms would be required to submit bi-annually.

ESMA *issued* a final report setting out technical advice to the European Commission on delegated acts required by the amended **Undertakings for Collective Investment in Transferable Securities** (UCITS V) Directive. The advice covered insolvency protection measures for UCITS assets when delegating safekeeping, and the independence requirement for the management company and the depositary.

The European Commission, Parliament and Council *reached* an agreement on the proposal for a Regulation on **interchange fees for card-based payment transactions**. The Regulation will introduce a cap on interchange fees for consumer debit and credit cards, and establish rules for the transparency of transactions. The Commission said the Regulation also "removes major obstacles to technological innovation" by reducing uncertainty around permissible interchange fees, which had held up the roll out of new technologies.

The EBA *published* final technical advice setting out criteria and factors to be taken into account by competent authorities in respect of **structured deposits**, in relation to the assessment of investor protection concerns and the exercise of intervention powers under the Markets In Financial Instruments Regulation (MiFIR).

Following a thematic review of **multilateral trading facility** (MTF) operators' rulebooks, the FCA *launched* a consultation on its proposed guidance on Market Conduct Rules for MTFs. MTF operators should show that they have considered the FCA's good practice observations when complying with the Handbook.

The Joint Committee of the European Supervisory Authorities (ESAs) *consulted* on guidelines for regulating **cross-selling** practices in the financial sector. The guidelines set out high-level principles and practical examples on how firms should comply with the conduct of business standards expected toward customers.

HMT *reached* an agreement with nine high street banks and building societies to establish new **"fee-free" basic bank accounts** in order to comply with requirements of the Payment Accounts Directive (PAD). These accounts will not offer overdrafts or cheque books, and may be given to those with a chequered credit history. Initial fees or fees incurred when direct debit or standing order payments fail will be scrapped for these accounts. All account holders will also be offered a debit card in order to enable cash withdrawals.

Tracey McDermott, Director of **Enforcement and Financial Crime** at the FCA, *spoke* about "learning the lessons of the past as an industry". She said individuals involved in misconduct did not act "in a vacuum" and tended to assume that their behaviour would be tolerated. Although there was no desire within the FCA to increase fines continually, large fines help to "focus minds [on culture], particularly at the top of firms."

The FCA *introduced* new rules on **credit broking**, which ban credit brokers from charging fees and from requesting customers' payment details unless the brokers meet certain requirements, such as giving customers clear information about who they are dealing with, what fee will be payable, and when and how the fee will be payable. There are also additional transparency requirements and cancellation rights for distance contracts, including rights to a refund.

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

The EBA *published* final draft RTS on **resolution planning and resolvability assessments** under the BRRD. The RTS specified the types of information required in plans, and elaborated how the 'feasibility' and 'credibility' of such plans should be assessed by resolution authorities. Smaller and less complex institutions would require less detailed resolution plans, with simplified obligations for institutions meeting certain criteria.

The EBA also published final *Guidelines* on **measures to reduce or remove impediments to resolvability**. Resolution authorities will have powers to require firms to change their legal, operational or financial structures in order to enhance resolvability, if authorities are not satisfied with actions taken by firms following resolvability assessments. The EBA Guidelines elaborated the circumstances in which the various powers should be considered, and made clear that invasive approaches should be considered a last resort.

The EBA *consulted* on draft RTS on procedures and contents of **notifications** and notices of suspension arising from a determination that a firm is failing or likely to fail. The standards also discussed the subsequent resolution actions. The BRRD identifies three necessary notifications: first, the ongoing responsibility of the management body to identify and determine if the institution is failing or likely to fail, and to notify its supervisory authority; second, the supervisory authority to notify the resolution authority; finally, either the supervisor or the resolution authority to notify a range of other stakeholders, including relevant foreign resolution authorities, the central bank, the deposit guarantee scheme, and others.

Both **Houses of Parliament** *approved* the Building Societies Bail-In Order and *also* the Bank Recovery and Resolution Order (No. 2). The former will allow for the exercise of bail-in by the Bank of England for building societies, making modifications to reflect the different ownership model and corporate structure of the societies. The latter brings provisions of the BRRD into force except the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) which will come into force in 2016.

The **Financial Services (Banking Reform) Act 2013 Order** was also *made*. This brought certain provisions of the Banking Reform Act into force including provisions in connection with preferential debts, the powers of the Bank of England to bail in liabilities of a bank, and PRA and FCA powers to make rules applying to certain holding companies with regard to resolution. The provisions entered into force on 31 December 2014.

