

Risk and Regulation Monthly



June saw the publication in the UK of the **Fair and Effective Markets Review (FEMR)**, and more rules on **remuneration of bank staff**, agreement in the EU on a Regulation on **securities financing transactions (SFTs)**, and work by the European Banking Authority (EBA) on **securitisation**.

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 Basel Committee on Banking Supervision (BCBS) *consulted* on the risk management, capital treatment and supervision of **interest rate risk in the banking book (IRRBB)**. It outlined two possibilities: a standardised Pillar 1 (minimum capital requirement) approach; and an “enhanced” Pillar 2 approach. The first would bucket positions into one of three categories according to whether they were ‘amenable’, ‘less amenable’, or ‘not amenable’ to standardisation, after which a six-stage process would determine capital requirements. Alternatively, banks would assess Pillar 2 capital using their internal frameworks, after which supervisors would review banks’ risk management and controls in a supervisory review and evaluation process (SREP). In either case, the Committee asserted that a “strengthened framework for IRRBB is necessary.”

The EBA *presented* recommendations on an EU framework for **qualifying securitisations**, defining a series of criteria to identify simple, standard and transparent securitisation and asset-backed commercial paper transactions.

It outlined a two stage approach that included (i) base criteria on structures that did not create excessive risk, with credit risk floors; and (ii) re-calibration of capital charges under the BCBS 2014 securitisation framework, with lower numbers for qualifying securitisations to reflect their less risky nature. The EBA also proposed to carry out a holistic review of the regulatory frameworks for securitisation, and other investment products, including covered bonds and whole loan portfolios. Please read our *blog* for further details.

The EBA *published* regulatory technical standards (RTS) specifying the criteria that competent authorities should use when permitting firms to use advanced measurement approaches to calculate their **capital requirements for operational risk**. The RTS also outlined criteria for the supervisory assessment of key methodological components of the operational risk measurement system, and provided common standards for supervisory assessments of banks’ operational risk governance. The rules are part of the EBA’s review of internal models, designed to harmonise practices for model approval.

The European Commission amended disclosure rules for the **countercyclical capital buffer (CCB)**, to increase transparency around the geographical distribution of credit exposures, and the amount of an institution’s specific **countercyclical buffer**. The Commission also extended the transitional treatment of certain **equity exposures** exempt from internal ratings based (IRB) approaches, and – until 15 December 2015 – rules which temporarily allow **certain central counterparties (CCPs)** to be considered as qualifying CCPs.

The EBA *published* a questionnaire to support technical advice to the European Commission regarding the assessment of **non-EU countries' equivalence with the Capital Requirements Regulation and Directive (CRR/CRD IV)** requirements. For those third countries which are recognised as equivalent, EU banks can apply preferential risk weights to relevant exposures.

The International Association of Insurance Supervisors (IAIS) *consulted* on **higher loss absorbency (HLA) requirements for global systemically important insurers** (G-SIIs), seeking feedback on several options relating to design, development and calibration of the HLA. The HLA should be calculated based on non-traditional and non-insurance (NTNI) activities, but the IAIS may expand the scope later to include traditional insurance activities. The HLA is expected to be delivered to the G20 for endorsement in November 2015 and be applicable to G-SIIs from January 2019.

Andrew Bulley, Director of Life Insurance, Prudential Regulation Authority (PRA), *said* that **Solvency II** is an "evolutionary" rather than "revolutionary" development, since it shares many parallels with the Individual Capital Adequacy Standards (ICAS) in the UK. The PRA also *published* an article on the broad implications of Solvency II for the prudential regulation of insurers. It discussed features not covered in Solvency II that should be considered post-implementation, such as insurance resolution, and capital treatment of NTNI activities.

