

Risk and Regulation Monthly



January saw a number of important milestones. The **Solvency II Directive** came into effect, introducing the new capital regime for insurers in the EU. The **Single Resolution Board (SRB)**, overseeing bank resolvability in the Banking Union, assumed its full powers. The Basel Committee on Banking Supervision (BCBS) published the final rules for the **Fundamental Review of the Trading Book (FRTB)**. Finally, Andrew Bailey was appointed **Chief Executive of the Financial Conduct Authority (FCA)**.

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Capital (including stress testing)

The BCBS *published* the **FRTB final rules** that set out a stricter boundary between trading and banking books and a more prescriptive Internal Models Approach (IMA). Value at Risk (VaR) was replaced with an 'Expected Shortfall' measure calibrated to a stressed period and with higher capital charges for certain risk factors. The BCBS also introduced a more risk sensitive Standardised Approach that will be used for all securitisation trades. The FRTB rules are expected to be implemented by 31 December 2019.

The BCBS also *announced* it proposed removing the Advanced Measurement Approach for **operational risk** and revising the IMA for **credit risk**, including development of a capital floor. It confirmed that the **leverage ratio calibration** would be completed by the end of 2016, based on a minimum of 3% Tier 1 capital, and could contain "additional requirements" for global systemically important banks (G-SIBs).

Andrea Enria, Chair of the European Banking Authority (EBA), *notified* the European Commission of a **delay in various technical standards under the Capital Requirements Directive IV and Regulation (CRD IV / CRR) and the Bank Recovery and Resolution Directive (BRRD)**. The technical standards, many of which were due by end-2015, include a consultation on draft Regulatory Technical Standards (RTS) on market risk assessment methodology (now expected by September 2016) and several technical standards on internal models (now end-2017). The EBA might also not be able to deliver a biannual report on overreliance on ratings in 2016, as well as reports on the duplication of requirements on derivatives transactions under CRR and the European Market Infrastructure Regulation (EMIR), and own funds requirements for central counterparties (CCPs) under EMIR.

The European Commission *reported* on the **appropriateness of the definition of "eligible capital" under CRR**. The Commission did not find any evidence that there was an issue with the transitional system in place and decided that no legislative amendments were necessary.

The EBA *consulted* on draft guidelines on **implicit support for securitisation transactions**. The guidelines clarified provisions of the CRR that restrict implicit support for securitisations, unless transactions are carried out 'at arm's length'. The EBA set out the conditions under which a transaction can be considered 'at arm's length', and for assessing when a transaction is not structured to provide support.

The European Central Bank (ECB) *published* a letter setting out its expectations in relation to information on the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) submitted for Supervisory Review and Evaluation Process (SREP) purposes. The ECB will periodically collect information on significant institutions' ICAAPs and ILAAPs, in line with EBA guidelines. The ECB expected firms to provide ICAAP and ILAAP information by 30 April of each year, with the preceding yearend as the reference date. The first such submissions are expected by 30 April 2016.

The **European Systemic Risk Board** (ESRB) published recommendations on *recognising and setting countercyclical buffer rates for exposures to third countries* and on *assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures*. The first recommendation was designed to ensure that the same counter-cyclical buffer rate for exposures to a particular third country would apply across the EU. The second set out the framework for dealing with the cross-border effects of macroprudential measures and established a mechanism for voluntary reciprocity with regard to these measures. The ESRB also published decisions on *assessment of materiality of third countries for the EU banking system* (in relation to the recognition and setting of countercyclical buffer rates) and on a *coordination framework for the notification of national macroprudential policy measures by relevant authorities, the issuing of opinions and recommendations by the ESRB*.

The Bank of England's Financial Policy Committee (FPC) *consulted* on a framework for the **systemic risk buffer** to apply to ring-fenced banks (RFBs) and large building societies with total assets above £175bn. The FPC proposed a range of 0-3% CET1 capital based on individual banks' total assets. The FPC expected the largest ring-fenced bank in 2019 to have a systemic risk buffer of 2.5%. For G-SIBs subject to both the G-SIB and systemic risk buffers, on the consolidated level the higher of the two will apply. In addition to the minimum 3% leverage ratio requirement, RFBs will also need to meet an Additional Leverage Ratio Buffer that will be set at 35% of the applicable systemic risk buffer. The Bank of England *notified* the ESRB that the UK had decided to recognise all Member States' shorter transitional periods for the **capital conservation buffer and the countercyclical capital buffer** from 2016.

