



Risk and Regulation Monthly

May 2016

In May the European Commission consulted on application and implementation of the revised framework for **market risk** and on the **Net Stable Funding Ratio (NSFR)** under the Capital Requirements Directive (CRD) IV. Political agreement was reached to delay the application and transposition dates of the Markets in Financial Instruments Directive and Regulation (**MiFID II and MiFIR**) and the Commission adopted a number of Delegated Regulations under MiFID II/MiFIR.

Capital (including stress testing)

The Financial Policy Committee (FPC) **finalised** the framework for the **systemic risk buffer (SRB)** to be applied to ring-fenced banks and large building societies from January 2019. The framework remained broadly the same as the prior consultation, aside from a clarification that where the SRB for a ring-fenced bank is set higher than the Globally Systemically Important Bank (G-SIB) buffer for the overall group, the FPC would expect that the appropriate amount of capital is held within the group, and distributed appropriately across it, to address both global and domestic systemic risks.

The FPC also **published** a statement from its 13 May policy meeting, in which it discussed responses to the consultation and agreed the final design of the SRB framework.

The European Commission **consulted** on the **revised framework for market risk** under the Capital Requirements Regulation (CRR) following the Basel Committee on Banking Supervision (BCBS)'s fundamental review of the trading book. It sought evidence on how the framework should be applied to firms with small trading books, whether the revised standardised approach is suitable for all types of firm, and potential amendments to the "Original Exposure Method".

The European Banking Authority (EBA) **issued** an Opinion agreeing to proposed amendments by the European Commission to the implementing technical standards (ITS) on **benchmarking of internal approaches** under the CRD.

The EBA **issued** an Opinion supporting the European Commission's amendments to the draft Regulatory Technical Standards (RTS) on additional collateral outflows for the **historical look-back approach (HLBA) calculation method** under the CRR. The amendments ensure that the draft RTS is consistent with the BCBS's HBLA approach.

The **Council** of the EU and the European **Parliament** adopted a Regulation extending the expiry date for **the exemption of commodity dealers** from large exposure and own funds requirements under the CRR. The expiry date was extended from the end of 2017 to 31 December 2020, as new legislation on the prudential supervision of commodity dealers is not expected before 31 December 2017.

The European Supervisory Authorities (ESAs) **published** an Opinion on the European Commission's intention to amend draft ITS on the **mapping of External Credit Assessment Institutions' (ECAIs) credit assessments** under CRR and Solvency II. The Commission had proposed removing certain quantitative requirements to be applied from 2019 for ECAIs with small pools of credit ratings. The ESAs object to the removal because they believe this would result in market competition objectives overriding prudential objectives.

The EBA **published** a Decision confirming that **unsolicited credit ratings** by 22 ECAIs do not differ in quality from solicited ratings of the same ECAI. This decision is needed to allow unsolicited credit ratings to be used for the determination of risk weights for own funds calculations under the CRR.

The European Central Bank (ECB) **consulted** on an addendum to its guide on **options and discretions (O&Ds)** under CRR and CRD IV. The original guide, published in March 2016, sought to harmonise the application of 115 O&Ds; this addendum addresses a further 8 O&Ds.

The UK Government **published** draft regulations for the **bank levy**, which amended the definition of securities which are 'high quality' and the definition of 'high quality liquid assets' in accordance with the liquidity buffer requirements introduced by CRR.

The ECB **announced** that it would conduct an initial **comprehensive assessment of four banks**: Abanka d.d. (Slovenia), Akciju sabiedrība "Rietumu Banka" (Latvia), Banca Mediolanum S.p.A. (Italy) and Citibank Europe plc (Ireland). The banks will be subject to an asset quality review and a stress test in preparation for their direct supervision by the ECB. The results are expected to be published in November 2016.

Andrea Enria, Chair of the EBA, **wrote** to Olivier Guersent, Director General for Financial Stability, Financial Services and Capital Markets Union at the Commission, saying that it would not be possible for the EBA to provide the requested impact assessments, including market risk, counterparty credit risk, exposures to central counterparties and large exposures, to inform the **Commission's review of CRD IV** within the deadlines given. The deadlines were not feasible as the EBA would need to initiate quantitative impact studies with banks.