The PRA *published* a letter from Sam Woods, Executive Director of Insurance Supervision, on the information it received on insurers' collateral arrangements, treatment of reinsurance and treatment of future management actions in cash flow projects in relation to the **Matching Adjustment (MA)** under Solvency II. It also *published* a statement on supervisory approval for the **Volatility Adjustment (VA)**, and a *document* warning that firms should not anticipate future changes in the VA in the modelling of market and credit risk stresses for calculating the Solvency Capital Requirement.

The PRA *published* feedback on its initial review of **Solvency II balance sheets**. Firms should clearly define and document materiality assessments; and also the control frameworks for preparation of the balance sheet. Separately, **Sam Woods reported** that reviews by the PRA of "own risk and solvency assessments" (**ORSAs**) showed significant weaknesses in stress testing, and in the forward-looking assessments of solvency.

The PRA *published* a supervisory statement on the **ORSA** and the "ultimate time horizon" for non-life firms under Solvency II. The PRA expects firms to consider the total uncertainty and risk over the time horizon of the run-off of a firm's obligation to its policyholders, including obligations relating to business planned to be written in the twelve months following the relevant reference date ("the ultimate time horizon").

The European Commission *announced* its **first third country equivalence decisions** under Solvency II relating to Switzerland, Australia, Bermuda, Brazil, Canada, Mexico and the US. Full equivalence was granted to Switzerland for reinsurance, solvency and group supervision for an indefinite period. Provisional equivalence was granted to the other countries for ten years from 1 January 2016 relating to the solvency calculation.

Liquidity

The PRA published a policy statement on CRD IV *liquidity requirements* and a supervisory statement on the *supervision of liquidity and funding risks*. The new rules will enter into force on 1 October 2015, and reflect the European Commission's delegated act on the **liquidity coverage ratio (LCR)**, with a number of technical revisions to an earlier consultation from November 2014. The new framework will replace BIPRU 12, which will be "switched off" along with existing firm-specific guidance on 1 October 2015. In addition, Individual Liquidity Adequacy Assessment/ Individual Liquidity Systems Assessment (ILAA/ILSA) documents will be replaced by the new ILAAP (Internal Liquidity Adequacy Assessment Process) document, the first of which must be produced and approved before October 2016.

The EBA *published* final draft implementing technical standards (ITS), requiring "significant changes" to existing **LCR** reporting templates and instructions. The EBA also *supported* the Commission's proposed amendments to the CRR rules on currencies with constrained availability of liquid assets, with the Danish Krone removed from the list, given changes to the treatment of covered bonds, but the Norwegian Krone retained.

The BCBS *published* the final **net stable funding ratio (NSFR)** disclosure standards. The new rules are designed to improve the transparency of regulatory funding requirements, enhance market discipline and reduce uncertainty in the markets as the NSFR is implemented, leading up to its application from 1 January 2018. Banks will need to adopt a common public disclosure framework, and use a common disclosure template, so that market participants can consistently assess banks' funding risk. The NSFR disclosure will have to be made concurrently with the publication of banks' financial statements.

Governance and risk management (including remuneration)

The Financial Conduct Authority (FCA) and PRA *published* new rules for **remuneration of banking staff**. The rules are designed to strengthen the alignment between risk and reward by introducing longer deferral periods and claw-back for all risk-takers and by prohibiting variable pay for non-executive directors. The deferrals were extended to seven years for Senior Managers, five years for PRA-designated risk managers with senior, managerial or supervisory roles, and three to five years for all other material risk-takers.

The rules introduced claw-back for periods of seven years from the award of variable remuneration for all material risk-takers, with a possible additional three years for Senior Managers (10 years in total) undergoing investigation at the end of the seven year period. The new rules on deferral and claw-back will come into force for performance years starting on or after 1 January 2016, while the rules on non-executive directors came into force on 1 July 2015.

The Joint Forum *reported* on **developments in credit risk management**, following a survey of 15 supervisors and 23 firms from the banking, insurance and securities industries. Firms had improved their governance and risk reporting relating to credit risk, though supervisors should be wary of over-reliance on internal models for credit risk management and regulatory capital.