The Prudential Regulation Authority (PRA) *published* a policy statement on **amendments to the Pre-Issuance Notification (PIN) regime** applicable to firms and insurers in the scope of the CRR, including final rules. The PRA modified its rules to continue to allow CRR firms and insurers to issue capital instruments on short notice provided they met certain conditions, including that the new issuance had substantively the same terms as other issuances within the previous twelve months.

On 1 January 2016, **Solvency II** became *applicable*. The Directive introduces a harmonised EU-wide insurance regulatory regime with risk-based capital requirements, robust risk management and governance rules and enhanced reporting and disclosure requirements.

The European Insurance and Occupational Pensions Authority (EIOPA) *published* an opinion on the **application of a combination of methods to the group solvency calculation under Solvency II**. Firms can make the calculation on the basis of consolidation, deduction and aggregation, or a combination of the methods. EIOPA recognised that combining methods could lead to unintended consequences and suggested safeguards to address prudential concerns and ensure no group was placed in an advantageous position.

EIOPA *published* the results of the first **stress test for occupational pensions** that included seventeen EEA countries with material occupational pension sectors (over €500mn in assets). In order to compare stress test results, EIOPA developed a common methodology using market-consistent valuation for assets and liabilities, but also conducted an assessment based on national balance sheets. Defined benefit and hybrid schemes demonstrated "relative resilience" to a permanent decrease of 20% in mortality rates, but appeared to be more sensitive to an abrupt drop in interest rates and an increase in inflation rates. For defined contribution schemes, the impact on pension levels was very dependent on the number of years a plan member had before retirement.

Sam Woods, Executive Director of Insurance at the PRA, *published* a letter on the **PRA's use of the "Quantitative Framework"** for assessment of Solvency II internal models. The letter clarified the factors the PRA will take into account when monitoring individual capital positions, and emphasised it did not intend to "deploy a single ratio" above the Solvency Capital Requirement as a formal intervention point, but use monitoring tools to inform its judgement-based approach. A "significant number of firms" had decided to take more time to develop their models, and the PRA expected these to apply for internal model approval in 2016/7.

Liquidity

Stefan Ingves, Chair of the ESRB's Advisory Technical Committee, *wrote* to Andrea Enria, Chair of the EBA, outlining the ESRB's response to the consultation on the **methodologies for calibrating the Net Stable Funding Ratio (NSFR)** as mandated under the CRR. The ESRB welcomed the consistency of the EBA's approach with the BCBS methodology and the implementation of the NSFR as a time-varying macroprudential tool. It supported the application of the NSFR on both a consolidated and individual level, with appropriate waivers and exemptions, with a majority also supporting a NSFR requirement for "significant" currencies.

The European Commission *adopted* a Delegated Regulation supplementing the CRR with technical standards specifying the conditions for **the application of the derogations concerning currencies with constraints on the availability of liquid assets**.

The derogations addressed the difficulties faced by firms in meeting their liquidity coverage requirement in such currencies.

Governance and risk management (including remuneration)

The PRA *consulted* on new rules on **buy-outs of variable remuneration** to ensure that adjustments could be applied to such awards where appropriate. These new arrangements should be managed through the contract between the new employer and employee, allowing for malus or clawback to be applied should the old employer determine the employee was guilty of misconduct or risk management failings. The proposed rule would also allow new employees to apply for a waiver if they believed the determination was unfair or unreasonable.

Following the publication of a review into the failure of HBOS, the FCA and the PRA *initiated investigations into certain former HBOS senior managers*, to determine whether any prohibition proceedings should be commenced against them.

