

Risk and Regulation Monthly



February saw some important milestones, including a long-awaited agreement between the European Commission and the US Commodity Futures Trading Commission (CFTC) on **central counterparties (CCPs)**, paving the way for their mutual recognition under the European Market Infrastructure Regulation (EMIR) and Dodd-Frank rules. The European Commission also published a formal proposal to delay the implementation of the revised **Markets in Financial Instruments Directive (MiFID II)** and **Regulation (MiFIR)** by one year.

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 European Banking Authority (EBA) *published* the final methodology and macroeconomic scenarios for the **2016 EU stress testing exercise**. Unlike previous exercises, the EBA did not define any capital thresholds, noting that banks had moved to a more “steady-state setting”. Banks would be subjected to four risk areas in the adverse scenario, with an abrupt reversal of compressed global risk premia being the most significant.

The European Central Bank (ECB) *published* a booklet on the methodology of the **Supervisory Review and Evaluation Process (SREP)**. In 2016 the methodology will be refined in certain areas, for example on liquidity and funding risk, harmonisation of the Internal Capital Adequacy Assessment Process (ICAAP) and stress tests.

The European Commission *published* an Implementing Decision updating the lists of **third countries** that are considered to have **equivalent supervisory and regulatory requirements** to those applicable to investment firms and exchanges under the **Capital Requirements Regulation (CRR)**. The updated lists now include countries such as Hong Kong, Australia, Indonesia and South Korea.

The EBA *published* an Opinion setting out principles and timelines for the **regulatory review of the internal ratings-based (IRB) approach** under the CRR. The Opinion repeated the EBA’s support for the continued use of the IRB approach and proposed changes in four phases, in areas such as the definition of default, estimation of risk parameters and credit risk mitigation techniques. The EBA wants all changes finalised by 2020.

The European Commission *amended* a Delegated Regulation on standards for **non-delta risk of options in the standardised market risk approach** under the CRR.

The EBA *published* final draft Implementing Technical Standards (ITS) to determine the allocation of risk weights to External Credit Assessment Institutions’ (ECAIs) **credit ratings for securitisation exposures**. While the EBA confirmed that the mapping for all ECAIs would be maintained for now, a review could happen at a later stage.

The European Commission *published* an Implementing Regulation on the **risk-free rate under Solvency II**. This laid down technical information to be used by insurance companies when calculating technical provisions and basic own funds for reporting with reference dates from 1 January until 30 March 2016.

The Prudential Regulation Authority (PRA) *published* a letter warning about the risks associated with the **transfer of longevity risk**. It expects firms to monitor, manage and mitigate such risks, which may involve additional measures besides holding more capital. Andrew Bulley, PRA Director of Life Insurance, also *warned* about the risks from longevity risk transfer during a speech on the evolving landscape under Solvency II.

The PRA *published* findings from its data review as part of the **internal model approval process under Solvency II**. It noted that firms had made “steady” improvements, particularly in the area of data governance and the IT systems that supported data governance. However, firms still struggled to classify and define data in a way that would be easy for end-users to engage with.

Liquidity

The Financial Conduct Authority (FCA) *published* some good practices for **liquidity management** in open-ended investment funds. These covered the disclosure of liquidity risks to investors, liquidity risk management and oversight, fund dealing, and the implementation of exceptional tools and measures.

Governance and risk management (including remuneration)

The PRA and FCA *notified* the EBA that they would not comply with that part of the **EBA Guidelines on Sound Remuneration Policies** which extends the “bonus cap” to smaller firms under the Capital Requirements Directive (CRD). The bonus cap limits the awarding of variable remuneration to 200% of fixed remuneration with shareholder approval. The PRA and FCA said they would comply with all other aspects of the EBA Guidelines.

The PRA and FCA *published* a joint policy statement on the implementation of the **senior managers and certification regimes (SM&CR)**, the **senior insurance managers’ regime (SIMR)**, and the PRA requirements on **regulatory references** for candidates applying for roles subject to the SM&CR or SIMR. The PRA will issue further rules on the content and format of the references as soon as possible. The FCA also *published* a policy statement containing final rules which extend the certification regime to the wholesale client-dealing and algorithmic trading functions.

The European Commission *amended* a Delegated Regulation on criteria to identify **categories of staff whose professional activities have a material impact on an institution’s risk profile under CRD IV**.

The PRA *published* a policy statement setting out the final rules and a supervisory statement on the **internal governance arrangements of UK branches of non-EEA banks and PRA designated investment firms**, known as ‘third country branches.’ The changes were made to ensure consistency with the SM&CR and to clarify the scope of the rules and terminology, but did not result in material policy changes.

