



Risk and Regulation Monthly

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Highlights

In January the ECB published the results of its annual SREP exercise. The results show that in 2020 credit, business model sustainability and internal governance risks all increased significantly. Credit risk remains the ECB's most acute concern and this, together with banks' ability to produce reliable projections of asset quality and capital, will be key areas of supervisory focus.

Against this background, the EBA launched its 2021 EU-wide stress test exercise, following the postponement of the 2020 exercise due to the COVID-19 pandemic. The EBA's adverse scenario will be based on a narrative of a prolonged COVID-19 pandemic in a "low for longer" interest rate environment. In the UK, the BoE also announced the key elements of its 2021 solvency stress test. The BoE's adverse scenario incorporates a negative path for market-implied interest rates.

Following the end of the Brexit transition period, the PRA issued a consultation on its proposed approach to the supervision of branch and subsidiaries of international banks. The consultation sets out how the PRA would assess such firms against its threshold conditions, particularly the condition relating to the effective supervision of firms.

Digital innovation remained high on the agenda of regulators and policy makers. EIOPA launched a consultation on Open Finance, exploring whether and how far insurance value chains should be opened up through sharing insurance and policyholder data amongst insurance and non-insurance firms. In the UK, the CMA launched a call for input to inform its new programme of work on analysing the potential harms to competition and consumers associated with the use of data and algorithmic systems, and made the case for strengthened regulatory, supervisory and enforcement tools. Finally, the FCA warned consumers of the risks of investing in crypto-assets or crypto-linked investments and lending, and HMT set out a proposed policy approach to bring 'stable tokens' into the UK regulatory perimeter.

COVID-19	
UK	
BoE	
<ul style="list-style-type: none"> Speech by Christina Segal-Knowles, Executive Director for Financial Markets Infrastructure, on how the post-2008 financial reforms held up during the pandemic, and next steps for policy makers. 	Link
FCA	
<ul style="list-style-type: none"> Feedback Statement on the Bounce Back Loan Scheme and guidance for firms on use of Pay as You Grow options. 	Link
<ul style="list-style-type: none"> Updated guidance on mortgages and consumer credit repossessions 	Link
<ul style="list-style-type: none"> Banks asked to reconsider branch closures during COVID-19 lockdown. 	Link
EU	
EBA	
<ul style="list-style-type: none"> Additional clarifications on the application of the prudential framework in response to issues raised as a consequence of the COVID-19 pandemic. 	Link

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Brexit	
UK	
UK Government	
<ul style="list-style-type: none"> UK and Switzerland plan to deepen financial services cooperation, moving ahead with negotiations to deliver a comprehensive mutual recognition agreement. 	Link
<ul style="list-style-type: none"> House of Lords EU Services Sub-Committee invites written contributions to its inquiry into the future of UK-EU relations on trade in services, including financial services. 	Link
FCA	
<ul style="list-style-type: none"> Pre-agreed Memoranda of Understanding with EU authorities in the areas of securities, insurance and pensions, and banking came into force at the end of the transition period. 	Link
HMT	
<ul style="list-style-type: none"> Consolidated guidance for financial services providers in light of the end of the transition period. 	Link

EU	
EC	
<ul style="list-style-type: none"> Communication on the EU's economic and financial system, proposing a list of actions to reinforce its "open strategic autonomy". 	Link
ESMA	
<ul style="list-style-type: none"> Registration of six UK-based credit rating agencies and four trade repositories withdrawn at the end of the transition period. 	Link
<ul style="list-style-type: none"> ESMA-BoE Memorandum of Understanding on ESMA's monitoring of ongoing compliance with recognition conditions by UK central securities depositories. 	Link
<ul style="list-style-type: none"> Reminder to firms on MiFID II rules on reverse solicitation in light of practices observed since the end of the transition period. 	Link

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Banking	
Prudential	
UK	
BoE	
<ul style="list-style-type: none"> Consultation paper and draft supervisory statement on the PRA's approach to supervision of branch and subsidiaries, and speech by David Bailey, Executive Director Financial Markets Infrastructure. 	Link Link Link
<ul style="list-style-type: none"> Speech by Silvana Tenreyro, External Member of the Monetary Policy Committee, on negative interest rates. 	Link
<ul style="list-style-type: none"> Key elements of the 2021 solvency stress test for major UK banks and building societies. 	Link
PRA	
<ul style="list-style-type: none"> Consultation paper on the 2021/22 Management Expenses Levy Limit for the Financial Services Compensation Scheme. 	Link
EU	
EBA	
<ul style="list-style-type: none"> Launch of 2021 EU-wide stress test exercise. 	Link
<ul style="list-style-type: none"> Q3 2020 risk dashboard. 	Link
<ul style="list-style-type: none"> Consultation paper on revised guidelines on monitoring the threshold for establishing an intermediate EU parent undertaking. 	Link