The PRA banned *Barry Tootell*, former Chief Financial Officer and Chief Executive of the **Co-operative Bank** Plc, and *Keith Alderson*, the former Managing Director of the Corporate and Business Banking Division there, from significant-influence functions in PRA-authorized firms, and fined them £173,802 and £88,890 respectively. Both were found not to have exercised "due skill, care and diligence" in carrying out their roles, while Mr Tootell was said to have encouraged a culture of "prioritising the short-term financial position" of the firm.

The FCA *acknowledged* there was uncertainty as to whether an individual in charge of a firm's legal function required **approval under the new Senior Managers Regime (SMR)**. It intended to consult on the pros and cons of extending the scope of the regime to these individuals, and advised firms not to change their approach until a final decision was made.

The FCA *responded* to a request for information under the Freedom of Information Act regarding its decision to cease the **thematic review on banking culture**, *revising* its response to disclose the existence of a draft paper on the subject of culture, which was prepared with the intention of being submitted to the FCA's executive committee. This was provided to the Treasury Select Committee, but was not disclosed on the basis that it might be subject to parliamentary privilege and, therefore, exempt from disclosure to the public.

Conduct of Business (including MiFID)

The European Securities and Markets Authority (ESMA) *consulted* on guidelines on **market soundings and delayed disclosure of inside information under the Market Abuse Regulation (MAR)**. It outlined factors that recipients of market soundings should consider in assessing whether information disclosed as part of a market sounding was inside information. ESMA also proposed steps that recipients of such information should take, as well as internal procedures, training and record-keeping requirements. The guidelines also detailed legitimate interests of the issuer that were likely to be prejudiced by immediate disclosure of inside information and listed situations in which delay in disclosure was likely to mislead the public.

EIOPA *published* an **online survey** in preparation for a call for advice from the European Commission on delegated acts under the Insurance Distribution Directive on product oversight and governance arrangements, conflicts of interest, inducements, and the assessment of suitability and appropriateness of products.

The chairs of the **European Supervisory Authorities (ESAs)** *sent* a letter to Commissioner Hill, raising concerns about inconsistencies in EU legislation on the cross-selling of financial products in the insurance, banking and investment sectors. The ESAs asked the Commission to assess the differences in legislation and consider steps to ensure that the ESAs could regulate cross-selling practices in a consistent way, to the benefit of consumers, financial institutions, and supervisory authorities.

The UK government *published* the legislation incorporating the Mortgage Credit Directive (MCD) into UK law. While the MCD requires few changes to UK law, it does bring the regulation of 'second charge' mortgage lending into line with 'first charge' lending and introduces new rules for buy-to-let lending, where the lending is to consumers rather than for business purposes. Responses to HM Treasury's consultation were also *published*. The FCA *consulted* on minor changes to its rules and guidance on the implementation of the MCD.

The FCA *published* the minutes of its latest **roundtable on implementation of the Markets in Financial Instruments Directive II (MiFID II)**. The FCA characterised its previously published consultation paper as "largely legal carpentry" with "limited discretion for domestic interpretation". It also confirmed it intended to replace its transaction reporting guidance with ESMA's reporting guidelines. The FCA's second consultation paper on investor protection issues is expected to be published in the first half of 2016.

The FCA *published* its latest **policy development update** containing a timetable of upcoming publications, including a policy statement on the implementation of MiFID II, disclosure to consumers by non-ring-fenced bodies, and non-discriminatory access to benchmarks.

The FCA *consulted* on **guidance for voluntary redress schemes**, to cover how the FCA could exercise its new powers under the Consumer Rights Act 2015, allowing it to approve a redress scheme in relation to an infringement of the prohibitions on anti-competitive behaviour.

The FCA and the Competition and Markets Authority (CMA) *established* a memorandum of understanding (MoU) on the **use of concurrent powers under consumer protection legislation**, which replaced the MoU signed in July 2014. The MoU set out the roles and responsibilities of both authorities. They agreed to cooperate proactively in matters of common interest and prevent the duplication of work.

The CMA *announced* it expected to extend the timetable for its **investigation into retail banking** in order to allow further analysis of a number of competition issues identified in the provisional findings. There would be further work to establish the impact of the capital requirements regime on competition and additional analysis on the bank levy and corporation tax surcharge. The CMA will decide on the length of the extension by early March, when it will set out the timetable for the publication of the provisional decision on remedies.