The EBA **published** guidance to competent authorities to compute **Financial Soundness Indicators (FSI)** for deposit takers. FSIs are aggregated statistical measures for monitoring the health and soundness of a country's financial sector. The comparability of FSIs has so far been poor due to different definitions of the underlying data.

The UK Government **consulted** on reforms to **corporation tax relief**. The proposed changes relate to the way losses can be carried forward and set against taxable profits, which will affect capital planning for firms.

The Prudential Regulation Authority (PRA) **consulted** on its approach to monitoring model drift for firms with **internal model approvals under Solvency II**. It expects firms to report the results of their standard formula Solvency Capital Requirements calculations to the PRA annually to allow the PRA to monitor potential model drift.

The PRA **consulted** on a supervisory statement setting out expectations for firms applying for approval for a major **change to their approved Solvency II internal model**, or a change to their approved internal model change policy. This includes expectations on the quality of applications and the information to be provided.

The PRA **published** a supervisory statement clarifying its expectations and the processes for firms' application for recalculation of the **transitional measure on technical provisions under Solvency II**. This would apply in cases where the risk profile of a firm has materially changed.

The European Commission **published** an Implementing Regulation under Solvency II laying down technical information in relation to the **calculation of technical provisions and basic own funds** for reporting with reference dates from 1 January to 30 March 2016.

Andrew Bulley, Director of Life Insurance at the PRA, **spoke** on **bulk purchase annuities and longevity risk transfers**. He said that these markets had grown substantially in recent years, partly incentivised by the volatility in the risk margin component of Solvency II. He warned that longevity risk transfers were not risk free and that the PRA expected Boards to manage and mitigate the risks.

The PRA **consulted** on streamlining the presentation of how it sets out expectations for firms subject to **Solvency II**. It proposed to re-publish information contained in Directors' letters as supervisory statements.

EIOPA **launched** the **EU-wide insurance stress test for 2016**. The test included a baseline scenario and two stressed scenarios, examining the impact of a prolonged low yield environment and a so-called "double hit" (a negative market shock to asset prices combined with a low risk free rate). The participation target was increased from a 50% to a 75% share of each national market. The European Systemic Risk Board (ESRB) **published** details of the double hit scenario.

Liquidity

The European Commission **consulted** on the **implementation of the NSFR in the EU**. This identified potential issues in the BCBS NSFR standard for derivatives transactions and short-term transactions with financial institutions. The Commission also sought evidence on the appropriate level of application and whether any firms should be exempt from the NSFR or subject to a more proportionate regime.

The PRA **published** the first of two consultations on **Pillar 2 liquidity**. This included proposals on the mitigation of intraday liquidity risks and two specific types of franchise viability risks (debt buyback and non-margined derivatives). The paper also outlined planned future work on the Pillar 2 liquidity regime.

The EBA **consulted** on Guidelines for disclosing liquidity risks, and particularly the **Liquidity Coverage Ratio**, under the CRR. The EBA is developing these guidelines on its own initiative and expects them to apply from June 2017.

Governance and risk management (including remuneration)

The PRA **published** a policy statement on the **role of Audit Committees under the Revised Statutory Audit Directive**. Banks, building societies, Solvency II insurers and PRA-regulated investment firms will be required to have an Audit Committee as a sub-committee of the Board. For significant firms, Audit Committees must consist entirely of independent non-executive directors. The PRA also **updated** a supervisory statement on internal governance to reflect these new rules.

The FCA **banned** and publicly censured Peter Johnson for **failing to act with integrity** in his role as Keydata's compliance officer and misleading the regulator on a number of occasions.

Conduct of Business (including MiFID)

The Council of the EU and the European Parliament **reached** a political agreement on the **proposals to delay the transposition and application dates of MiFID II and MiFIR** by one year. Following this, the Permanent Representatives Committee (COREPER) **approved** the agreement on behalf of the Council.

The European Commission **published** a Delegated Regulation on definitions, transparency, portfolio compression, and supervisory measures on product intervention and positions. It also adopted a number of RTS regarding the **trading obligation, unexecuted orders, determination of a material market in terms of liquidity, the admission of financial instruments to trading on regulated markets, and the suspension and removal of financial instruments from trading**.