ECB - SSM	
<ul style="list-style-type: none"> • Guide on the supervisory approach to consolidation in the banking sector. 	Link
<ul style="list-style-type: none"> • Supervisory Banking Statistics for Q3 2020. 	Link
<ul style="list-style-type: none"> • Speech by Andrea Enria, Chair of the Supervisory Board of the ECB, on a consistent European crisis management framework for medium-sized banks. 	Link
<ul style="list-style-type: none"> • Results of the ECB's annual SREP exercise, including disclosure of bank-by-bank Pillar 2 Requirements. 	Link
<ul style="list-style-type: none"> • Report on key risks and vulnerabilities expected to affect supervised firms in 2021. 	Link
SRB	
<ul style="list-style-type: none"> • Checklist for banks under the SRB's remit to use when preparing the Additional Liability Report to provide additional assurance on liabilities reported as eligible for MREL. 	Link
<ul style="list-style-type: none"> • Article by Elke Konig, Chair of the SRB, on the SRB's priorities to promote financial stability in 2021. 	Link
Int'l	
FSB	
<ul style="list-style-type: none"> • Work Programme for 2021. 	Link
Conduct	
UK	
FCA	
<ul style="list-style-type: none"> • Speech by Georgina Philippou, Senior Adviser to the FCA on the Public Sector Equality Duty, on why diversity and inclusion are key issues for the FCA. 	Link
<ul style="list-style-type: none"> • Letter to the Boards of Directors of Debt Purchasers, Debt Collectors and Debt Administrators. 	Link
PRA	
<ul style="list-style-type: none"> • Consultation paper on the identification verification requirements for depositor protection. 	Link
<ul style="list-style-type: none"> • Policy statement on strengthening Accountability and SM&CR forms update. 	Link
EU	
ESMA	
<ul style="list-style-type: none"> • Statement promoting transparency for Targeted Longer-Term Refinancing Operations (TLTRO III) transactions. 	Link

Int'l	
BIS	
<ul style="list-style-type: none"> Proposed technical amendments to rules on haircut floors for securities financing transactions. 	Link

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Capital Markets	
Prudential	
EU	
EC	
<ul style="list-style-type: none"> Consultation paper on establishing a European Single Access Point (ESAP) for financial and non-financial information publicly disclosed by companies. 	Link
Conduct	
UK	
BoE	
<ul style="list-style-type: none"> Statement on the need for firms to secure a smooth completion of the sterling LIBOR transition by end-2021. 	Link
<ul style="list-style-type: none"> Speech by Andrew Hauser, Executive Director for Markets at the Bank of England, on why central banks need new tools for dealing with market dysfunction. 	Link
EU	
EC	
<ul style="list-style-type: none"> Adoption of an equivalence decision for US central counterparties. 	Link
ESMA	
<ul style="list-style-type: none"> Call for experts on commodity derivatives to join a consultative industry group. 	Link

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Insurance	
Prudential	

UK	
PRA	
<ul style="list-style-type: none"> • Consultation paper on deep, liquid and transparent (DLT) assessments in Solvency II, and GBP transition to SONIA. 	Link
EU	
EC	
<ul style="list-style-type: none"> • Request to EIOPA for technical advice on the development of best practices for national pension tracking systems and pension dashboard. 	Link
<ul style="list-style-type: none"> • Consultation document on the review of the crisis management and deposit insurance framework. 	Link
EIOPA	
<ul style="list-style-type: none"> • Second paper on the methodological principles of insurance stress testing with a focus on liquidity. 	Link
<ul style="list-style-type: none"> • Annual report on the use of capital add-ons under Solvency II. 	Link
Conduct	
UK	
FCA	
<ul style="list-style-type: none"> • Q&A on General Insurance Pricing Practices. 	Link
<ul style="list-style-type: none"> • Publication of Defined Benefit Advice Assessment Tool. 	Link
<ul style="list-style-type: none"> • Consultation paper on restricting CMC charges for financial services and products claims. 	Link
<ul style="list-style-type: none"> • Business interruption insurance test case: <ul style="list-style-type: none"> ○ Supreme Court judgment ○ Dear CEO letter ○ Table of High Court and Supreme Court outcomes. 	Link Link Link
Int'l	
IOSCO	
<ul style="list-style-type: none"> • Report on sound practices to assist members in enhancing complaint handling and protect retail investors. 	Link

