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October saw the Basel Committee on Banking Supervision (BCBS) discuss the net stable funding ratio (NSFR) standard. It agreed to allow national discretion for the treatment of derivative liabilities and stipulated that national authorities could reduce the Required Stable Funding for gross derivative liabilities to 5%.

The Financial Conduct Authority (FCA) published results of its Financial Lives Survey, finding that 50% of UK adults display one or more characteristics that signal their potential vulnerability, with the proportion rising steadily with age amongst older age groups.

On Brexit, the Bank of England (BoE) released a record of its Financial Policy Committee (FPC) Meeting of September, concluding it would be difficult for firms themselves to mitigate all risks to the servicing of derivative contracts between UK and EU27 counterparties.

The House of Commons Treasury Committee published a report on Solvency II and its impact on the UK insurance industry, highlighting that rules on Matching Adjustments, Volatility Adjustments, the Risk Margin and Internal Models could hamper competition. It advocated that a more principles-based approach should be pursued to avoid firms having to restructure their cash flows for purely regulatory reasons.

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Brexit

BoE **released** a **record of the FPC Meeting of September**, concluding it would be difficult for firms themselves to mitigate all risks to the servicing of derivative contracts between UK and EU27 counterparties. The FPC also found that European Economic Area firms branching into the UK would need to apply for new authorisations from the PRA to continue carrying out regulated activities in the UK.

In a speech entitled "Geofinance", Sam Woods, Chief Executive Officer of the Prudential Regulation Authority (PRA), **noted** the PRA's current planning assumption that all international banks will need to put **material retail business in a subsidiary**. He made clear his hope for a strong, co-operative relationship in which wholesale banks could continue to operate across the UK and EU27 in branches, and emphasised the need for a transition period.

Capital (including macro-economic issues and stress testing)

The BoE **confirmed** that its **reforms to the Sterling Overnight Index Average (SONIA) interest rate benchmark will take effect on Monday 23 April 2018**. It confirmed that the reforms will include the BoE taking on the end to end administration, including the calculation and publication of SONIA; and the coverage of SONIA being broadened to include overnight unsecured transactions negotiated bilaterally as well as those arranged via brokers.

The PRA **published** a policy statement on changes to the **UK leverage ratio framework** relating to the treatment of claims on central banks. It stated that it will exclude central bank claims matched by deposits in the same currency, increase the leverage ratio requirement from 3% to 3.25% of total exposures, and align the UK leverage ratio reporting and disclosure requirements to the proposed definition of the total exposure measure and 3.25% minimum leverage ratio requirement.

The PRA **published** a policy statement on **refining the Pillar 2A capital framework**, confirming that it will exercise supervisory judgement to adjust Pillar 2A add-ons for firms using the Standardised Approach for credit risk. This will be informed in part by comparison of firms' Pillar 1 capital charges to the upper bound of Internal Ratings Based (IRB) risk weights for comparable asset classes. The policy statement included a supervisory statement on the Internal Capital Adequacy Assessment Process (ICAAP) and Evaluation Process.

The PRA **published** a **policy statement following its IRB approach consultation**, clarifying its approach to the calibration of margins of conservatism when using external data to calculate Probability of Default and Loss Given Default for residential mortgages. It also specified that, when demonstrating an ability to monitor ratings systems, firms can include the use of provisioning models, scorecards, and rating assignment processes.

The PRA **issued** an update to its **supervisory statement on IRB approaches**, setting out a number of expectations, including that a firm should evidence that its complete IRB governance framework has been through at least one annual cycle prior to application.

The PRA launched a series of improvements to the implementation of **Solvency II**, including the **publication** of a Consultation Paper on Matching Adjustments. The PRA proposed that asset cash flows for which the timing is uncertain, but bounded, can be regarded as fixed for the purpose of demonstrating cash flow matching, provided those cash flows are recognised at the latest contractual date and that any additional amount contingent on the timing of cash flows is excluded.

The European Central Bank (ECB) **adopted** an **opinion on the Commission's proposal to amend the European Market Infrastructure Regulation** (EMIR). The ECB highlighted that risks may emerge if information arising out of the European System of Central Banks' (ESCB) policy operations were to be leaked to the public and if market participants could identify the transactions of the ESCB. The ECB accordingly concluded that it is important that central bank transactions are fully exempted from reporting requirements.

The European Commission **adopted** an Opinion in favour of allowing the ECB to regulate **central counterparties (CCPs)** for monetary policy purposes. It noted that the changes would complement the Commission's proposal to amend EMIR by adapting the legal framework applicable to the ECB.

The European Banking Authority (EBA) **published** its **latest Risk Dashboard**, summarising the main risks and vulnerabilities in the Q2 2017 EU banking sector. It highlighted that banks' loan portfolios had improved and that EU banks' profitability continued to improve slightly. However, the EBA noted certain risks including the risk of fragmentation of asset quality and low profitability, and risks regarding the current level of non-performing loans (NPLs).