The European Securities and Markets Authority (ESMA) published Opinions on the three RTS that were sent back to ESMA for revisions (**non-equity transparency, position limits, and ancillary activities**) in response to the Commission's proposed amendments. On non-equity transparency, ESMA is now proposing an automatic four-year phase-in of certain parts of the regime to mitigate possible liquidity risks to bond markets.

ESMA also **proposed** an amendment to its draft RTS on **transaction reporting** to exempt transfers of collateral from the reporting obligation. This exemption was omitted from the previous draft in error.

ESMA **published** two final draft RTS on **indirect clearing arrangements** for exchange-traded derivatives (ETD) and Over-the-Counter (OTC) derivatives under MiFIR and the European Market Infrastructure Regulation (EMIR) respectively. ESMA aims to achieve consistency between the two sets of rules while taking into account the differences between the ETD and OTC derivatives markets.

The Financial Conduct Authority (FCA) published **minutes** and **slides** of its **MiFID II implementation roundtable**. On payment for research, the FCA noted that it expects ESMA to provide guidelines or a Questions and Answers document. On inducements, the European Parliament may want to return to the issue of what types of payments can enhance the quality of service to a client.

The Commission **adopted** RTS on **appropriate arrangements, systems and procedures for disclosing market participants conducting market soundings under the Market Abuse Regulation (MAR)**. This includes a standard set of information for communicating to persons receiving market soundings, data on those receiving the market sounding, a procedure for notifying where information is no longer inside information, and record keeping requirements.

ESMA **clarified** the **reporting of reference data under MAR**, which will come into force on 3 July 2016. The obligation to report reference data to the regulator under MAR will initially only apply in relation to regulated markets and multi-lateral trading facilities, as the concept of organised trading facilities will only be introduced when MiFID II/MiFIR is implemented which is now expected on 3 January 2018.

The FCA **published** its supervisory approach in relation to **closed periods**, where dealing in shares, debt or derivatives in the name of the firm subject to the closed period – such as the period prior to announcement of interim or final results – is prohibited. Changes to the current approach to closed periods arise from the implementation of MAR.

The FCA **published** a new webpage on supervisory priorities arising from the new rules for detecting and reporting **suspicious transactions under MAR**. Where notifiers cannot deploy fully effective surveillance across all types of quote as required by MAR by 3 July 2016, they should make best efforts to achieve compliance.

The Council of the EU **adopted** the **Benchmarks Regulation**, following its earlier adoption by the European Parliament. The new framework introduced rules on the governance and controls around benchmarks so that administrators and contributors avoid conflicts of interest, and rules to improve the quality of submitted data. Third country benchmarks will be used by EU supervised entities through an equivalence regime based on compliance with the International Organization of Securities Commissions (IOSCO) principles.

ESMA **consulted** on draft technical advice under the **Benchmarks Regulation**. The topics covered included definitions, measurement of the use of critical and significant benchmarks, criteria for the identification of critical benchmarks, endorsement of third country benchmarks and transitional provisions.

The Bank of England working group on **risk-free sterling reference rates (RFR)**, which aims to identify a robust alternative to Libor for use in sterling interest rate swaps, **published** an interim report. The group identified two candidates for its preferred RFR: an unsecured overnight index and a secured overnight index. Work continues to assess and recommend an alternative RFR.

ESMA **consulted** on guidelines on participant default rules and procedures under the **Central Securities Depositories Regulation (CSDR)**. These relate to the rules and procedures that central securities depositories (CSDs) must implement to manage the default of one or more participants so that CSDs can take timely action to contain losses and liquidity pressures and continue to meet their obligations.

IOSCO **published** a final report on the **impact of storage and delivery infrastructure on commodity derivatives'** market pricing. The report found that several issues may impede market efficiency, including inconsistencies between derivatives contract specifications versus commercial arrangements with warehouses, lack of information about movements on the physical market, the level of oversight of exchange-regulated storage and delivery, and ambiguities about the remit of regulators. IOSCO will conduct further work to develop guidance on storage infrastructures.

The FCA **consulted** on its implementation of the Undertakings for Collective Investment in Transferable Securities (**UCITS**) **V Delegated Regulation** in relation to depositories, and on the Securities Financing Transactions Regulation (SFTR) disclosure requirements for managers of UCITS and alternative investment funds (AIFs), in relation to their use of securities financing transactions and total return swaps.