The UK Government published an *Order* amending the Financial Services (Banking Reform) Act 2013, accompanied by an *explanatory memorandum*, to **amend the disciplinary provisions for approved persons**. The order comes into force on 7 March 2016.

The PRA *published* an update on **directors’ certificates accompanying regulatory returns under Solvency II** and shared examples and explanations for the possible wording of the certificates.

Sasha Mills, Director, Cross Cutting Policy, Bank of England, *spoke* on the **development of the internal audit (IA) function**. At the time of the financial crisis many IA functions had a position of “comfortable irrelevance” but they needed to be influential, independent and accountable. IA functions should scan the horizon for emerging risks, think about the firm’s culture and work with supervisors.

The FCA *fined* Achilles Macris, formerly at JPMorgan Chase Bank, £792,900 for **failing to be open and co-operative with the regulator**. In 2012 Mr Macris did not inform the FCA about concerns relating to a synthetic credit portfolio as required under the approved persons regime.

The FCA *fined* two firms (Milburn Insurance Company Limited and Coverall Worldwide Limited) and five individuals a total of £15.5mn, and banned four of those individuals, for **significant integrity and competence failings**. The PRA also *fined* Milburn Insurance Company Limited **£2.9mn** and one of the individuals **£25,173** for serious regulatory breaches.

Conduct of Business (including MiFID)

The European Commission proposed a **delay in implementation of MiFID II and MiFIR by one year** to 3 January 2018. It did not propose extending the transposition deadline for Member States, which remains at 3 July 2016. The Market Abuse Regulation (MAR) and the Central Securities Depositories Regulation (CSDR), which are amended by MiFIR, will still apply to firms from July 2016 and Q2 2018 respectively and will draw on MiFID I rules until the new application date of MiFID II. See our *blog for more information*.

The **Insurance Distribution Directive (IDD)** was *published* in the Official Journal of the EU and entered into force on 23 February, triggering a two year deadline for Member States to implement it. The IDD, which repeals the Insurance Mediation Directive, extends the scope of application to all distribution channels and includes provisions relating to advice on insurance products, conflicts of interest and administrative sanctions.

The European Commission *published* a Delegated Regulation under MAR specifying the requirements on competent authorities for **establishing an accepted market practice** (AMP). It lists the elements that should be considered in determining whether an AMP should be established, and sets out rules on public disclosures.

The European Securities and Markets Authority (ESMA) *published* a Discussion Paper regarding the technical implementation of the **Benchmarks Regulation**. This covers the criteria for determining “critical” benchmarks, the transparency of the benchmark methodology, the contents of the code of conduct specifying the responsibilities of benchmark contributors, and the recognition of third country administrators and benchmarks.

The FCA *published* a policy statement on **access to regulated benchmarks**. The new rules require regulated benchmark administrators to grant access to and licences to use benchmarks on a fair, reasonable and non-discriminatory basis, including with regards to price, to prevent them from abusing their market power. Edwin Schooling Latter, Head of Markets Policy, FCA, *said* benchmark users should seek assurances from administrators that they have plans to comply with the regulation. Users should also have contingency plans in case any benchmark they use becomes unavailable.

The International Organization of Securities Commissions (IOSCO) *reported* on its second review of the implementation of **IOSCO’s principles for financial benchmarks by administrators of EURIBOR, LIBOR and TIBOR**. These had implemented most of the recommendations made in the first report around governance, transparency and accountability, but work on the quality of the benchmark design was still at an early stage.

The FCA *published* a *policy statement* with rules implementing the **Undertakings for Collective Investment in Transferable Securities Directive (UCITS V)** requirements on remuneration and depositaries. The *UK legislation* transposing UCITS V requirements on depositary liability and sanctions was made, accompanied by an *explanatory memorandum*. *With minor exceptions, the UK implementation of UCITS V does not go beyond what is strictly required by the Directive*. The rules come into force on 18 March 2016.

ESMA *updated* its questions and answers (Q&As) on the **application of UCITS**. ESMA clarified the transitional provisions relating to the new disclosures on remuneration required under UCITS V.

ESMA *published* a statement providing details of its work on ‘**closet indexing**’, whereby fund managers claim to manage portfolios actively when in reality the funds stay close to a benchmark. Based on quantitative metrics, ESMA suggested that 5-15% of UCITS equity funds could potentially be closet-trackers. ESMA will continue to work with national regulators to coordinate further analysis at national level.

