



Risk and Regulation Monthly

July 2018

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**REGULATORY
STRATEGY**
EMEA

July saw a series of important developments.

In particular, the UK Government published its White Paper on the Future Relationship between the UK and the EU.

The BoE and the FCA released a discussion paper on operational resilience, which emphasised incident recovery – using the concept of “impact tolerance”.

There were a series of significant developments around interest rate benchmark reform. Notably, Andrew Bailey of the FCA gave a speech in which he made clear that the discontinuation of the London Interbank Offered Rate (LIBOR) should not be considered a “remote probability” and that firms should plan for transition. The FSB issued a statement in which it concluded that for some markets, it will be important that transition away from interbank offered rates is to the overnight risk free rates (RFRs) rather than to term RFR rates.

Finally, there was a strong focus on cost disclosure and fair pricing. The FCA published a market study on investment platforms in which it proposed an exit fee ban, among other remedies; it also published papers on price discrimination and a basic savings rate. There were new developments on PRIIPs too: the FCA published a call for input and ESMA issued further guidance.

Brexit

The UK Government [published](#) its White Paper on the **Future Relationship between the UK and the EU** post-Brexit. For the sections of the paper covering financial services, it proposed an expansion of the equivalence regime under existing EU third country rules, which would take effect at the end of the transition period in December 2020. It also proposed that the governance of the equivalence process be changed, with provisions on mutual consultation on rule-making, assessment methodology for equivalence, supervisory cooperation and a new process for mutual consultation before any withdrawal of equivalence.

Michel Barnier, Chief Negotiator for the EU 27, and Dominic Raab, the UK’s Secretary of State for Exiting the EU, [gave](#) a joint press conference. On financial services, Mr Barnier and Mr Raab agreed: (i) that future market access will be governed by **autonomous decisions on both sides**; (ii) to have close regulatory cooperation while respecting the autonomy of both sides; and (iii) on the need for this autonomy to apply at the time of granting equivalence decisions, but also at the time of withdrawing such decisions.

The UK Government released **three draft statutory instruments** (SIs) which will be subject to Parliamentary approval. The UK Government published separate SIs: (i) [addressing](#) deficiencies in retained EU law in relation to building societies arising from the withdrawal of the UK from the EU; (ii) [amending](#) references to EEA passporting rights in domestic legislation as a result of Brexit; and (iii) [amending](#) EMIR in relation to the recognition of third country central counterparties, which makes consequential amendments and includes transitional provisions.

David Bailey, Executive Director for Financial Market Infrastructure at the Bank of England (BoE), [sent](#) a “Dear CEO” letter to operators of systems designated under the **EU Settlement Finality Directive** (SFD). Mr Bailey noted that the BoE anticipates the UK Government will propose that, immediately following Brexit, UK domestic law requirements for designation of systems not governed by UK law will in essence be the same as the requirements for designation of systems governed by UK law. He encouraged recipients to reply to the letter stating whether they wish their system(s) to benefit from the SFD designation in the UK, after the UK’s withdrawal.

The FCA [published](#) an **update on the temporary permission regime** (TPR) for inbound passporting EEA firms and funds. It clarified which types of firms and funds will be eligible to apply to the TPR and detailed the levies they will have to pay. Furthermore, the FCA highlighted that it intends to accept “substituted compliance” in respect of rules which implement a requirement of an EU directive and which are currently reserved to the “home state”.

The Treasury Select Committee [held](#) a hearing on the **BoE’s Financial Stability report**. Mark Carney said that a no-deal Brexit scenario would have significant economic implications and emphasised the need for the BoE to have supervisory cooperation and information sharing with the EU. He also explained that the Financial Policy Committee’s approach to stress – testing in respect of Brexit had been to assume the “worst scenario”.

ESMA [issued](#) a statement to market participants on the importance of **preparing for the possibility of a no-deal Brexit**. ESMA urged entities wishing to relocate to the EU27 to submit their applications for authorisation as soon as possible to allow for applications to be processed before 29 March 2019. It also encouraged firms to be complete and accurate in their filing for authorisation.

Yves Mersch of the ECB [delivered](#) a speech entitled **“Euro Clearing – the open race”**. On new developments, he touched on the impact of Brexit on central counterparties (CCPs) and stated that, post-Brexit, EU authorities must continue to be able to monitor UK CCPs closely as well as ensure that they comply with EU regulations.

Capital (including macro prudential and stress testing)

Vicky Saporta, Executive Director for Prudential Policy at the BoE, [delivered](#) a speech which highlighted that, following Basel III finalisation, **firms should not expect substantial further reforms to bank regulation**, particularly regarding banks’ capital and liquidity. She observed that regulators’ focus will be on completing the implementation of post-crisis reforms and making adjustments in response to new risks and unintended consequences.