The Bank of England **confirmed** that the chairs of the **Fair and Effective Markets Review** will provide a full implementation report in July 2016 as opposed to June 2016 due to the timing of the EU referendum.

The UK Competition and Markets Authority (CMA) **proposed** measures to tackle barriers to **competition** in the markets for **personal current accounts** and **retail banking services for small and medium-sized enterprises** (SMEs). The proposals include measures to enable customers to share data with trusted intermediaries, measures to improve the current account switching process, measures to help current account overdraft users (including a monthly maximum charge), and measures to improve competition in SME banking.

The CMA **reviewed** the **SME banking undertakings** it introduced in 2002, and provisionally decided that most of them were no longer needed following market and regulatory changes. However, the CMA intends to retain the bundling undertaking. The bundling undertaking prohibits banks from requiring business customers to maintain their current account with a bank as a condition of granting a loan or accepting a deposit account.

The CMA **consulted** on updated **draft guidance** on the **use of its consumer powers**. The draft guidance papers explain the CMA's approach to compliance and enforcement, its use of civil and criminal consumer enforcement powers, and its use of powers of investigation.

The FCA **announced** that it will undertake a targeted **market study in the mortgage sector** starting in Q4 2016, focussing on the impact of tools such as price comparison websites (PCWs), the impact of increased intermediation, and commercial arrangements between lenders and brokers in the supply chain.

The FCA **reported** on its **responsible lending review**, which found that most firms had embedded the Mortgage Market Review (MMR) broadly in line with the FCA's expectations, although some areas for improvement remained, including in relation to affordability assessments. George Osborne, Chancellor of the Exchequer, **wrote** to mortgage lenders encouraging them to use the flexibility to waive affordability requirements for existing customers changing to a cheaper mortgage without taking on additional debt, while acknowledging that most banks were already doing this.

The UK Payment Systems Regulator (PSR) **consulted** on guidance on the second phase of implementing the **Interchange Fee Regulation**. The proposed guidance sets out the PSR's approach to gathering compliance reports, investigating complaints, and its expectations on co-badging and the "unblending" of service charges.

The PSR published a **policy statement** and **final guidance** setting out its approach to designating alternative switching schemes, monitoring compliance and collecting fees under the **Payment Accounts Directive**.

The FCA **published** a policy statement on **consumer credit** which set out its response to the CMA's recommendations on high-cost short-term credit, including final rules for PCWs comparing high-cost short-term credit products.

The FCA **proposed** that consumers who exercise their **pension freedoms** should benefit from a **cap on early exit charges**, set at 1% of the policy value for existing contracts. New contracts are prohibited from charging any exit fees. Existing penalties that are set at less than 1% cannot be raised.

Andrew Bailey, outgoing Chief Executive of the PRA, **spoke** on the importance of **culture in financial services firms**. He said that there has been no "major prudential or conduct failing in a firm which did not have among its root causes a failure of culture". He also said that regulators cannot and should not try to determine a firm's culture, but can influence it through requirements on governance, remuneration and risk management.

The House of Commons Public Accounts Committee **published** a report on **protecting customers from mis-selling**. The report suggested that Her Majesty's Treasury (HMT) and the Ministry of Justice should report on the effectiveness of their actions in reducing the role of claims management companies, and the Financial Ombudsman Service should publish a timetable for reducing its backlog of payment protection insurance claims. The FCA should outline the actions it will take to improve culture in financial services firms.

Andrew Haldane, Chief Economist, Bank of England **spoke** on the **role of banks in society and restoring society's trust in finance**. To close the trust gap, he recommended that public education about finance should be enhanced and that banks should develop new approaches to pursue and communicate their purpose.

Andrew Tyrie, Chair of the House of Commons Treasury Committee **asked** Tracey McDermott for clarification on how the FCA decides whether informants are treated as **whistle-blowers**, how this is communicated to them and how the FCA assures that their involvement remains confidential.

The Banking Act 2009 (Commencement No. 5) Order 2016 was **published**, enabling HMT to make regulations about **financial collateral arrangements**, including regulations to implement the Financial Collateral Arrangements Directive.

The FCA **extended** until December 2018 a modification by consent which allows managers of UCITS funds to provide **Key Investor Information documents** to clients after the transaction has taken place rather than before, in particular circumstances such as certain long-distance communications.