Conduct of Business (including MiFID)

HM Treasury (HMT), the Bank of England (BoE) and the FCA *published* the final report of the **Fair and Effective Markets Review (FEMR)**, which made 21 recommendations aimed at improving conduct in fixed income, currency and commodities markets (FICC). These included extending “elements” of the Senior Managers and Certification Regimes to “firms active in FICC markets”; the establishment of a FICC Market Standards Board (a market panel chaired in the interim by Elizabeth Corley) designed to address uncertainty in trading practices, scan for emerging risks, and “promote adherence to standards”; and measures to enhance the global convergence of regulation and standards in FICC markets. Please see our *blog* for further details.

Alongside the FEMR, the BoE *announced* an **open forum** for stakeholders in FICC markets to discuss the state of the market and the best way forward. To facilitate the forum, it *published* a paper on what went wrong in FICC markets, shortcomings in the BoE’s frameworks and operations during the crisis, remedial measures, and the challenges that remain. George Osborne, Chancellor of the Exchequer, in *delivering* the **Mansion House speech** focused on a “new settlement of responsibility and prosperity” for fiscal policy, the financial services industry and the EU.

The FCA *fined* Lloyds Banking Group £117mn for unfairly rejecting Payment Protection Insurance (PPI) **customer** complaints: Lloyds also set aside £710mn to compensate customers.

The FCA *published* the results of its thematic review of **delegated authorities** in the general insurance (GI) market. Insurers and intermediaries did not appear to consider their regulatory obligations adequately, both in outsourcing and in considering the role each party performed in carrying out the outsourcing activities. The FCA recommended firms should have effective risk-based controls, including performing due-diligence and monitoring of management information when selecting third parties, and while these are performing their duties.

The FCA *published* a policy statement on final rules on **guaranteed asset protection (GAP) insurance**. This followed the FCA market study on GI add-ons in July 2013 which found that competition for add-ons was not effective. From 1 September 2015, firms distributing GAP insurance in connection with the sale of a motor vehicle will be required to provide customers with prescribed information to help them shop around, and a deferral period will be introduced to prevent GAP insurance from being introduced and sold on the same day.

The FCA *published* a discussion paper on options for **measuring the value of GI products**. Consumers found it difficult to assess the value of a GI product – the FCA therefore proposed to introduce a value measure, or measures, for both standalone and add-on products. Firms will be responsible for collecting, calculating and reporting the measures and the FCA will publicly disclose the data on its website.

The FCA *proposed* to revoke rules and guidance in relation to **investing in authorised funds** through nominees, that currently require certain disclosures to beneficial owners, such as notifications about short reports, unitholder voting rights and other fund information.

Martin Wheatley, FCA Chief Executive, *said* that “analysis of the past has given way to hope for the future”. The FCA will **support vibrant markets** through: (i) competition, in particular reducing barriers to entry in the banking sector; (ii) behavioural economics, such as through its work on teaser rates, disclosure, complex pricing strategies, bundling, and cross-subsidisation; and (iii) innovation, supported through the FCA’s Innovation Hub. The FCA also *published* a call for input on regulatory barriers to **innovation in digital and mobile solutions**.

The FCA *published* a discussion paper on **consumer communication**, challenging firms to consider new ways of engaging with consumers about products and services. Firms underlined two main difficulties in doing so: complexity of the services and material; and information overload using financial and legal jargon. Innovative approaches were presented, such as the use of clear diagrams, video clips, and interactive communications.

The FCA *released* final rules on **changes to pension transfers**, required following legislation which made the conversion or transfer of safeguarded pension benefits into flexible benefits a regulated activity. Pension transfer requirements will apply to all pension transfers, regardless of when the transferred benefits will be crystallised.

The FCA *published* a factsheet for advisers in relation to **pension reforms**, and clients that want to carry out a transaction against advisers’ advice. The FCA encouraged advisers to take a three step approach: ensure that advice is suitable and clear for the individual; make clear that the client’s action is against their advice; and make clear the risks of the alternative course of action.