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Investment Management	
Conduct	
UK	
HMT	
EU	
EBA	
<ul style="list-style-type: none"> Final draft RTS on the criteria to identify categories of staff whose professional activities have a material impact on an investment firms' risk profile or assets it manages under the Investment Firm Directive. 	Link
ESMA	
<ul style="list-style-type: none"> Updated list of administrative measures and sanctions applicable in Member States for infringements of regulations on short selling and credit default swaps. 	Link
<ul style="list-style-type: none"> Launch of a common supervisory action with NCAs on the supervision of the costs and fees of UCITS. 	Link
<ul style="list-style-type: none"> Opinions on position limits regarding commodity derivatives under MiFID II/MIFIR. 	Link
<ul style="list-style-type: none"> Consultation on the application of certain aspects of appropriateness and execution-only requirements under MiFID II. 	Link

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Other	
FinTech	
UK	
CMA	
<ul style="list-style-type: none"> Call for input on competition and consumer harm arising from the use of algorithms. 	Link
FCA	
<ul style="list-style-type: none"> Warning to consumers about the risks of investments advertising high returns based on crypto-assets. 	Link
<ul style="list-style-type: none"> Consultation paper on changes to the technical standards on strong customer authentication and common and secure methods of communication, and guidance on prudential risk management and safeguarding, for payment and e-money firms. 	Link
HMT	

<ul style="list-style-type: none"> • Consultation and call for evidence on the UK regulatory approach to cryptoassets and stablecoins. 	Link
EU	
EIOPA	
<ul style="list-style-type: none"> • Discussion paper on open insurance: accessing and sharing insurance-related data. 	Link
Int'l	
BIS	
<ul style="list-style-type: none"> • Innovation Hub annual work programme. 	Link
<ul style="list-style-type: none"> • Results of third BIS survey on central bank digital currency. 	Link
Sustainable Finance	
EU	
ECB Central Bank	
<ul style="list-style-type: none"> • Decision to set up a climate change centre to bring together the work on climate issues in different parts of the ECB. 	Link
<ul style="list-style-type: none"> • Keynote speech by Christine Lagarde, President of the ECB, on climate change and central banking. 	Link
ESMA	
<ul style="list-style-type: none"> • Letter to EU Commission on priority issues relating to SFDR application. 	Link
<ul style="list-style-type: none"> • Call for legislative action on ESG ratings and assessment tools. 	Link
Int'l	
BIS	
<ul style="list-style-type: none"> • Launch of a second green bond fund for central banks. 	Link
Other	
UK	
FCA	
<ul style="list-style-type: none"> • Reminder for firms to review regularly their regulatory permissions. 	Link

EU	
EBA	
<ul style="list-style-type: none"> Final draft Implementing Technical Standards on reporting templates under the Financial Conglomerates Directive. 	Link

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Glossary

AFMs = Authorised Fund Managers
AI = Artificial Intelligence
AIFMD = Alternative Investment Fund Managers Directive
ALMD = Anti Money Laundering Directive
AMF = Autorité des Marchés Financiers
AML = Anti-Money Laundering
APA = Approved Publication Arrangement
AUM = Assets under management
BBLS = Bounce Back Loan Scheme
BCBS = Basel Committee on Banking Supervision
BEAR = Banking Executive Accountability Regime
BEIS = Department for Business, Energy and Industrial Strategy
BIS = Bank for International Settlements
BMR = Benchmarks Regulation
BRRD = Bank Recovery and Resolution Directive
BTS = Binding Technical Standard
BoE = Bank of England
CBI = Central Bank of Ireland
CCP = Central Counterparty
CP= Consultation Paper
CSDs = Central Securities Depositories
CTF = Counter Terrorist Financing
CCFF = Covid Corporate Financing Facility
CBILS = Coronavirus Business Interruption Loan Scheme
CLBILS = Coronavirus Large Business Interruption Loan Scheme
CISO = Chief Information Security Officer
CMA = Competition and Markets Authority
CMU = Capital Markets Union
CNMV = Comisión Nacional del Mercado de Valores
CPMI = Committee on Payments and Market Infrastructures
CQS = Credit Quality Step
CRD = Capital Requirements Directive
CRR = Capital Requirements Regulation
CROE = Cyber Resilience Oversight Expectations
CSSF = Commission de Surveillance du Secteur Financier
CTP = Consolidated Tape Provider
CTRF = Contingent Term Repo Facility
DB = Defined Benefit
DC = Defined Contribution
DP = Discussion Paper
DPA = Data Protection Agency
DRR = Digital Regulatory Reporting
EBA = European Banking Authority
ECB = European Central Bank
ECOFIN = Economic and Financial Affairs Council
EIOPA = European Insurance & Occupational Pensions Authority