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

The Commission **published** RTS for the **minimum requirement for own funds and eligible liabilities** (MREL). Compared to the EBA's earlier proposal, the new text no longer requires that MREL be fixed at 8% of total liabilities, and provides more flexibility for national authorities to set phase-in periods for individual banks.

The European Commission published a **Delegated Regulation** under the **Bank Recovery and Resolution Directive** (BRRD) setting out the conditions under which payments by contributing banks of extraordinary ex post contributions into a resolution fund following the fund having to make a payment may be deferred, as well as the criteria for determining critical functions and core business lines. It also published **RTS** setting out the minimum contents of business reorganisation plans, and **RTS** on valuing liabilities arising from derivatives for resolution purposes

The FCA **provided** feedback on **recovery plans** submitted under the BRRD. Key areas for improvement included analysing interconnectedness, identifying and calibrating recovery plan indicators, identifying credible recovery options, considering a sufficient range of scenarios, and having an effective communication strategy.

The FCA **consulted** on guidance on **wind-down planning** for firms which are not subject to the BRRD. The guidance does not create an obligation for these firms to create wind-down plans but suggests an approach for firms that have decided to engage in such planning.

The **Single Resolution Board held** its third industry dialogue meeting where it gave an update on progress on its Resolution Planning Manual, setting up co-operation groups with national authorities, drafting resolution plans, carrying out resolvability assessments and setting MREL.

Andrew Gracie, Executive Director for Resolution at the Bank of England, **spoke** at a Deloitte event on **ending too big to fail**. He set out his views on a range of issues around MREL / Total Loss Absorbing Capacity (TLAC) that regulators and industry need to address before the task is complete.

The European Commission **adopted** a Delegated Regulation amending the RTS on the **identification methodology for globally systemically important insurers**. The changes are designed to ensure consistency with the equivalent updated BCBS approach for banks.

ESMA **issued** the results of the first EU **stress test of central counterparties** (CCPs), which focussed on counterparty credit risk. The CCPs seemed well equipped to face extreme scenarios overall, but ESMA made recommendations on assessing the creditworthiness of clearing members and on the price shocks used in CCPs' stress tests.

David Bailey, Director for Financial Market Infrastructure, Bank of England **spoke** on **recovery and resolution regimes for CCPs**. He discussed at what point a resolution authority should step in when a CCP is in distress, what resources should be available to resolution authorities, and what safeguards should be in place for clearing members of CCPs and their direct and indirect clients. He noted that an effective regime requires international cooperation across authorities, CCPs and their users.

The EBA **issued** guidelines on **stress tests of deposit guarantee schemes (DGS)** under the DGS Directive. Based on a number of methodological principles, DGS need to test their ability to repay covered deposits, contribute to resolution proceedings and prevent institutions from failure (if applicable).

The ECB **published** its semi-annual **Financial Stability Review**. It found that Euro area systemic stress had remained constant over the past six months despite a challenging external financial environment. Ongoing vulnerabilities include high levels of public and private debt, weak economic recovery, low bank profitability, and prospective stress in the investment fund sector.

Jaime Caruana, General Manager of the Bank for International Settlements (BIS), **spoke** on cementing the gains of **post-crisis reforms**. He said that completing the regulatory agenda was the most immediate task, and that policy-makers should seek the right balance between capital calibration and risk sensitivity. Looking forward, proactive supervision needs to play a more prominent role, complementing regulation and corporate governance.

Don Kohn, External Member of the Financial Policy Committee, Bank of England, **spoke** on the **implementation and effectiveness of macro-prudential policy**, especially the challenges related to identifying risks and externalities, and the design and communication of macro-prudential policies.

The ESRB **reported** on **macro-prudential policy in the EU** in 2015, the use of which had substantially increased compared to 2014. The report provides cross-country comparisons of macro-prudential policies in the real estate sector, the countercyclical capital buffer and additional capital buffers for systemically important institutions.

Regulatory perimeter

The FCA's **regulatory sandbox opened** to applications. The sandbox is designed to provide a "safe space" for testing innovative products while at the same time ensuring consumer protection. Eligible firms can benefit from a tailored authorisation process, individual compliance guidance and waivers of enforcement actions.

The FCA and the Monetary Authority of Singapore **agreed** to support **FinTech businesses** through a referral mechanism, helping the authorities to refer businesses that want to operate in the other's jurisdiction.