The European Securities and Markets Authority (ESMA) **produced** its first **overview of EU derivative markets size and structure** based on weekly available EMIR data. It showed the breakdown between over-the-counter-derivatives and exchange-traded derivatives. Interest rate derivatives constituted the largest market (EUR 282tn), followed by foreign exchange derivatives (EUR 112tn). Equity, credit and commodity derivatives markets were reported as much smaller (EUR 36tn, EUR 13.8tn and EUR 9.1tn respectively).

The ECB published a **report** on financial structures that showed **ongoing consolidation in the banking sector**. The report found that the number of credit institutions declined further in 2016, bringing the cumulative decline since 2008 to 25%.

Conduct of Business (including MiFID)

The FCA **published** details of its Strategic Review of Retail Banking Business Models, to **examine the potential effects of major changes on retail banking business models**. This will include the role and economics of personal current accounts. The FCA noted, if, in future, the propensity of consumers to move personal current account balances from their main bank increases, this may affect larger banks' ability to use them to fund longer-term lending and so fulfil their traditional role of converting short-term deposits into longer-term lending.

The FCA **published** a policy statement on its review of the **effectiveness of primary markets,** to enhance and clarify rules around premium listing and change its approach to the suspension of listing for reverse takeovers. The FCA also **finalised** rules to improve the range, quality and timelines of information that is made available to market participants during the UK equity IPO process.

The FCA **published** findings from its work on **defined benefit pension transfers**, noting that firms had not taken on board some of the risks highlighted in an August FCA alert. The FCA found some cases of unsuitable advice caused by a lack of information sharing between the introducing firm and the specialist transfer firm, and by the specialist firm not having enough information about the client's objectives, needs, and personal circumstances.

The FCA **published** Guidance for firms on how to calculate **redress for unsuitable defined benefit pension transfers**, giving assumptions to be used when a customer received negligent advice. It provided specifics about retail price index inflation assumptions, consumers' retirement age, the pre-retirement discount rate, personal pension charges, post-retirement discount rates, and mortality calculations, amongst others.

The FCA **released** a statement on **MiFID II inducements and research**, which welcomed clarifications made by the European Commission and the US Securities Commission Exchange that would allow firms to continue to access US research from 3 January 2018.

The FCA **levied** a fine against a firm for failing to report transactions. The FCA said this was the **first enforcement action against a firm for failing to report details of trading in exchange traded derivatives under EMIR**, and reflects the importance it puts on this type of reporting.

Linda Woodall, Director of Life Insurance and Financial Advice at the FCA, gave a **speech on the ageing population and financial services**. She highlighted that, although not all older consumers are vulnerable, they are more likely to become so owing to life events, and that there was a risk that such customers' financial services needs were not met. She added that no single solution exists, but firms should consider the needs of older consumers in product and service design and customer support, and review and adapt strategies.

The FCA revealed findings from its first **Financial Lives Survey**, which found that 50% of UK adults (25.6 million) display one or more characteristics that signal their potential vulnerability. Furthermore, 69% of 75s and over, and 77% of 85s and over, were found to show characteristics of vulnerability.

The FCA launched its **Asset Management Authorisation Hub**, which seeks to clarify expectations and support firms with better guidance on regulations and processes.

The FCA published **lessons learned from the first two cohorts of its Regulatory Sandbox**. It found early indications that access to the regulatory expertise offered by the Sandbox had reduced the time and cost of getting innovative ideas to the market. It said that similar results were expected for the second cohort.

The PRA consulted on **changes to its large exposures framework**, noting that it will consider the likelihood that specific measures or restrictions will be, or have been, placed on a non-core LE group member by a regulatory or other body in another jurisdiction and whether such measures constitute a material impediment.

The European Supervisory Authorities received a mandate from the European Commission to issue recurrent reports on the **cost and performance of retail investment, insurance and pension products**. ESMA carried out initial analysis on fund performance measures and found, on average, ongoing fees, one-off charges and inflation reduced gross investor returns by 29% between 2013 and 2015.

Steven Maijoor, Chair of ESMA, spoke on the state of the **European financial markets**, noting that the implementation of MIFID II and PRIIPS, which seek to increase the transparency of costs and charges, provide the right framework for a study on fund performance mandated by the European Commission. He said ESMA will initially focus on the costs and performance of UCITS funds. In that context, it will also look at the differences between active and passive investing and the effect of costs and charges on long-term return.