The FCA *published* a “Dear CEO” letter setting out the results from its review of the **procedures for taking on new clients** in a sample of ten firms offering contracts for difference products. The letter identified several areas of concern including an inability to conduct appropriateness assessments, inadequate risk warnings, and a lack of appropriate anti-money laundering systems and controls.

Andrew Tyrie, Chairman of the House of Commons’ Treasury Committee, *wrote* to George Osborne, Chancellor of the Exchequer, asking for clarification on **whether banks can offset the costs of fines** and other payments required by regulators **against their corporation tax bills**.

The FCA *reviewed* advisory firms’ **research and due diligence processes** in relation to the products and services they recommend to retail clients. While firms generally sought to achieve positive outcomes for their clients, the FCA found some weaknesses, including a lack of objective consideration particularly in relation to the selection of platforms, and inadequate management of conflicts of interest.

The FCA *published* a discussion paper on **how financial services work for older consumers**. This explored how older consumers assess their needs, how well financial products and services meet the needs of older people, and how communication channels can adapt to the needs of older people.

The European Insurance and Occupational Pensions Authority (EIOPA) *consulted* on the development of an **EU Single Market for personal pension products** (PPP). EIOPA proposed some standardised features for a voluntary regime for Pan-European PPPs, including standardised investor disclosures and limits to investment choices. EIOPA also asked for input on how these features could be applied to PPPs in general.

EIOPA *published* its retail **risk indicators methodology report for insurance business**, an initial step in implementing a comprehensive risk-based and preventative framework for conduct of business supervision. The indicators aim to identify potential risks to consumers, which will facilitate the exchange of consumer protection information between EIOPA and national competent authorities.

The FCA *consulted* on guidance on **enforcing security under the Consumer Credit Act 1974 (CCA)** with regard to guarantor loans. Under the FCA’s proposed new guidance, if a creditor wishes to request or take payment from a guarantor following non-payment by the debtor, this would require a default notice.

The FCA *published* a Call for Input on the **review of the CCA**. When the FCA took over responsibility for regulating consumer credit, some CCA provisions were repealed or replaced. It is now reviewing the remainder to consider if change is needed, and is seeking input on the priorities, timing and conduct of the review.

The Financial Ombudsman Service *reported* on the number of **complaints** received for the six months to 31 December 2015. Over half of the 164,347 new cases related to payment protection insurance (PPI), a 6% decrease compared to the first half of 2015. The number of complaints other than PPI decreased by 10%.

The FCA *fined* W H Ireland Limited (WHI) £1.2mn for failing to have appropriate systems and controls in place to **detect and prevent market abuse**. It also restricted WHI for a period of 72 days from taking on new clients in its corporate broking division.

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

The EBA *expressed dissent* over the European Commission's proposed amendments to the technical standards on the **minimum requirement for own funds and eligible liabilities (MREL)** in the Bank Recovery and Resolution Directive (BRRD). One of the main disagreements was over how much MREL systemically important banks should be required to issue. The EBA believed this should be equivalent to at least 8% of total liabilities, while the Commission argued the BRRD was not intended to harmonise MREL at a specific level.

The Single Resolution Board (SRB) *announced* it had started to collect **data for resolution planning and the determination of MREL**. It published the *Liability Data Template* and accompanying *guidance*. "Priority" banking groups have until 15 May 2016 to submit the data, while others have until 15 June 2016.

The European Commission *published* a Delegated Act on how resolution authorities can **exclude certain liabilities from bail-in**. It covered the acceptable circumstances for exclusion (including impossibility, time, value destruction and contagion), the type of justification that resolution authorities would have to provide for doing so, and the process for the European Commission's approval or rejection of the exclusion.

The Financial Markets Law Committee *wrote* to the Financial Stability Board (FSB) about **legal uncertainties** deriving from the FSB's Principles on **Loss-absorbing and Recapitalisation Capacity** of globally systemically important banks and its final total loss absorbing capacity (TLAC) term sheet. Divergent implementation would hamper effective cross-border resolution and cause uncertainty as to whether liabilities were eligible for TLAC.

The European Commission *published* the final text of a Delegated Regulation supplementing the **BRRD**. This covered the conditions under which the payment of extraordinary *ex-post* contributions may be deferred, and the criteria for the determination of critical functions and core business lines.

The PRA *published* the final methodology for the **identification of other systemically important institutions (O-SIIs)**, along with the *first list* of 16 banks designated as O-SIIs. However, the UK has opted not to impose higher capital requirements on O-SIIs.