The PRA [provided](#) a statement on **changes to the way hurdle rates are calculated in the annual stress test**. The PRA set out further specific details on two changes, namely that: (i) hurdle rates will incorporate buffers to capture domestic systemic importance and global systemic importance; and (ii) the calculation of minimum capital requirements incorporated in the hurdle rates will more accurately reflect how they would evolve in a real stress.

The PRA [published](#) a consultation paper on **equity release mortgages** and David Rule, Executive Director of Insurance Supervision, [sent](#) a “Dear CEO” letter highlighting the key points from the consultation. In its consultation, the PRA explained that firms should not use assumptions about future house price growth in excess of the risk free rate. The PRA explained its concern that such assumptions were being used to reduce the value of the no negative equity guarantee and inflate the matching adjustment benefit claimed.

The PRA [published](#) a policy statement and [launched](#) a consultation on **group own funds availability**. The policy statement clarified the expectation that firms apply for PRA permission before calculating group capital requirements using “method 2” set out in a previous supervisory statement. The consultation proposed that the solo solvency capital requirement should no longer be presumed to be a barrier to availability in assessing group own funds.

The PRA [published](#) an **internal models** update and [published](#) a policy statement on modelling of the **matching adjustment**. The first paper provided small updates to the minor model change accumulation process and reporting processes. The second included a series of clarifications, for example on the PRA’s interpretation of stressed fundamental spread.

Sid Malik, Head of Division of Life Insurance and Pensions Risk at the PRA, [sent](#) a “Dear Chief Actuary” letter on **“Solvency II: Two and a half years on”**. He noted that internal models remain at the forefront of the PRA’s attention, in particular in areas of longevity risk, credit risk and dependency modelling.

The PRA [consulted](#) on the implementation of the EBA’s recent regulatory products relating to **the definition of default in the Capital Requirements Regulation (CRR)**. Key proposals include to (i) set a 0% relative materiality threshold for retail exposures; (ii) set a 1% relative materiality threshold and a sterling equivalent of €500 absolute materiality threshold for non-retail exposures; (iii) remove the PRA’s exercise of discretion to permit firms to use 180 days past due in the definition of default; and (iv) introduce an expectation that firms comply with the EBA’s guidelines when applying the CRR definition of default.

The EBA [published](#) final guidance to **strengthen the Pillar 2 framework**. The report included changes to the supervisory review and evaluation process (SREP) guidelines, revised guidelines on the management of interest rate risk in the banking book, and revised guidelines on institutions’ stress testing.

The EBA [updated](#) its Risk Dashboard and found that the **average ratio of non-performing loans (NPLs) had reached its lowest level since Q4 2014 (3.9%)**. Among the observations made by the EBA were that profitability remained a concern for the EU banking sector and, separately, that the loan-to-deposit ratio remained broadly stable.

The ECB [announced](#) that it will set bank-specific **supervisory expectations for the provisioning of NPLs**. Under this approach, the ECB said it would engage individually with each bank to define its supervisory expectations. It noted that bank-specific supervisory expectations are based on a benchmarking of comparable banks and an individual bank’s current NPL ratio and main financial features.

The BCBS [published](#) its revised **assessment methodology and the higher loss absorbency requirement** for globally systemic banks. It introduced a number of enhancements, including amendments to the definition of cross-jurisdictional indicators as well as the introduction of a trading volume indicator and modification of weights in the substitutability category.

Beverly Hirtle, Executive Vice President and Director of Research at the Federal Reserve Bank of New York, [spoke](#) on **macroprudential objectives in supervisory stress testing**. She argued that one of the key objectives of the original Supervisory Capital Assessment Program stress programme – to provide confidence that banks could continue lending and thus reduce the likelihood of a worse-than-expected economic outcome – might be getting less emphasis as economic expansion continues and the supervisory stress testing regime evolves.

Liquidity

The BoE's Working Group on Sterling Risk-Free Reference Rates [launched](#) a consultation on **term Sterling Overnight Interbank Average Reference Rates (TSRRs)**. It found that the best potential source of data for the development of TSRRs is in the short-dated SONIA overnight index swap (OIS) market and it encouraged greater trading of OIS on regulated electronic markets. The paper noted that a TSRR could be available in the second half of 2019.

ESMA [published](#) a consultation paper on the **clearing obligation under EMIR**, focusing on the treatment of intragroup transactions with a third-country group entity. ESMA reassessed the dates from when the requirements are due to apply for these contracts. It proposed to prolong the clearing obligation deadlines to 21 December 2020 for three Commission delegated regulations which cover interest rate derivative classes denominated in the G4 currencies, credit default swaps and interest rate swaps.