The European Commission *published* a Delegated Regulation on contributions to cover the administrative expenditure of the **Single Resolution Board** (SRB) in the "provisional period" from August 2014 to January 2016. The contributions are payable by entities notified by the Commission and seen as "significant" by the ECB: significant entities that are subsidiaries of groups already contributing are exempt. Meanwhile, the Council of the EU reached political agreement on the Single Resolution Fund (SRF) Implementing Regulation. The fund will be built up over eight years to reach a level equivalent to at least 1% of all insured deposits in all Banking Union countries. Banks will make annual contributions to the fund based on their risk-adjusted liabilities.

The **European Stability Mechanism** (ESM) *adopted* a direct recapitalisation instrument for euro-area financial institutions. The new instrument will in certain circumstances enable the ESM to recapitalise a systemic and viable euro-area financial institution directly, as a last resort and only after private investors have been bailed-in. The total amount of ESM resources available for direct recapitalisation is limited to €60bn. The instrument is seen as a central tool for the Banking Union.

The Committee on Payments and Market Infrastructures (CPMI) and IOSCO *published* an assessment methodology for the **oversight expectations applicable to critical service providers**. The methodology is based on five oversight expectations. Each has questions that a Financial Market Infrastructure (FMI) will use for self-assessment and the relevant supervisor will use to assess the FMI. These relate to risk identification, information security, operational resilience, technology planning, and communication with users.

The EBA *consulted* on RTS on the **operational functioning of resolution colleges** for banking groups that operate cross-border in the EU. The standards cover the resolution plan, performance of the resolvability assessment, measures to address substantive impediments to resolvability, and the setting of MREL.

The EBA *issued* guidelines on the criteria used to identify **'other' systemically important institutions** (O-SIIs), ie to systemically important firms that are not global systemically important institutions. The Guidelines set out a two-step process for the identification of O-SIIs, and included mandatory quantitative indicators for assessing banks (related to size, interconnectedness, relevance for the economy, and complexity) and optional indicators to be applied with supervisory judgement.

Regulatory perimeter

Hannah Nixon, Managing Director of the new **Payment Systems Regulator** (PSR), *spoke* about the regulatory challenges faced by payment systems. In line with the PSR's objectives of promoting competition, innovation and reliability, the regulator will focus on the industry-wide strategy setting process (including launching a new Industry Strategy Forum); ownership, governance and control of payment systems; and improving both direct and indirect access.

The European Commission *endorsed with amendments* RTS on the **clearing obligation** for interest rate swaps under the European Market Infrastructure Regulation (EMIR). The Commission's amendments delayed the frontloading requirements which apply to category one and two counterparties by two and five months respectively after the entry into force of the RTS. The amendments also clarify the definition of category two counterparties and exclude non-EU intragroup transactions from the clearing obligation for three years.

ESMA *published* the findings of its investigation into the way the four largest **credit ratings agencies** (CRAs) conduct surveillance of structured finance credit ratings. Among the issues ESMA identified were a lack of quality control over information; incomplete application of the full methodology during the monitoring process; delays in the completion of reviews; and a need to strengthen the internal review function. ESMA requested the affected CRAs to put in place remedial action plans.

ESMA *submitted* its final report on draft ITS on **main indices and recognised exchanges** under the CRR to the European Commission. The CRR definition of securities eligible as collateral refers to equities and convertible bonds that are constituents of a "main index", and to debt securities that are listed on a "recognised exchange", which terms are specified in the ITS. The document also included updated lists of identified main indices and recognised exchanges.

The Economic and Financial Affairs Council (ECOFIN) adopted conclusions on **long-term financing** of the European economy given the Commission's forthcoming action plan on the Capital Markets Union. ECOFIN encouraged the Commission to undertake further work to develop a simple and transparent securitisation market, to develop a common understanding of crowdfunding at the EU level; to enhance small-scale bond markets through mini-bonds; and to increase the transparency of SME credit information.

ESMA *published* technical advice on investment-based **crowdfunding** with a view to promoting regulatory convergence. ESMA assessed business models, as well as potential risks for owners, investors and platforms. The analysis also mapped the various business models and types of activities undertaken by crowdfunding platforms onto existing EU legislation.

Rethinking the domestic and international architecture for regulation

The FCA *published* the **Davis Review,** an inquiry into the FCA's launch of its 2014/15 Business Plan, together with its *response* to the report. The report made a number of criticisms about how the FCA communicated the scope of a proposed thematic review of life assurance. Though "well-intentioned," its press strategy was deemed "high risk, poorly supervised and inadequately controlled." The report said the FCA's reaction to that error on the day was "seriously inadequate and fell short of the standards expected of those it regulates." The FCA accepted all of the recommendations and claimed to "have already made progress in acting on them."