The FCA *finalised* rules restricting the retail distribution of **regulatory capital instruments**, such as contingent convertible securities (CoCos) and mutual society shares.

HMT *consulted* on the implementation of the EU **Payment Accounts Directive**. The proposals included putting in place a framework to ensure that the existing seven-day Current Account Switch Service could continue as an alternative to the switching process described in the Directive, preserving the UK's existing basic bank account policy, and standardising the annual statement of fees consumers receive from their banks as well as ensuring customers receive a Fee Information Document prior to choosing their bank account. The FCA also *published* a call for input on standardised terms and definitions to describe some of the services linked to payment accounts to inform the UK position in considering the Directive.

The FCA *published* a thematic review of **debt management firms' compliance** with consumer credit rules. While practices had improved over the past year the quality of service provided by some firms was unacceptably low. Free-to-customer services were generally of a higher standard. Some of the shortcomings included fee-charging firms not assessing customers' financial circumstances reasonably; various debt solutions available to customers not being adequately explored; and information about the availability of free advice either not provided, or not sufficiently prominent.

The FCA published documents on common misunderstandings associated with *creditworthiness and affordability*, and common misconceptions about *consumer credit permissions*. The FCA does not have specific rules on creditworthiness checks, but takes a principles-based and outcomes-focused approach. On consumer credit permissions, not all instalment credit is exempt from authorisation for lenders, and for credit brokers they must receive authorisation even if they only introduce to other brokers.

The FCA and PRA jointly *consulted* on reforms to the legacy **Credit Unions Sourcebook** (CREDS). The PRA will replace CREDS with a new section in its Rulebook. New rules will limit shares/deposits to the compensation limit, to protect depositors. Credit unions carrying on specified additional activities will need to maintain a 10% capital: assets requirement. No significant changes were proposed to the FCA Handbook.

The FCA *published* feedback on its proposed approach to implementing the legislative framework for **consumer buy-to-let (CBTL) mortgages**, including provisions on registration of CBTL firms, aggregated data reporting and complaints handling rules.

The FCA *published* its Market Watch newsletter on **market conduct and transaction reporting**. The FCA had received a number of complaints from market participants about firms appearing to have inflated their advertised trading volumes. Separately, the FCA found that the quality of suspicious transaction reporting (STR) was generally very good, although some firms submitted significantly fewer reports than their peers and there were some asset classes where the FCA believed surveillance was less developed and incidents were being missed.

Steven Maijoor, Chair, European Securities and Markets Authority (ESMA), *spoke* about its work on the Markets in Financial Instruments Directive (**MiFID II**). On non-equity transparency, ESMA "will not be able to find the ideal system that perfectly balances transparency and liquidity". Regarding bond market transparency, ESMA is trying to make its approach more precise and the final output "will in all likelihood look different" from the consultation. ESMA plans to "tread cautiously" on position limits, believing that "a one-size-fits-all approach cannot be the solution". Implementing measures on ancillary activity are also likely to be amended.

The FCA *published* minutes of its roundtable meeting on **MiFID II** implementing measures, setting out timings for implementing measures. The FCA will consult on MiFID II in December in two documents, one covering retail and wholesale conduct issues and the other market issues. Firms are keenest to have clarity on transaction reporting, to know where information on which instruments are traded on which venues will come from, and the overlap between MiFID II and the Retail Distribution Review (RDR).

The European Supervisory Authorities (ESAs) *published* a technical discussion paper on the key information document (KID) for packaged retail and insurance-based investment products (**PRIIPs**), to gather views on the possible methodologies to determine and display risks, performance and cost indicators in the KID.

Gabriel Bernadino, chair of EIOPA (the European Insurance and Occupational Pensions Authority) *spoke* on **insurance distribution** in a challenging environment. He touched on three topics: how the Insurance Distribution Directive (IDD) is shaping EIOPA's strategic views; the work on the KID for PRIIPs; and EIOPA's vision on Conduct of Business Supervision. EIOPA was focusing on strengthening corporate governance, improving product oversight and enhancing conduct risk supervision.