EIOPA *published* its **strategic approach to risk-based and preventive conduct of business supervision**, which emphasised the need for a comprehensive European framework. A key element of the proposed supervisory approach is “smart regulation” that “focuses on outcomes and moves away from a legalistic, ‘tick-box’ approach”. To implement this framework, EIOPA intended to use various tools, including thematic reviews, consumer trends reports and surveys.

ESMA *published* the results of a review conducted among five national competent authorities (NCAs) under the **Short-Selling Regulation (SSR)**. This assessed how the NCAs applied the exemption for market making activities and whether they were complying with ESMA’s Guidelines that require market makers to notify exemptions to the relevant NCA. ESMA found NCAs were sufficiently equipped to handle this process but were not properly seeking advance assurances of market makers’ compliance with organisational requirements.

ESMA *issued* a **negative opinion** on extending the Greek **short selling ban** regarding Attica Bank S.A. It stated that “adverse developments which constituted a serious threat to market confidence in Greece could be understood as having considerably decreased”. The FCA introduced one-day short selling bans in relation to *Banca Monte dei Paschi di Siena S.p.A.*, *Mota-Engil SGPS SA* and *Banco Popolare*; these actions followed decisions made by respective NCAs.

George Osborne, Chancellor of the Exchequer, *announced* an end to “prohibitive” **exit fees** faced by those eligible for **pension freedoms**. He proposed placing a duty on the FCA to cap these charges, as part of the response to the Pensions Transfers and Exit Charges consultation launched in July 2015.

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

The FSB *published* responses to its consultations on *temporary funding in resolution* and *operational continuity*. While the respondents generally supported the FSB’s proposals, they pointed out difficulties in applying a “one-size-fits-all” approach to the variety of banks’ business and operating models and their different needs during each stage of stabilisation and restructuring. Several suggested that the possibility of banks obtaining public funding and liquidity backstops during resolution should not be entirely abandoned by the FSB.

The SRB *published* the list of banks under its remit, including the 129 ‘significant’ banks directly supervised by the ECB, and 15 cross-border groups. The Board *held* its first Press Conference at its new premises where Elke Koenig, SRB’s Chair, spoke about its work to date and plans for 2016, most important of which would be drafting resolution plans. The SRB also *organised* the second industry dialogue meeting that focused on the **minimum requirement for own funds and eligible liabilities** (MREL) and confirmed that during the year it would decide on MREL for all major banking groups in the Banking Union. Separately it confirmed that a short version of the resolution manual and a crisis management manual would be published this year.

The SRB’s agreement with the **European Parliament** on the Board’s democratic accountability and oversight was *published* in the OJ. The SRB reports to the Parliament annually, participates in public hearings, seeks approval for Board candidates, and cooperates with the Parliament in adopting the Board’s acts.

The EBA *acknowledged* a notification from Banco de Portugal on **completion of the resolution of Banco Espírito Santo** through the re-transfer of five senior bonds from Novo Banco to Banco Espírito Santo. The EBA also *acknowledged* an updated notification from the Central Bank of Hungary on the application of the asset separation tool and related resolution measures for MKB Bank Zrt. The Bank of Greece *notified* the EBA about resolution measures applied to Cooperative Bank of Peloponnese Coop Ltd after the withdrawal of its license.

The ESRB *reported* on the **systemic risk implications of CCP interoperability arrangements**, particularly when different CCPs clear the same financial instruments, when the arrangements create significant complexity in risk management systems, or add direct contagion between CCPs. The ESRB proposed further harmonising of interoperability arrangements, and further work on derivatives, and on recovery and resolution.

The FCA *published* details of a **modification by consent of contractual recognition of bail-in rules** under the BRRD. Firms and holding companies are required to include a term in contracts for certain third-country law liabilities under which the creditor agrees to the possibility of write down or conversion by a resolution authority. The FCA modified this rule to allow dis-applying it in circumstances where compliance was impracticable with regard to certain liabilities.