The Commission published a draft Implementing Regulation on the **extension, by an additional six months until 15 June 2018, of the transitional periods related to own funds requirements for exposures** to CCPs set out in the Capital Requirements Regulation (CRR) and EMIR. It noted that a further extension of the transitional period should enable institutions established in the Union to avoid significant increase in own funds requirements due to the lack of completion of the recognition process for CCPs.

The European Commission and the US Commodity Futures Trading Commission (CFTC) announced a **common approach for the mutual**

recognition of EU and US derivatives trading venues. Under this approach, both EU and US companies will be able to trade certain derivatives on their respective trading venues while complying with their trading obligations.

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

The FCA **published** feedback, final rules and new proposals **on reviewing the funding of the Financial Services Compensation Scheme** (FSCS). The FCA sought views on reforming funding classes and provider contributions; and on whether requiring certain Personal Investment Firms to pay capital into a trust account, or purchase a surety bond, might ensure that more consumer claims are paid for by firms or their insurers, subsequently reducing the cost of the FSCS to other firms.

The BoE **published** its **latest Approach to Resolution**. The report observed how the Bank would likely implement a resolution by one of three strategies, covering bail-in, partial transfer and insolvency. It explained that prior to resolution, banks are expected to undertake a resolvability assessment to identify barriers to resolution. The BoE said it will publish summaries of major UK firms' resolution plans from 2019 and summary assessments of their effectiveness.

The FICC Markets Standards Board **published** its **Annual Report of 2017**, highlighting 26 behavioural patterns evident in market misconduct cases and emerging vulnerabilities. These included: repeated abusive techniques, potential vulnerabilities in electronic wholesale FICC markets such as governance of algorithms, and "next generation conduct issues" where market users are given direct electronic channels to allow them to trade in certain markets.

The European Commission **published** a report providing an **assessment of the setting up and functioning of the Single Supervisory Mechanism** (SSM), in view of determining its effectiveness as the first pillar of the Banking Union. The report found that the establishment of the SSM had been overall successful but noted several areas for improvement, including those related to decision making processes at the ECB and the efficient functioning of joint supervisory teams.

Regulatory perimeter

The PRA **published** its final approach and expectations in relation to the **authorisation and supervision of Insurance Special Purpose Vehicles**. It confirmed the approach it set out in earlier in 2017 and provided additional guidance on the fully funded requirement, Senior Insurance Managers Regime, and the fit and proper assessment of shareholders with a qualified holding.

The FCA **announced** that it is **reviewing the debt management sector**, based on a sample of both fee-charging and free-to-customer debt management providers, in order to build up a full picture of the sector. The FCA said it would look at the outcomes for customers from the on-going service they are given as well as the initial advice process.

The Financial Stability Board (FSB) **consulted** on **governance arrangements for the unique product identifier (UPI)**, as part of its work to develop a harmonised identifier to aid the aggregation of transaction reports for over-the-counter derivatives. The report suggests that governance should be driven by the public and regulatory interest and that UPI Governance Arrangements, technical guidance and UPI System should be managed on a need-only basis.

Rethinking the domestic and international architecture for regulation

In a **speech**, Andrew Hauser, Executive Director for Banking, Payments and Financial Resilience at the BoE, said that **FinTech will have profound implications for the set of financial services available to households and firms**, and that central banks need to engage fully with these technological changes to keep delivering their monetary and financial stability objectives.

The House of Commons Treasury Committee **published** a report on **Solvency II and its impact on the UK insurance industry**, highlighting that Solvency II rules on Matching Adjustments, Volatility Adjustments, the Risk Margin and Internal Models could hamper competition, and that a more principles-based approach should be pursued to avoid firms having to restructure their cash flows for purely regulatory reasons.

The EBA **published** its **work programme for activities in 2018** and a multiannual work programme highlighting key strategic areas of focus from 2018 to 2021. The EBA said that in 2018 it will focus on CRR/Capital Requirements Directive and Bank Recovery and Resolution Directive developments; reviewing the consequences of the revision of the trading book by the BCBS; enhancing its role as a data hub for banks in the EU; monitoring and evaluating the impact of Brexit; evaluating the Fintech regulatory perimeter; and contributing to tackling NPLs in Europe.

The EBA **launched** a consultation on changes to the **Pillar 2 framework** to review three guidelines aimed at enhancing institutions' risk management and supervisory convergence in the SREP. The EBA said it would focus on stress testing, particularly its use in setting Pillar 2 Capital guidance, as well as interest rate risk in the banking book (IRRBB).

The European Commission **published** a communication on **completing the Banking Union**, noting that while the completed parts of the Banking Union are functioning well, the European Deposit Insurance Scheme has yet to be completed and the Banking Union still lacks an effective, common backstop. The Council urged the European Parliament and Member States to reach a political agreement on a renewed commitment to complete the Banking Union by 2019.