The ESAs *held* their third **Joint ESAs Consumer Protection Day**. The key topics included conduct risk, digitalisation of financial services and challenges for the next decade in banking, securities, insurance and pensions. Jonathan Hill, European Commissioner, stressed in his keynote speech the importance of putting the consumer back at the heart of financial services and improving "transparency, choice and competition."

The EBA *published* its **fourth Annual Consumer Trends Report** which identified eight consumer protection issues that may be the basis for future work. Six trends were carried over from the previous year: household indebtedness; transparency and comparability of banking fees; innovation in payments; structured deposits; commercial selling practices and remuneration; and alternative financial services providers. The two new trends were the use of banking consumer data by financial institutions for additional revenue; and the effects of negative interest rates on consumer contracts (both deposits and loans).

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

The Council of the European Union *agreed* its negotiating position on the **Banking Structural Reform (BSR) Regulation**. The key elements of the Council's position are the following: it will apply to global systemically important institutions with total assets of at least €30bn over the last three years and trading activities of at least €70bn or 10% of total assets, with stricter reporting requirements, more thorough risk assessment and supervisory actions for banks that exceed the threshold; it will not apply to institutions with total eligible deposits of less than 3% of total assets, or total eligible retail deposits of less than €35bn; and it will not initially apply to sovereign debt instruments but this will be reviewed by the Commission. To accommodate existing national regimes, namely UK ring-fencing, it provided two options for addressing excessive risk stemming from trading activities: through national legislation requiring core retail activities to be ring-fenced; or through measures imposed by competent authorities in accordance with the Regulation.

The EBA published its final guidelines on *calculating contributions* and on *payment commitments* to **deposit guarantee schemes (DGS)**. The guidelines set out methods for calculating ex-ante contributions to DGS adjusted to the risk profile of each credit institution. DGSs may authorise credit institutions to contribute up to 30% of the total in the form of secured commitments to pay upon request. The guidelines also introduced principles ensuring that the prudential treatment of payment commitments did not encourage procyclicality by incentivising payment commitments over cash contributions.

The PRA *consulted* on amendments to **depositor and policyholder protection rules**. The proposals included amendments related to the recovery rules to reflect depositor preference under the Bank Recovery and Resolution Directive (BRRD); persons that might be treated as being absolutely entitled to an eligible deposit; minor administrative amendments to the Single Customer View (SCV) file; and provisions on access to covered deposits within fifteen business days for small local authorities for the period from 3 July 2015 until 1 June 2016.

Regulatory perimeter

IOSCO, the International Organization of Securities Commissions, *said* further work on the identification of **systemically-important asset management entities** would be preceded by a review of such activities to identify potential systemic risks. Afterwards, work on the identification of such entities will be reassessed. The Financial Stability Board (FSB) and IOSCO also *published* responses to their second consultation on the identification of non-bank non-insurer global systemically important financial institutions (NBNI G-SIFIs).

The European Parliament and the Council of the EU *reached* political agreement on the regulation on reporting and transparency of **SFTs**. This sets out rules on reporting SFTs to trade repositories by all counterparties, disclosure to investors in collective investment undertakings, and limits on rehypothecation activities.

The FCA *published* findings of its latest **Hedge Fund Survey**, which covered around 13% of global hedge fund assets under management. The sector remained highly concentrated, including in terms of risk profile: turnover was primarily generated by the largest ten funds. Only 60% of derivatives volume was executed on regulated exchanges. OTC clearing was increasingly taking place at CCP level, but the vast majority of smaller funds continued to clear their derivatives bilaterally.

ESMA *imposed* an **emergency short selling ban** on shares on the Athens Exchange and Multilateral Trading Facility "EN.A" to address adverse developments threatening market confidence in the Greek market.