The European Commission **published** a report on **crowdfunding** under the Capital Markets Union. It found that crowdfunding is relatively small in the EU but is developing rapidly. Currently there is little cross-border activity so the Commission does not intend to introduce EU regulation, but will keep this under review.

The BIS **published** the first phase of a **global foreign exchange (FX) code of conduct** and **issued** principles of adherence to the new standard. The Code is expected to apply to all market participants in FX markets. Once complete, it will cover principles relating to ethics, governance, information-sharing, execution, risk management and compliance, and confirmation and settlement. The complete Code will be published in May 2017.

The Bank of England **published** minutes of the meeting of the **FX joint standing committee**, which is providing input into the BIS Global FX Code. The FCA's representative noted that the MiFID rules on best execution apply to all FX derivatives and those FX spot transactions that are ancillary to transactions in MiFID financial instruments, including when the firm is dealing as a principal.

The Financial Stability Board (FSB) **published** its thematic peer review on the progress made by FSB member jurisdictions in implementing its framework for **strengthening oversight and regulation of shadow banking entities**. The principles included defining and updating the regulatory perimeter, collecting information and assessing shadow banking risks, and adopting appropriate policy tools to mitigate identified risks. The FSB concluded that implementation of the framework remains at an early stage.

The FPC **responded** to HMT's letter on **remit and recommendations** for the FPC in the coming year. The FPC welcomed HMT's intention to bring forward secondary legislation to provide the FPC with **powers of Direction over the buy-to-let mortgage market** and said it would continue to monitor closely recent developments and potential threats to financial stability from buy-to-let mortgage lending.

Rethinking the domestic and international architecture for regulation

The European Commission held a public hearing on its **review of the EU regulatory framework for financial services** and published a useful **summary of responses**. Participants raised concerns about the impact of the post-crisis regulatory framework, including on market liquidity, banks' willingness to offer products at competitive prices, and the impact of regulation on banks' profitability. The Commission may look to cement a number of "quick wins", such as simplified reporting requirements for smaller banks, but there is still some way to go in relation to more substantive issues such as proportionality. Lord Hill **stressed** that the evidence gathered would feed into ongoing review processes, rather than lead to an overhaul of the regulatory framework.

The European Commission **published** a study on the **state of the credit rating market**. This identified potential measures that could improve competition such as a harmonised credit rating scale across credit rating agencies (CRAs), developing a track record score, making amendments to the ECB's selection of approved CRAs, and issuers appointing CRAs by competitive tender.

The European Commission **published** a study on the **feasibility of alternatives to credit ratings**. The alternatives considered included internal measures and ratings, market-implied ratings, accountancy-based measures, and assessments conducted by non-commercial third parties.

Ignazio Angeloni, Member of the ECB's supervisory board, **spoke** about **activities and achievements of the Single Supervisory Mechanism (SSM)**. He also spoke about the SSM's main priorities in the medium term, which include in-depth reviews of the drivers of banks' profitability (with a particular focus on low interest rates and the new regulatory environment), an assessment of non-performing loans, and refinements to the Supervisory Review and Evaluation Process (SREP).

IOSCO **published** a press release following its annual conference. It announced that it will consult on issues related to **corporate bond market liquidity** and will do further work on corporate bond market transparency. It is also considering **cyber security** issues and the impact of **FinTech** on securities markets.

Disclosure, valuation and accounting

The FSB **named** nine additional members for Phase 2 of the work of the **Task Force on Climate-related Financial Disclosures**, bringing the total membership to 31.

The PRA **consulted** on **regulatory reporting templates and international financial reporting standards (IFRS) 9 requirements**. It set out proposals on the future reporting of balance sheet, statement of profit or loss, and forecast capital data. It also set out preliminary views on the potential impact of IFRS 9 but did not make specific proposals.

Information security and data privacy

The European Data Protection Supervisor (EDPS) published an **Opinion** on the draft **EU-US Privacy Shield** agreement, which sets out the privacy controls and processes that should govern transfers of personal data between the EU and US. The EDPS stated that the current drafting "is not robust enough to withstand future legal scrutiny before the Court". This follows the European Parliament's **resolution** highlighting its concerns about the framework. Privacy Shield's predecessor, known as "Safe Harbour", was struck down by the European Court of Justice in 2015 for failing to provide sufficient data protection.