The FCA *published* its **strategic approach**, aimed at providing a "sharper focus" on how firms are regulated and on delivering the right outcome for consumers and markets. The new "sustainable model" of regulation covered a common FCA view of each of its regulated markets and segments; an internal prioritisation framework; and increased internal flexibility. Structural changes include the integration of the Authorisations and Supervision Divisions, and the creation of a new Strategy & Competition Division and a Market Oversight Division. The FCA also *published* its interim organisation chart and *announced* various departures as part of the structural changes it was making.

HMT published a *report* containing 39 recommendations to the FCA and PRA regarding the **enforcement process**, aiming to ensure it is quicker, fairer and more transparent. Regulators should promote "early, constructive engagement between investigators and subjects," institute further training for investigators and increase the involvement of senior staff in decision-making. The FCA and PRA should publish more information about their criteria for starting investigations and their approaches to referring cases from supervision to enforcement. Various changes were also proposed to the discount and early-settlement processes for fines.

The European Commission *adopted* its **Work Programme** for 2015, which set out the 23 initiatives the Commission is committed to delivering in 2015. Top priorities included an investment plan to boost Europe's economy, a Digital Single Market (DSM) package, a free-trade agreement with the US, a new migration policy and an improved energy policy. Other major initiatives included the Capital Markets Union (CMU) and a framework for resolution of non-bank financial institutions, as well as a "Deepening Economic and Monetary Union" package and a proposal for a Directive to provide for compulsory exchange of information in respect of cross-border tax rulings. Following assessment of the 450 outstanding proposals put forward before it took office on 1 November, the Commission suggested amending or (in some cases) removing 80 of them. MEPs will vote on a resolution on the Commission's work programme on 15 January.

The Financial Stability Board (FSB) *published* an update on its work to encourage adherence to regulatory and supervisory standards on **international cooperation and information exchange**. It listed several countries which are working towards the requirements but are "yet to demonstrate sufficiently strong adherence", which included several FSB members (Indonesia, Argentina, Russia and Turkey). Venezuela was the only jurisdiction identified as "non-cooperative".

The EBA *published* final draft RTS and ITS on the functioning of **supervisory colleges** in the EU. The standards set out the establishment and functioning of colleges of supervisors to assist interaction between the consolidating supervisor and national competent authorities. They outline the path to be followed in both going concern periods and periods of market stress or unusual business activity (such as liquidation).

The Joint Committee of the ESAs *published* guidelines on practices relating to the consistency of supervisory coordination for **financial conglomerates**. These included mapping of the conglomerate structure and written agreements; planning and coordination of supervisory activities and information exchange in going-concern and emergency situations; supervisory assessment of financial conglomerates; and decision-making processes among the competent authorities

Disclosure, valuation and accounting

The PRA *issued* a supervisory statement setting out its expectations of firms' compliance with the EBA's guidelines on **disclosure of encumbered and unencumbered assets**, and the FCA *published* an announcement and an updated webpage on the subject. Firms are allowed not to disclosure Template B of the EBA guidelines under the CRR in certain circumstances. Firms are also given the option to disclose information based on the median of rolling quarterly data over the 12 months preceding the Pillar III disclosure.

The European Commission *published* a draft Delegated Regulation on the information to be provided by competent authorities to ESMA under the **Alternative Investment Fund Managers Directive** (AIFMD), on the functioning of the passport for AIFMs managing and/or marketing AIFs, and the passport for the marketing of non-EU funds by EU fund managers. National authorities must report information on AIFs under their supervision on a quarterly basis to ESMA. This should include that relevant to identifying market disruptions and distortions of competition that potentially affect the operation of collective undertakings established in the EU.

The PRA *published* feedback on its 2014 **standardised risk information (SRI) data assessment** for general insurance firms. The feedback was provided in response to a number of data requests it made in May to support preparations for Solvency II. It expects to make further requests to clarify areas of concern, such as catastrophe risk, and significant correlations between components of market risk. It also highlighted a number of concerns about the quality of data submitted.

The ECB *published* a Regulation on **statistical reporting requirements for insurance corporations**, which require reporting agents to provide quarterly data on assets and liabilities, revaluation adjustments or financial transactions, and non-life insurance technical reserves broken down by line of business. Annual data is also required on non-life insurance technical reserves broken down by line of business and geographic area.