The SRB *announced* that €4.3bn of 2015 ex-ante contributions had been transferred to the **Single Resolution Fund** by the end of January 2016. The SRB will communicate with Banking Union banks on their 2016 contributions by 1 May 2016; the contributions will be due by 30 June 2016.

Johannes Laitenberger, Director-General for Competition, European Commission, *spoke* on the **EU banking union and competition**. He talked about how state aid rules would interact with the BRRD, and the role of the Single Resolution Mechanism as a last-resort backstop.

The EBA *published* its final guidelines specifying objectives and minimum requirements for multilateral **cooperation agreements between depositary guarantee schemes (DGS)** under the Deposit Guarantee Schemes Directive. This focussed on repaying depositors in branches located in other Member States, transferring contributions from one DGS to another, and mutual lending between DGSs.

The European Systemic Risk Board (ESRB) *published* a working paper on **macro-prudential supervision** which proposed a system-wide approach towards both the assessment of financial imbalances and subsequent macro-prudential policies. It also *published* a paper on macro-financial stability under Economic and Monetary Union (EMU) that examined the cyclical behaviour of country-level macro-financial variables under EMU.

The EBA *updated* its **Risk Dashboard** for Q3 2015 on the EU banking sector. It showed that Common Equity Tier 1 ratios increased by 10 basis points to 13% compared to the previous quarter, that banks' profitability remained low and that the quality of banks' loan portfolios improved slightly, but remained a concern.

Regulatory perimeter

The European Commission and the US CFTC reached an *agreement* on **requirements for CCPs** under EMIR and the Dodd Frank Act, following three years of negotiations. The agreement paved the way for the European Commission to recognise the US framework for CCPs as equivalent to the EU and for the CFTC to finalise a substituted compliance regime for EU CCPs.

ESMA *issued* a set of opinions regarding the exemption of 16 UK **pension schemes** from the **clearing obligation under EMIR**. Following this, the FCA published a *list* of the types of UK pension scheme arrangements which were granted an exemption, until 16 August 2017, from the clearing obligation in respect of any OTC derivative contracts that are objectively measurable as reducing investment risks.

ESMA updated its **Q&As on EMIR**. It clarified the application of frontloading requirements and listed the conditions under which a swap which results from the exercise of a swaption might come under the clearing obligation. ESMA also updated some of the transaction reporting questions on access to data by competent authorities, and reporting of notional amounts in position reports.

The Payments Systems Regulator published an *interim report* on its market review into the ownership and **competitiveness of the infrastructure** that supports the UK's payment systems. It found that competition in providing infrastructure services is ineffective because a small number of Payment Service Providers (PSPs) own both the payment systems and their main infrastructure provider (VocaLink). It suggested, among other remedies, that PSPs divest their interest in VocaLink.

The FCA *called for* input on its approach to the current **payment services regime**, seeking views on its guidance on legal requirements set out in the Payment Services Regulations.

The ECB *published* a revised **oversight framework for retail payment systems** (RPSs) which updates the previous standards for euro RPSs. The revision takes into account the increased integration of RPSs in the Single Euro Payments Area and updated regulatory standards.

The European Payments Council *announced* that Jersey, Guernsey, and the Isle of Man will become part of the geographical scope of the **single euro payment area** schemes from 1 May 2016.

ESMA *published* its draft regulatory technical standards (RTS) on **settlement discipline under the CSDR**. CSDR provides for a mandatory buy-in process in the event of a settlement fail across a range of securities transactions. The draft RTS specify how firms can prevent and monitor settlement fails, and set out measures to address these fails including cash penalties and the buy-in process. ESMA proposes a phased-in implementation of the requirements.

The Committee for Payments and Market Infrastructures and IOSCO *issued* a joint statement on **CCP clearing of deliverable FX instruments** and the associated models for effecting their settlement. Irrespective of the settlement model used, CCPs are expected to ensure completion of same day settlement of obligations on the originally specified settlement date, and conduct appropriate due diligence on their participants' ability to manage the contingent liquidity obligations under their rules.

ESMA *published* a report on its **supervisory activities** in 2015 regarding **credit rating agencies (CRAs) and trade repositories (TRs)** and its supervisory priorities in 2016. In the coming year, ESMA will focus on supervising CRAs' governance and strategy, and improving the quality of credit ratings and TR data.

The European Court of Auditors *published* a report on **ESMA's role as supervisor of CRAs in the EU**. It said that ESMA had laid down good foundations for CRA supervision but there was scope for improvement. In particular, the CRA registration process remained complex, ESMA's rules and guidelines were not complete, and the scope of its supervisory activities not comprehensive.