Regulatory perimeter

ESMA *published* a letter from the European Commission in respect of ESMA's advice on the **application of the Alternative Investment Fund Managers Directive (AIFMD) passport to non-EU AIFMs and AIFs**. The Commission asked ESMA to complete the assessment of the USA, Hong Kong, Singapore, and six other jurisdictions by 30 June 2016. ESMA was also invited to provide a more detailed assessment of the capacity of the relevant third countries' supervisory authorities in ensuring effective enforcement of the rules, and to conduct a preliminary assessment of the expected inflow into the EU of funds from these countries.

The FCA *consulted* on rules to simplify **client money requirements** for firms that operate electronic systems in relation to lending (P2P platforms) and hold both regulated and unregulated client money accounts. The FCA proposed to allow firms that hold money in relation to both P2P and business to business agreements to elect to hold all lenders' monies under the same account.

The PRA *issued* guidance on **waivers under the Financial Conglomerates Directive (FICOD)**. The Directive contains various provisions under which the PRA can modify the rules or waive the PRA Rulebook rules that apply to financial conglomerates, including on a case by case basis to change the definition of financial conglomerate and the applicable obligations, and exclude a particular entity from the scope of capital adequacy requirements that apply with respect to a financial conglomerate.

ESMA *published* the presentation from the hearing on the Discussion Paper on the **validation and review of methodologies of credit rating agencies (CRAs)** published in November 2015. The paper requested views on how CRAs should demonstrate rating methodologies' 'discriminatory power', 'historical robustness', 'predictive power' and 'sensible predictors of creditworthiness'. It also sought views on how CRAs should meet the requirement on identifying and addressing systemic credit rating anomalies highlighted by back-testing.

The European Court of Auditors *reported* on ESMA's supervision of CRAs. The report found that overall ESMA had laid down good foundations for supervising CRAs in a short period of time. The report recommended that ESMA should improve the traceability of the risk identification processes and follow-up on high-risk areas, and consider developing additional guidance on disclosure requirements.

ESMA *published* materials from its second **financial innovation day** on the topic of **innovation in a Capital Market Union**. The panel discussions focused on crowdfunding, whether innovation could reduce the liquidity gap in corporate bond markets, block-chain technology, and leveraged loan funds. Verena Ross, ESMA's Executive Director, mentioned that block-chain was 'the innovation of the moment' and it could contribute to reducing costs and increasing security and transparency in the financial system.

The European Parliament *approved* a report on the **future shape of the Digital Single Market**, urging the European Commission to table new initiatives to break down barriers in the provision of goods and services online. Proposals included cutting red tape for start-ups, updating copyright provisions, simplifying VAT rules, addressing data protection issues and examining the impact of new online platforms and patterns of consumption. The MEPs also expressed concerns about diverging national approaches in the regulation of internet and online business activities.

Rethinking the domestic and international architecture for regulation

The ECB *set out* its supervisory priorities for the Single Supervisory Mechanism (**SSM**) in 2016. It listed five key priorities, with business model and profitability risk ranked at the top. Other priorities included credit risk, capital adequacy, risk governance and data quality, and liquidity. To support these priorities, the SSM will launch specific pieces of work, including a review of bank profitability drivers, a task force to review institutions with a high level of non-performing loans, an assessment of the impact of IFRS 9 on provisioning, and a review of compliance with the BCBS' principles for effective risk data aggregation and risk reporting (BCBS 239).

Sabine Lautenschläger, Member of the ECB's Executive Board, *spoke* about the **first year of the SSM and priorities for 2016**. The ECB would focus on banks' business models, the large stock of non-performing loans in certain banks, and capitalisation levels, particularly loss absorbency requirements. In 2016, the SSM will also focus on "formulating specific requirements concerning risk management and data quality" and concentrate on banks' internal liquidity management, amid concerns that banks were failing to meet expectations in this area.

Sabine Lautenschläger also spoke about supervisory and regulatory **harmonisation in Europe** at a workshop organised by the European Banking Institute. There remained "unjustified differences" across Europe, for example in "fit and proper" assessments of those on bank management bodies. There was also fragmentation where non-binding supervisory practices were converted into binding legal acts by national legislators.