The BCBS **published** its 13th progress report detailing the **adoption status of Basel III standards** and found that progress has been made in implementing the IRRBB, the net stable funding ratio (NSFR), and the large exposures framework. It highlighted that members are now turning to the implementation of total loss absorbing capacity holdings, the revised market risk framework, and the leverage ratio.

The BCBS **discussed** the NSFR standard and **agreed to allow national discretion for the NSFR's treatment of derivative liabilities**. It stipulated that national authorities could reduce the Required Stable Funding (RSF) for gross derivative liabilities to 5%. Under the NSFR framework, the RSF for gross derivative liabilities is currently set at 20%.

The BCBS **released** final guidelines on identification and management of step-in risk, with the aim of **mitigating potential spillover effects from the shadow banking system to banks**. The guidelines introduced an approach that does not prescribe an automatic Pillar 1 capital or liquidity charge additional to the existing Basel standards. The BCBS stated its expectation that the guidelines should be implemented in member jurisdictions by 2020.

The FSB **held** a **plenary meeting** where it discussed its **2018 work plan**, noting that monitoring and publicly reporting on member jurisdictions' implementation of agreed reforms remains a priority. The FSB stated it will undertake an evaluation of the effects of reforms on financial intermediation and infrastructure investment financing. In addition, the FSB confirmed Mark Carney would remain as chairman for another year.

Disclosure, valuation and accounting

The PRA published a **consultation** on **groups policy and double leverage**. This policy approach would require assessment and mitigation of the risks to group resilience due to the use of 'double leverage'; assessment and mitigation of the risks highlighted by prudential requirements applied by local regulatory authorities on overseas subsidiaries of UK consolidation groups; and improved monitoring of the distribution of financial resources across different group entities.

The PRA **published** a clarification on International Financial Reporting Standards (IFRS) 9 for ICAAP **2018 stress testing and capital planning**. It stipulated that firms should use the initial date of application of IFRS 9 as a starting point for their ICAAPs, that firms are expected to submit a full set of forecasts on an IFRS 9 basis for base and stress test scenarios, and that a firm using transitionals should produce base and stress-case capital ratios which incorporate the impact of IFRS 9 transitional adjustments.

The PRA **published** a supervisory statement on **Solvency II,** concluding that firms should report sensitivities to various changes in market risks half-yearly. It noted that these sensitivities should show the effect on assets, technical provisions (including the effect of the transitional measure on technical provisions) and other liabilities and ultimately on Own Funds as well as the Solvency Capital Requirement.

The ECB **published** an addendum to **guidance to banks on** NPLs, providing quantitative supervisory expectations for minimum levels of prudential provisions for exposures newly classified as Non-Performing Exposures (NPEs). It required that all banks should ensure prudential provisioning levels of 100% for the unsecured portion of new NPEs after two years, and 100% for secured portions after seven years.

ESMA **published** common enforcement priorities for **2017 IFRS financial statements**. Priorities included disclosure of the expected impact of implementation of major new standards; specific recognition, measurement, and disclosure of issues relating to IFRS 3 *Business Combinations*; and specific issues relating to IAS 7 *Statement of Cash Flows.* It also **published findings from its fact-finding exercise on disclosure** of the impact of the new accounting standards in 2016 annual and 2017 interim IFRS financial statements.

Information security and data privacy

The EBA launched a **public consultation** on the **draft Regulatory Technical Standards on home and host cooperation under the Revised Payment Services Directive (PSD2)**. The proposed framework specified procedures for requests for cooperation and exchange of information between competent authorities, including single contact points, language, standardised forms and timelines.

The FSB **published** a Stocktake of Publicly Released Cybersecurity Regulations, Guidance and Supervisory Practices capturing recent developments in the regulatory approach to **cyber security for financial services** among its 25 member jurisdictions. The Stocktake noted that all of the FSB's jurisdictions had at least one regulatory standard or supervisory initiative in place addressing cybersecurity, but that across jurisdictions the approach was often inconsistent in scope or maturity. It also noted significant upcoming activity on cyber risk by regulators and supervisors, with 72% of the FSB's member authorities reporting that they intended to announce new measures in the next twelve months.

Financial Crime

The FCA banned a **wife** and **husband** financial advisory firm from working in financial services for **integrity failings and attempting to mislead the FCA** in an interview.

Other

The European Commission **published** a report on securities financing transactions (SFT) and mitigating associated risks. The Commission concluded that there does not seem to be a need for further regulatory action at this stage. It noted it will **continue to monitor developments in SFT markets** and will reassess the added value of qualitative standards and haircut floors on the basis of a report to be prepared by ESMA once comprehensive SFT data is available.

The International Organization of Securities Commissions **organised** its first **World Investor Week**, during which securities regulators and stakeholders from more than 80 countries worked toward the common goals of educating and protecting investors and raising awareness of how to be a smart investor.

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