ESMA *reported* that EU **derivatives markets** were becoming more transparent, thanks to the public availability of harmonised aggregate data reported to the six trade repositories registered with ESMA under the European Markets Infrastructure Regulation (EMIR).

The ESAs *consulted* on risk-mitigation techniques for **non-centrally cleared OTC derivatives**. The consultation focused on a narrow set of topics as most of the decisions had already been agreed following the first consultation held in April 2014. The RTS prescribed margins that counterparties should exchange in relation to non-centrally cleared derivatives as well as the methodologies for their calculations. The RTS also outlined the criteria for eligible collateral and reviewed or clarified several other aspects of the proposed rules. The RTS included a revised phase-in for initial margin requirements and a new phase-in for variation margin.

Lord Hill *said* that it was "by no means yet certain" if the **review of EMIR would result in a new piece of regulation**. While the Commission was not planning to change the fundamental objectives of the Regulation, it "should have the confidence to adapt the existing framework". He also *outlined* key themes and next steps in building a Capital Markets Union (CMU), including the publication of an action plan in September.

Early actions will include a package on securitisation with updated calibrations for Solvency II and the CRR, the definition of infrastructure and revised calibrations for Solvency II, and proposals to review the Prospectus Directive.

The European Commission *granted* a further two-year exemption for pension funds from **central clearing requirements** under EMIR for their OTC derivative transactions until 16 August 2017.

Verena Ross, ESMA's Executive Director, *outlined key outstanding workstreams* in relation to EMIR and MiFID II, including rule-making and implementation, the MiFID II transparency regime for derivatives and position limits for commodity derivatives, the EMIR clearing obligation, MiFID II trading obligations, and international convergence.

The FCA *consulted* on its proposals for fair, reasonable and non-discriminatory (FRAND) access to regulated **benchmarks**. The proposals are designed to limit the ability of benchmark administrators to exploit their market power in a way that might hinder effective competition.

The EBA *consulted* on draft guidelines for passport notifications for credit intermediaries under the **Mortgage Credit Derivative**, designed to ensure that information about credit intermediaries is exchanged consistently between home and host authorities. The EBA also published guidelines on *creditworthiness assessment and arrears and foreclosure* and *revised* its opinion on good practices.

The Committee on Payments and Market Infrastructures (CPMI) and IOSCO *published* a second update to the assessments of implementation of the **principles for financial market infrastructures (PFMIs)**. Good progress had been made by the 28 participating jurisdictions since the previous update in May 2014. In particular, the earlier gap in implementation between central securities depositories, and securities settlement systems for other FMI types, had been closed.

The Council of the EU and the European Parliament *agreed* a compromise text on the proposed **Payment Services Directive (PSD 2)**. This aims to establish rules to ensure a more secure environment for internet payments and a more harmonised and effective framework for supervision by national authorities.

The Payment Systems Regulator (PSR) *published* final terms of reference for its market review into the ownership structures of, and competition in, the provision of **payment systems infrastructure**. It also *published* a call for input on **card payment systems**, including on fees and cost sharing, business rules in the Interchange Fee Regulation, governance of card systems and indirect access.

ESMA *published* guidelines on periodic information to be submitted by **credit rating agencies (CRAs)**. Quarterly submissions should include information on financial revenues and costs, staff turnover, FTE headcount and internal complaints. On a semi-annual basis, CRAs should provide ESMA with information including the initiation of any internal review on rating models and rating processes, conflicts of interest, Board minutes, court and arbitration proceedings, organisational charts and a compliance work plan.

ESMA *issued* a credit rating agency, DBRS Ratings Limited, a public notice of censure for failing to comply with the **CRA Regulation** and fined it €30,000 for acting negligently in record-keeping, the first fine imposed on a CRA under the Regulation. ESMA found fallings in record-keeping and audit trails; internal procedures and controls; and the compliance function.