The Bank for International Settlements' (BIS) Committee on the Global Financial System *reported* on **volatility in fixed income market liquidity**. It found that key drivers of current trends in liquidity included the expansion of electronic trading, dealer deleveraging and unconventional monetary policies. Regulators faced a short-term trade-off between less risk-taking by banks and more resilient market liquidity. The report argued for a close monitoring of liquidity conditions as well as an ongoing assessment of how new liquidity providers and trading platforms were affecting the distribution of risks among market participants, including the impact of algorithmic trading and the effectiveness of trading mechanisms to deal with market stress.

Steven Maijoor, ESMA's Chair, *discussed* the **impact of low rates** on investor behaviour, liquidity and the role of the non-banking sector at the Asian Financial Forum. He said the low rate environment risked 'creating bubbles' and stressed that liquidity remained 'a complex issue for regulators to address'. He believed that striking the right balance between transparency and investor protection would contribute to enhancing liquidity.

Andrew Bailey, Chief Executive Office of the PRA, *was appointed* the **new chief executive of the FCA** for a five-year term and will take up his new role once a successor at the PRA has been found. The UK Government also announced the appointments of Ruth Kelly, Bradley Fried, Baroness Hogg and Tom Wright as Non-Executive Directors of the FCA. Following Andrew Bailey's appointment, Andrew Tyrie MP, Chairman of the Treasury Select Committee, *wrote* to George Osborne saying there was "the perception that the financial regulators, particularly the FCA, have become vulnerable to political pressure". To tackle this issue he proposed that the **Committee be able to veto** the appointment or dismissal of the FCA and PRA Chief Executives.

The FCA *published* the outcome of an **independent review into the effectiveness of its Board**. Management of stakeholders was seen as particularly challenging, and "recent interventions by HM Treasury and other bodies have raised questions from directors regarding the board's independence". These external interventions, along with high levels of public scrutiny and criticism, were said to have negatively affected morale within the organisation. The FCA also *published* the outcome of the equivalent review for 2014.

The House of Commons *published* oral evidence given by John Griffith-Jones, the FCA's Chairman, and Tracey McDermott, its Acting Chief Executive, to the Treasury Select Committee on 20 January. While it focused mainly on the **recent cancellation of the thematic review into banking culture**, there were broader questions on the FCA's independence and reputation, its overall communications strategy, and the selection of the new CEO. The decision to cancel the thematic review reflected the realisation that the FCA could not identify an ideal banking culture suitable for all. Tracey McDermott said that the FCA would focus instead on individual supervision, including annual "deep-dive" assessments into firms.

The **Payment Systems Regulator's Payments Strategy Forum** *convened* a first set of industry roundtables. The Forum, tasked with the development of a strategy for payment systems in the UK, provided an update on its work during 2015, including the establishment of terms of reference, its list of priorities, and working groups.

The European Parliament's Economic and Monetary Affairs Committee (ECON) *reported* on **challenges in EU financial services regulation**. It called on the Commission to publish a Green Paper exploring new approaches to promote proportionality in financial regulation, and prepare a report on all "gold-plating" measures taken by Member States. It also suggested that the Commission conduct a comprehensive and qualitative assessment of the cumulative impact of EU financial services regulation on markets every five years, with the first such report published by the end of 2016. The report was *adopted* by the European Parliament.

The PRA and FCA *launched* a **New Bank Start-up Unit** as a joint initiative to support banks throughout the authorisation process. The PRA also *published* guidance providing details on "becoming a bank in the UK".

The International Association of Insurance Supervisors (IAIS) *launched* a **thematic self-assessment and peer review relating to the Insurance Core Principles** on macroprudential surveillance and insurance supervision (ICP 13) and reinsurance and other forms of risk transfer (ICP 24).

Disclosure, valuation and accounting

The BCBS *updated* its assessment **methodology for the identification of G-SIBs** and *issued* a **reporting template** for the end-2015 exercise. The EBA also revised final draft *regulatory* and *implementing* technical standards, and *guidelines* obliging **large and potentially systemic institutions** to adhere to the same disclosure requirements as G-SIBs, whereby EBA acts as a platform to aggregate data across the EU.