EMEA = Europe, Middle East and Africa
EMIR = European Market Infrastructure Regulation
EONIA = Euro Over Night Index Average
ESAs = European Supervisory Authorities
ESG = Environmental, Social, and Governance
ESMA = European Securities & Markets Authority
ESRB = European Systemic Risk Board
ESTER = Euro Short-Term Rate
EU = European Union
Euribor = Euro Interbank Offered Rate
FAMR = Financial Advice Market Review
FCA = Financial Conduct Authority
FinPro = Financial Protection
FGCA = Financial Guidance and Claims Act 2018
FMIs = Financial Market Infrastructures
FOS = Financial Ombudsman Service
FPC = Financial Policy Committee
FRTB = Fundamental Review of the Trading Book
FS = Financial Services
FSB = Financial Stability Board
GBP = British pound sterling
GDP = Gross Domestic Product
GDPR = General Data Protection Regulation
GSIBs = Global Systemically Important Banks
HMT = Her Majesty's Treasury
IAIS = International Association of Insurance Supervisors
IASB = International Accounting Standards Board
IBA = ICE Benchmark Administration
IBOR = Interbank Offered Rate
ICAAP = Internal Capital Adequacy Assessment Process
ICO = Information Commissioners Office
ICS = Insurance Capital Standard
IDD = Insurance Distribution Directive
IFD = Investment Firms Directive
IFR = Investment Firms Regulation
IFPR = Investment Firms Prudential Regulation
IFRS = International Financial Reporting Standards
ILAAP = Internal Liquidity Adequacy Assessment Process
IM = Initial Margin
IOSCO = International Organization of Securities Commissions
IPU = Intermediate Parent Undertaking
IRB = Internal Ratings Based
IRRBB = Interest Rate Risk in the Banking Book
ISAs = Individual Savings Accounts
IT = Information Technology
JST = Joint Supervisory Teams
KID = Key Information Document

LEI = Legal Entity Identifier
LIBOR = London Interbank Offered Rate
LTV = Loan to Value
M&A = Mergers and Acquisitions
MAR = Market Abuse Regulation
MI = Management Information
MiFID = Markets in Financial Instruments Directive
MiFIR = Markets in Financial Instruments Regulation
MLD = Money Laundering Directive
MoU = Memorandum of Understanding
MREL = Minimum requirement for own funds and eligible liabilities
MTF = Multilateral Trading Facility
NCA = National Competent Authority
NED = Non-Executive Director
NGFS = Network for Greening the Financial System
NPLs = Non-performing Loans
NSFR = Net Stable Funding Ratio
OCIR – Operational Continuity in Resolution
ORSA = Own Risk and Solvency Assessment
OTF = Organised Trading Facility
OTC = Over the counter
PPI = Payment Protection Insurance
PRA = Prudential Regulation Authority
PRIIPs = Packaged Retail Investment and Insurance Products
PS = Policy Statement
PSD2 = Revised (second) Payment Services Directive
RDR = Retail Distribution Review
RFRs = Risk-Free Rates
RRM = Risk Reduction Measures
RTGS = Real Time Gross Settlement
RTS = Regulatory Technical Standard
RW = Risk Weight
SA = Standardised Approach
SFTR = Securities Financing Transactions Regulation
SI = Systematic Internaliser
SIPPs = Self Invested Personal Pensions
SM&CR = Senior Managers and Certification Regime
SONIA = Sterling Overnight Index Average
SRB = Single Resolution Board
SRF = Single Resolution Fund
SREP = Supervisory Review and Evaluation Process
SS = Supervisory Statement
SSM = Single Supervisory Mechanism
TCA = Total Capital Adequacy
TCFD = Task Force on Climate-related Financial Disclosures
TIBER = Threat Intelligence-based Ethical Red Teaming
TLAC = Total Loss-Absorbing Capital

TMTP = Transitional Measure on Technical Provisions

TPP = Third-Party Providers

TPR = Temporary Permissions Regime

TRIM = Targeted Review of Internal Models

TRR = Temporary Recognition Regime

UCITS = Undertakings for Collective Investments in Transferable Securities

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