IOSCO *issued* a press release following a meeting of its Board to assess and respond to the **challenges facing global securities markets**. The Board discussed the potential for new technologies to improve global market efficiencies, and agreed to intensify work on technological change, particularly block chain technology.

The FSB *published* a report on **possible measures of non-cash collateral re-use**, and the related data elements to monitor re-use that could be included in its global securities financing data standards. It discussed the scope of data collection, possible methodologies, and issues related to data architecture including data transmission from the reporting entity to the national authority and the national authority to the global level.

The FCA *consulted* on proposed **changes to its Handbook** to reflect the Government's plans to allow **loan-based crowdfunding investments** – known as peer-to-peer agreements – to be held in a new component of the individual savings accounts (ISAs) known as an innovative finance ISA.

ESMA *issued* a **follow-up peer review report** on the compliance of national competent authorities with its guidelines on **money market funds**. ESMA assessed the eight jurisdictions which had not fully applied the guidelines at the time of the last review, and found that in seven they were, or were about to be, fully applied.

Rethinking the domestic and international architecture for regulation

The European Commission published the *responses* received to its call for evidence on the **cumulative impact of financial legislation**. The FCA *published* its response, suggesting the alignment of implementation deadlines for related changes in order to avoid 'sequenced' and costly implementation, adding that legislation should be 'future-proof' and 'technology-neutral.' HMT also *published* its response, which said that the inconsistencies and unintended consequences caused by the quantity of European legislation were creating a barrier to the effective implementation of the financial stability regime and to the delivery of jobs and growth.

Jonathan Hill, EU Commissioner, *presented* his outlook for the **EU's approach towards prudential requirements**. He wanted financial services legislation to be "as simple as possible", and applied "in a way that takes account of their implications for European businesses" in light of a lack of EU economic growth.

The **G20 Finance Ministers and Central Bank Governors** held their first meeting under the Chinese Presidency. They warned about rising risks and vulnerabilities in the global economy, including “the shock of a potential UK exit from the EU”. Ahead of the meeting, the FSB published a letter setting out its work programme for 2016. Besides a continuation of several work streams, the FSB plans to assess the systemic implications of financial technology innovations and risks from operational disruptions.

ESMA published its first **Supervisory Convergence Work Programme for 2016** which set out how it would refocus its resources from the development of the single rulebook to supervisory convergence work. Key areas of focus will include MiFID II/MiFIR, the Capital Markets Union and fund passporting.

EIOPA published its **work programme for 2016**. Following implementation of Solvency II, its focus will move away from new regulatory developments and towards achieving supervisory convergence. Consumer protection will also be a priority for 2016, with a focus both on prudential and conduct issues.

The EBA published a revised **work programme for 2016**. Some of its work, for example on credit risk mitigation techniques and guidelines on intraday liquidity risk, will be postponed to 2017. It will also reduce the frequency of its remuneration benchmarking and high earners data reports, and cannot commit the desired level of resources on resolution planning and colleges and on benchmarking of Pillar 2 approaches.

The PRA consulted on its rules on **loan to income ratios in mortgage lending**. Under the Mortgage Credit Directive, from 21 March second and subsequent charge mortgages become regulated mortgage contracts. The PRA proposes to exclude these from its loan to income ratio limit until loan level data become available in 2017.

The National Audit Office assessed **the performance of the UK competition regime**. Coordination between the Competition and Markets Authority and other regulators had improved, but structural problems may work against coordination. The regime faced big challenges in increasing the number of enforcement decisions.

Chris Woolard, Director of Strategy and Competition, FCA, spoke on how **regulation can foster innovation in financial services**. The FCA’s Project Innovate had supported 52% of the 413 requests it had received. The FCA will also try to support “RegTech” developments.

The PRA and the FCA published a joint policy statement on reforming the legacy **credit unions** sourcebook. This also included rules on forms, transitional and consequential aspects of the new accountability framework for individuals. The PRA also published a supervisory statement on the prudential regulation of credit unions.

Danièle Nouy, Chair of the Supervisory Board of the ECB, spoke to the European Parliament’s Interparliamentary Committee. She highlighted **differences in national implementation** of EU regulations such as CRD IV and BRRD, and said consistent legislation was needed, ideally through EU Regulations.