The European Commission *reported* to the European Parliament and the Council on **the impact of the revised International Accounting Standard (IAS) 19 on the volatility of firms' own funds**. The revised standard introduced changes to the valuation of defined benefit pension fund assets, which are deductible from CET 1 capital items. The Commission found that, on average, there was limited volatility of own funds and only a small minority of firms may be materially affected. Any impact would be mitigated by the appropriate transitional provisions provided in the CRR. No legislative proposal to amend the CRR was needed.

The PRA *published* a policy statement on **engagement between external auditors and supervisors** setting out feedback and links to final rules.

External auditors of the largest UK-headquartered deposit-taking institutions (with balance sheets greater than £50bn) that are not subsidiaries of non-UK firms are required to submit a written auditor report to the PRA. The regime will commence during the audit cycle for reporting periods ending on or after 1 November 2016. The PRA also provided a final statement on its disciplinary powers over external auditors which take effect immediately. Alongside this publication, the PRA published a *statement of policy* on its **approach to enforcement** to reflect the new and amended *statements of policy*, as well as a *supervisory statement* setting out its **expectation of auditors in relation to the written reports to the PRA**.

The PRA *published* a policy statement on changes to **Pillar 2 data items and reporting instructions**. As the PRA did not receive any feedback to its proposals, the final rules were predominantly in line with those laid out in the consultation. The PRA also *updated* its supervisory statement on Pillar 2 reporting to reflect the changes.

The EBA *announced* an **impact assessment of the forthcoming IFRS 9 Financial Instruments standard on regulatory own funds**. The impact assessment, which covers approximately fifty EU banks, will allow the EBA to understand the interaction between IFRS 9 and other prudential requirements, as well as the way banks have prepared for the application of IFRS 9. This assessment will be repeated over time.

Information security and data privacy

Andrew Tyrie, Chairman of the Treasury Select Committee, commented on the *publication* of his **correspondence with RBS, HSBC, Barclays, the FCA and the PRA in relation to IT system failures**. Noting that IT failures were not only a matter of conduct risk but also of systemic risk, he urged the regulators, particularly the head of the PRA, to take a leading role in a concerted effort by regulators and government agencies to bring about improvements and to protect the public from exposures to the risks of banking failures.

Financial crime

HM Treasury *published* a final report on the **Insurance Fraud Taskforce's (IFT) review into insurance fraud** that focused on personal injury claims. The IFT stated that detected insurance claims fraud was over £1bn a year in the UK, while undetected fraud might be twice this. It recommended that industry solutions rather than legislative changes were the way forward. Key recommendations included improving the data available in fraud databases and data sharing schemes, improving cross-industry coordination to tackle premeditated claims, and toughening action against dishonest solicitors.

Other

The BIS's Markets Committee *reported* on **electronic trading in fixed income markets**. Advances in technology and regulatory changes affected the economies of scale of intermediation. Electronic trading was changing the behaviour of buy-side investors as they extended their use of execution strategies, in particular complex algorithms. Automated trading in particular posed a number of challenges to policymakers and should be properly monitored. Further investigation into its impact on market quality was also needed. Regulation and best practice guidelines should be repeatedly reviewed and adapted as markets evolved.

The PRA and FCA *consulted* on the proposed **management expenses levy limit** for the Financial Services Compensation Scheme for 2016/17, of £72.7mn.

Anneli Tuominen was *appointed* **Vice Chair of ESMA** for a 2.5 year term. She is Director-General of the Finnish financial regulator and will replace Carlos Tavares, former Chairman of the Portuguese Securities Market Commission.

Fausto Parente, the head of the Supervisory Regulation and Policy Directorate at the Istituto di Vigilanza sulle Assicurazioni, was *elected* as the new **Executive Director of EIOPA** for a five year term.

Contacts

Clifford Smout

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

Katya Bobrova

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

Sarah Kim

Senior Associate, EMEA Centre for Regulatory Strategy
+44 20 7007 1126

Matthias Hepe

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

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