The EBA **consulted** on the **risks and benefits of innovative uses of consumer data** by financial institutions. Potential benefits include cost reductions and improved product quality while misuse of data and reputational concerns were identified as risks. The EBA noted that financial institutions are already bound by existing laws, such as the Data Protection Regulation.

Will Brandon, Chief Information Security Officer at the Bank of England, **spoke** on **cyber security**. He said that cyber security could not be solved entirely through technological solutions, as vulnerability was also a matter of culture, so cyber security should be a leadership and management issue.

Financial crime

The UK Government **announced** plans to consult on a **new law to tackle corporate fraud**. The consultation will focus on the possibility of extending the “failure to prevent” model already applicable to bribery and tax evasion to crimes such as money-laundering, false accounting and fraud.

The FCA **published** a commissioned report on the **nature and scale of de-risking by banks**. The research found that some banks are closing accounts for firms operating in areas where there is a greater money laundering and terrorist financing risk. However, many closures were informed by other considerations.

The European Parliament **adopted** a report on **virtual currencies** and **called** on the European Commission to establish a virtual currency taskforce to combat money laundering and terrorist financing.

HMT **published** its fifth annual report on **anti-money laundering and counter-terrorist financing**. The report covered 27 supervisors, including the FCA. The report identified an increase in supervisory and enforcement activity. However, more progress is needed to implement a fully risk-based approach.

The UK Government **published** guidance on **restrictive measures against North Korea**. As well as refraining from business activities in North Korea, firms must inform the Office of Sanctions Implementation of any suspicions that their activities could contribute to North Korea's nuclear or ballistic missile programmes.

The FCA **notified** that Martyn Dodgson, a senior investment banker, and Andrew Hind, a Chartered Accountant, were sentenced to 4.5 years and 3.5 years imprisonment respectively. Both were convicted of insider dealing. Dodgson's sentence is the longest ever for **insider dealing** in a case brought by the FCA.

The FCA **issued** a final notice to Mark Samuel Taylor for **insider dealing**. A penalty of £36,285 was imposed and Mr Taylor was prohibited from performing any function in relation to any regulated activity.

Other

The **Bank of England and Financial Services Act 2016** was **published**. The Act enables the PRA, currently a subsidiary, to be integrated into the Bank of England. It also enables the Senior Managers and Certification regime to be extended to all authorised firms. It further requires the FCA to make rules ensuring that those wishing to transfer a right to payments under certain types of annuities have received appropriate advice before doing so.

The House of Lords **appointed** a Select Committee on Financial Exclusion to consider **financial exclusion** and access to mainstream services. The Committee is due to report back by 31 March 2017.

EIOPA **reported** on the **functioning of colleges and accomplishments of its 2015 action plan and priorities for 2016**. The priority areas for 2016 include information sharing in colleges and agreeing on a procedure for internal model review.

ESMA **published** its **Risk Dashboard for Q1 2016**. ESMA's risk assessment remained unchanged from Q4 2015 as systemic stress remains high. The economic environment remains uncertain. Key vulnerabilities included the mispricing of risks, deteriorating liquidity and the potential amplification of market distortions.

The FCA **published** its **quarterly key performance indicators** in relation to authorisations, variation of permission, payment services and e-money, and waivers. Over the past six months, the average processing time for variations of permission has increased for retail firms but reduced for wholesale firms.

The Money Advice Service (MAS) **published** its **2016/17 business plan**. Its work will centre on five principal areas: cooperating with other organisations, funding help for over-indebted people, helping Universal Credit recipients with household budgeting, improving access to guidance and advice, and widening and improving financial education. MAS will also begin the transition to the new money guidance body.

Megan Butler was **appointed Director of Supervision – Investment, Wholesale and Specialists, at the FCA** on a permanent basis, having previously been in the role on secondment from the PRA.

The European Commission **published** a table of **planned Level 2 legislative measures** in financial services.

Contacts

David Strachan

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

Rod Hardcastle

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

Joy Kershaw

Manager, EMEA Centre for Regulatory Strategy
+44 (0)20 7303 6575

Matthias Hepe

Associate, EMEA Centre for Regulatory Strategy
+44 (0)20 7007 9363

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2016 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. J7324