The EBA *published* a complete set of information disclosed by national regulators in accordance with ITS on **supervisory disclosure**. The information provides an overview of the *implementation and transposition* of CRD IV/CRR across the EU, detailed information on the use of *options and national discretions* exercised by each EU Member State, and *aggregate statistical data* on the EU banking sector as of end-2013.

The EBA *published* final Guidelines on **Pillar 3 disclosure** requirements for banks, aimed at enhancing consistency and transparency, while retaining flexibility to incorporate the needs of differing business models. The guidelines also discussed waiver requirements, disclosure requirements related to materiality or to the confidential nature of disclosures, and the frequency of disclosures.

The EBA *consulted* on draft ITS on supervisory reporting of the **leverage ratio**, on *supervisory reporting* of the **liquidity coverage ratio** (LCR), which introduced more significant changes and replaced existing LCR reporting templates, and published final *draft RTS* on disclosures for the **countercyclical capital buffer** (CCB).

Information security and data privacy

The EBA published final *guidelines* on the **security of internet payments**, setting minimum security requirements for Payment Services Providers (PSPs). Among various measures aimed at more efficient and secure internet payments across the EU, the guidelines require PSPs to carry out strong customer authentication to verify customer identity before proceeding with an on-line payment. They also require PSPs to provide assistance and guidance to customers in relation to the secure use of internet payment services, including customer awareness programmes, and introduce requirements on consumer data protection.

Financial crime

Andrew Tyrie, Chairman of the House of Commons Treasury Committee, wrote to the chief executives of several large retail banks, (including *Lloyds Bank*, *Barclays*, *Santander*, *RBS*, and *HSBC*), requesting more information about **levels of fraud in the banking system**, due to concerns raised that the industry was "understating" the size of the issue.

A former Managing Director of Blackrock was *banned* by the FCA for not being **fit and proper**, after evading his train fare on multiple occasions "in the knowledge that he had been breaking the law". This was the second time an individual has been banned for failing fit and proper criteria due to conduct in an arena unrelated to financial services.

Other

The Financial Policy Committee (FPC) *published* its bi-annual **Financial Stability Report**. The global economic outlook had weakened since June 2014, as market concerns over weak growth and geopolitical risk had increased. However, the FPC concluded that no system-wide, macroprudential actions on bank capital were needed, given existing work to bolster banks' capital positions. Meanwhile, due to recent misconduct and other operational failings, banks were advised to enhance the effectiveness of their governance arrangements. The FPC also said it will review work on cyber vulnerabilities by Q2 2015.

EIOPA *published* its report on **financial stability in relation to insurance, reinsurance and occupational pension funds** in the EU. Low interest rates had encouraged insurance companies to review and adapt their business models, and prompted increased reserving, reduced profit shares, and the set-up of specific reserve funds or additional technical provisions. For occupational pension funds, low yields put significant pressure on returns. EIOPA's qualitative as well as quantitative assessment pointed to positive premium growth for both life and non-life insurers in 2016, although in 2015 this was anticipated for non-life insurers only.

The EBA *published* its sixth semi-annual report on **risks and vulnerabilities of the EU banking sector**. Key risks included the high amount of impaired and past-due loans in various parts of Europe, the long term effects of public debt "overhang", reduced profitability and interest margins, and geopolitical risks/stresses in emerging markets which might affect asset quality. Banks had made use of favourable conditions in capital markets and business optimism had improved, but economic improvements remained "fragile".

The EBA *published* an update to its **risk dashboard** from the first half of 2014. A number of changes were made including an annex on aggregate risk parameters for banks, and data on own funds' requirements based on COREP. Bank capital positions had improved, driven by increased capital issuance ahead of the stress test and asset quality review.

The Lending Standards Board (LSB) *appointed* Professor Russel Griggs to undertake an independent review of the **Lending Code**. The review will cover good practice in relation to personal unsecured loans, credit cards and overdrafts and lending to micro-enterprises. A revised Code is expected to be published in Autumn 2015.

Contacts

Clifford Smout
Partner, EMEA Centre for Regulatory Strategy
+44 (0)20 7303 6390

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

Katya Bobrova
Dea Markova
Assistant Manager, EMEA Centre for Regulatory Strategy
+44 (0)20 7007 2427

Rafe Hafeez
Senior Associate, EMEA Centre for Regulatory Strategy
+44 (0)20 7007 6000

Ghulam Khan
Associate, EMEA Centre for Regulatory Strategy
+44 (0)20 7007 6415

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