Rethinking the domestic and international architecture for regulation

The PRA *published* its **annual report**, containing its strategic and business plan for 2015-16, aligned to its five "Business aims". While its general focus remains on implementing the wide array of regulatory reforms already in motion, new work includes a stress test for general insurers which will focus on natural catastrophe, terrorism and cyber-attack; a revision to the overall approach to assessing liquidity risk to align it with the LCR; a consultation on the large exposures regime; and the potential introduction of a regime of written audit reporting to create closer engagement with external auditors of the systemically important UK deposit-takers.

The IAIS *published* material relating to a consultation on revising the **insurance core principles (ICPs)**. The following principles are currently under consultation: ICP 4 (licensing); ICP 5 (suitability of persons); ICP 7 (corporate governance); ICP 8 (risk management and internal controls); ICP 23 (group-wide supervision); and ICP 25 (supervisory cooperation and coordination).

The ESAs published their **annual reports**. The EBA's *priorities* and key deliverables in 2015 included reports on the calibration of the leverage ratio and stable funding requirements, RTS on the assessment methodology of the IRB approach, peer reviews of options and national discretions, work on supervisory benchmarks, a review of the stress testing guidelines, assessment of Pillar 3 disclosures, a review of the prudential treatment of investment firms, and a remuneration benchmarking report. It would also look at cooperation between resolution and supervisory authorities, and risk analysis tools. **ESMA reported** on its achievements in 2014 and *unveiled* its strategic orientation for 2016-2020. It expects to reduce the resources dedicated to the single rulebook substantially, shifting these to risk assessments and promoting supervisory convergence. ESMA also intends to increase its impact assessment and stress-testing capabilities.

EIOPA also *summarised* its key achievements, including delivery of technical standards on Solvency II approval processes and a public consultation on guidelines for implementation of the Directive; an insurance stress test; work on direct and intermediated sales of PRIIPs; a consultation on the solvency of Institutions for Occupational Retirement Provision and preliminary advice on personal pensions; and establishment of the Supervisory Oversight Team, which visited ten national competent authorities, focusing on Solvency II implementation and the risk assessment framework.

Christopher Woolard, Director of Strategy & Competition, FCA, *spoke* on **competition and innovation** in banking. The FCA has approved 14 new banking licences in the past two years, with 20 more applications in the pipeline; assisted 91 firms under Project Innovate; and is asking for views for digital and mobile solutions for financial services. He also *delivered* a speech on treating customers fairly, focused on culture and competition.

The five presidents (of the European Commission, Euro Summit, Eurogroup, European Central Bank and European Parliament) *published* a report on **completing Europe's economic and monetary union**. To fulfil this aim, four fronts are key, namely economic, financial, fiscal and political unions. Following the Single Supervisory Mechanism and the Single Resolution Mechanism, a European Deposit Insurance Scheme is the next step for the Banking Union, with CMU "leading ultimately to a single European capital markets supervisor".

Disclosure, valuation and accounting

The EBA *published* an interactive version of its implementing regulation on supervisory reporting of institutions according to the CRR.

The EBA *published* final draft ITS on supervisory reporting and disclosure for the **leverage ratio**. As a result of amendments to the definition of the ratio in the Commission's October 2014 delegated act, changes to the reporting templates and instructions were required, including to the exposure calculation for SFT transactions, the exposure value of derivatives and the treatment of credit derivatives.

The PRA *confirmed* that from 15 October 2015 firms must comply with EBA guidelines on materiality, proprietary and confidentiality, and **disclosure** frequency, under the CRR. The guidelines, published in April 2015, set out a consistent framework for firms' assessments of the frequency of disclosures, and the application of materiality, proprietary and confidentiality when assessing the use of any waiver of disclosure requirements.

The European Parliament's ECON Committee published a letter from Roberto Gualtieri, Chair, and Anneliese Dodds, Rapporteur, to *Lord Hill* and *Steven Maijoor*, clarifying the Parliament's negotiating position on managers' transactions provisions under the **Market Abuse Regulation (MAR)**.