The EBA published an Opinion on a decision by the National Bank of Belgium to extend **macroprudential policy measures** to counter a potential overvaluation of the Belgian real estate market. The EBA did not object to the use of macroprudential measures, but noted that the issues could be addressed in a more risk-sensitive way, for example by requiring changes to banks’ IRB models or stress testing as part of the SREP.

The FCA published an internal audit report on its **external communications strategy**. There was a good level of engagement between the Communications division and the rest of the FCA, but this could be improved in certain areas. Evidence of the approval process for external communications was not always retained.

The FCA published its fifth **data bulletin**. In 2015/16 the FCA requested 15 attestations from firms, and in Q2 2015 commissioned 13 skilled person reports. The number of complaints against the FCA has remained steady.

Disclosure, valuation and accounting

The European Commission published a Regulation that laid down ITS for the **disclosure of the leverage ratio for CRR firms**.

EIOPA consulted on principles-based guidelines aimed at establishing an effective **dialogue between insurance supervisors and statutory auditors**. The guidelines clarified the form of the dialogue, the type of information to be exchanged, and its frequency and timing.

ESMA consulted on guidelines on **market soundings and the delayed disclosure of inside information under MAR**. These covered the factors to be taken into account in assessing whether information disclosed as part of a market sounding is inside information, the steps that those receiving inside information as part of a market sounding should take, and the situations where the disclosure of inside information can be delayed.

Information security and data privacy

The European Commission presented the **EU-US Privacy Shield** which sets out the framework for commercial transatlantic data exchange. This includes Principles which are binding for companies, and written commitments by the US government to enforce the agreement, including limitations for access to data by public authorities. The EU privacy watchdog confirmed it plans to adopt an opinion on the proposed arrangements.

The Information Commissioner's Office *issued* new **guidance on encryption**. This advises companies to have their encryption software independently assessed where it is "of critical importance" to their operations and data handling procedures, and to implement documented policies governing the deployment of encryption solutions.

Financial crime

The Financial Action Task Force (FATF) *issued* a press release following its plenary meeting which announced the approval of a consolidated strategy that reflects the latest developments in **terrorist financing**. It also *updated* its non-binding guidance for a risk-based approach for money or value transfer services.

The Council of the EU *recommended* specific actions to address **terrorist financing**, including targeted amendments to certain legislative files, such as the Fourth Anti-Money Laundering Directive (AMLD IV) and the Second Payment Services Directive. It said these measures were needed to achieve progress in areas such as virtual currencies, pre-paid instruments and illicit cash movements.

The European Commission *published* an action plan on **terrorist financing**. It called on Member States to bring forward the transposition of AMLD IV, and promised to identify third countries with deficiencies and clarify the measures to be applied to these countries. It also proposed to extend the scope of the AMLD to virtual currency exchange platforms, and improve intelligence sharing.

Theresa May, Home Secretary, *announced* the launch of **the Joint Fraud Taskforce**. This was established with the financial sector and law enforcement agencies to improve intelligence sharing, increase public awareness and put in place interventions to support victims of fraud.

The BCBS *revised* its guide to account opening, as part of its guidelines on sound management of risks related to **money laundering and the financing of terrorism**.

The Policing and Crime Bill 2016 was *introduced* into Parliament. It included a tougher regime **for breach of financial sanctions**, with penalties increased from a maximum of two years' imprisonment to seven.

Other

HM Treasury *published* feedback on its consultation on **pension transfers and early exit charges**. It decided to introduce legislation that would require the FCA to cap early exit charges and the Pensions Regulator to issue new guidance for scheme trustees. It also recommended a new reporting regime for trust based pension schemes and additional guidance on the transfer process to support individuals.

The ESRB's Advisory Scientific Committee *published* a report on the financial stability risks associated with a **transition to a low-carbon economy**. This transition could happen gradually or "late and abruptly". The report recommended more disclosure of the carbon intensity of non-financial firms, potentially followed by the stress testing of related exposures to financial firms and capital surcharges or loss absorbency requirements.

Andrew Bailey, Deputy Governor, Bank of England, and Tracy McDermott, Acting Chief Executive, FCA, *appeared* before the Treasury Select Committee on the **UK's EU membership**. Tracy McDermott said that if the UK left the EU it would want domestic regulation in similar areas to those currently covered by EU regulation.

Contacts

Clifford Smout

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

Joy Kershaw

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

Georgia Mantalara

Senior Associate, EMEA Centre for Regulatory Strategy
+44 (0)20 7303 8979

Alexandra Boehme

Associate, EMEA Centre for Regulatory Strategy
+44 (0)20 7303 7960

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. J5379