They were not convinced by ESMA's proposed thresholds in relation to disclosure by Persons Discharging Managerial Responsibilities.

The PRA *consulted* on two draft supervisory statements on **Solvency II** reporting codes, covering the codes that insurers using internal models must assign to each component of their models and the codes for reporting information on life business or annuities that result from non-life business. The PRA also *published* a supervisory statement on regulatory reporting and internal model outputs under Solvency II.

Information security and data privacy

European trialogue discussions *commenced* on proposed reforms to **EU data protection laws**, marking the final stage of negotiations before the proposals are passed into law. Late in June, officials from the European Parliament, Council of Ministers and European Commission began work on finalising the wording of the General Data Protection Regulation. This would introduce a new single data protection law that will apply to all businesses processing personal data of EU citizens regardless of where they are based in the world.

Financial crime

IOSCO *published* a report on important elements for **credible deterrence** in international securities and investment markets: legal certainty; detecting misconduct; cooperation and collaboration amongst regulators; investigation and prosecution of misconduct, sanctions, public messaging; and regulatory governance. Credible deterrence must reflect the regulators' strategic objectives, powers, responsibilities, and the market context.

Other

The FCA *published* a policy statement setting out its 2015-16 **regulatory fees and levies** rules for the FCA, pensions guidance levies, the Financial Ombudsman Service (FOS) general levy and the Money Advice Service. The 2015-16 annual funding requirement remained unchanged from an earlier consultation, at £481.6m, an increase of £35.2mn (7.9%) from 2014-15, which includes a £27mn (6.0%) increase in charges for ongoing regulatory activities.

The PRA *published* **regulated fees and levies** rates for 2015-2016, with no changes made to the policies proposed in the consultation paper.

The EBA *updated* its **risk dashboard** for Q1 2015, summarising the main risks in the EU banking sector. Capital positions remained strong, with a CET1 ratio of 12.1 per cent as at Q4, an increase of 50 basis points compared to 2013. The quality of banks' loan portfolios remained weak but the problems were beginning to bottom out. Profitability showed a mildly positive trend, but return on equity remained subdued and materially below banks' average cost of equity. The EU average loan-to-deposit ratio had decreased further, to 108.6% in Q4 2014, its lowest since 2009, although there were material differences between countries, with a range from about 50% to more than 170%.

ESMA *published* its latest **risk dashboard**. Contagion, liquidity and credit risk remained high but stable, while market risk increased for the second quarter. Going forward, key concerns included high asset valuations driven by search-for-yield, weak economic prospects, resurgence of public debt policy issues in a number of EU Member States, and economic and geopolitical uncertainty. Meanwhile, according to the *EIOPA* quarterly **risk dashboard**, reinvestment risks remained high. Profitability would continue to be challenged by the persistent low interest rate environment, while Solvency II capital requirements were likely to increase awareness about exposure to products with long-term guarantees. In response, insurers were likely to adapt their business models and/or their asset liability management (ALM) strategies.

EIOPA also *published* its half-year report on **financial stability**. The key risks identified in the December 2014 report remained broadly unchanged and included increased credit risk and protracted low interest rates. The report included an overview of the European insurance sector and stated that profitability for life and non-life insurers remained a challenge, with the return on equity dropping in 2014 to 9.2% from 10.9% in 2013.

The FCA *appointed* Mark Steward as its new Director of Enforcement and Market Oversight, and Barbara Frohn as Director of Risk and Compliance Oversight. Both are expected to take up their roles in the early autumn. It also announced three recent appointments: Marc Teasdale, as Director of Market Oversight within the Enforcement and Market Oversight division; Jo Hill, as Director for Markets Intelligence, Data and Analysis; and Andrew Whyte, as Director of Communications within the Strategy and Competition division.

The BoE *announced* the appointment of Andrew Hauser as executive director for banking, payments and financial resilience, effective from 1 September 2015.

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