ESMA [published](#) a statement on the **clearing obligation for pension scheme arrangements (PSAs)**. It acknowledged the difficulties that certain PSAs will face to start clearing over-the-counter (OTC) derivative contracts on 17 August 2018 in the event that the EMIR Refit proposal, which includes measures for a further extension to this date, is not applicable by then. ESMA said it expects competent authorities not to prioritise their supervisory actions towards entities that are expected to be exempted under the EMIR Refit.

Governance and risk management (including remuneration)

The FCA [published](#) near final rules and the PRA [published](#) guidance on extending the **Senior Managers and Certification Regime**, confirming that the rules will apply to insurers from 10 December 2018 and to FCA solo-regulated firms from 9 December 2019. Alongside this, the FCA [issued](#) a consultation paper setting out its plans to introduce a new Directory allowing consumers and firms to check the status and history of people working in the financial services sector; the Directory is intended to include all those who hold Senior Manager Functions as well as all those who are in certified roles.

Conduct of Business (including MiFID)

The FCA [published](#) a policy statement on **industry codes of conduct in unregulated markets** and feedback on extending FCA Principle 5. The FCA stated that it intends to establish a process for recognising certain codes, consult publicly on each decision, and encourage, but not mandate, the use of these codes. The FCA confirmed that it will not extend Principle 5 to wholly unregulated activities.

The FCA [published](#) a call for input on **the PRIIPs regulation**. It found a small number of firms were reporting material negative transaction costs which, contrary to an expectation in the PRIIPs regulations, were arising on investments in illiquid assets. More generally, having reviewed example portfolios, the FCA found significant calculation errors; the FCA noted that firms could identify issues through data checks and controls.

FCA [published](#) its **Investment Platforms Market Study Interim Report**. This emphasised that while markets are “working well in many respects”, there are areas for improvement. The FCA sought feedback on a number of areas, including, on potential ban on platform exit fees; clarifying its expectations for adviser charges for switching; and on improving switching between share classes, for example, by requiring the ceding platform to switch consumers to the receiving platform's share class before a switch takes place.

The FCA [consulted](#) on new guidance about the handling of certain regular premium **payment protection insurance (PPI)** complaints. The FCA clarified that recurring non-disclosure(s) of the existence of, or level of, commission and/or profit share (RND) is an omission that can make a credit relationship unfair and that RND should be assessed by firms when they handle PPI complaints.

The FCA [released](#) a discussion paper on the review of retained provisions of the **Consumer Credit Act**. The FCA stated that it intends to simplify and modernise the regime where possible. It noted that the scope of application of sanctions should be limited so that they are focused on breaches which are likely to cause material harm, particularly to the more vulnerable and/or those in financial difficulties.

The FCA [published](#) a discussion paper on **price discrimination in the cash savings market**. The paper sought to gather input on price discrimination and how to address it, either through demand-side (e.g. disclosure remedies) or supply-side interventions (e.g. a basic savings rate). Furthermore, FCA [published](#) an accompanying Occasional Paper examining the merits of introducing a **“basic savings rate”**, which would prevent firms from paying different interest rates to different consumers based on the age of the account.

The FCA [published](#) its **Approach to Consumers** as well as a [Discussion Paper](#) on **Duty of Care**. The FCA said that, having considered feedback on the revised definition of who is a vulnerable consumer, proposed in its prior consultation, it would revert to its original definition (in Occasional Paper No 8 Consumer Vulnerability) which identifies such a consumer as one who “due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care”. Its discussion paper examined whether a “New Duty” would be justified in closing a gap in its regulatory and legal framework.

Andrew Bailey, Chief Executive of the FCA, [gave](#) a speech on **interest rate benchmark reform**. He made clear that the discontinuation of LIBOR should not be considered a “remote probability” and that firms should “treat it as something that will happen and which they must be prepared for”. Mr Bailey observed that the pace of transition is not yet fast enough and firms will need to be able to demonstrate to their supervisors that they have plans in place to mitigate the risks and reduce dependencies on LIBOR.

The BoE’s Working Group on Sterling Risk-Free Reference Rates [published](#) a report on the **new issuance of Sterling bonds referencing LIBOR** to alert market participants to the potential risks of continued LIBOR usage in bond markets. Furthermore, it [released](#) a timeline setting out key milestones, as well as the immediate steps that market participants could undertake. Separately, the BoE [issued](#) a statement confirming the compliance of SONIA with the IOSCO principles for financial benchmarks.

The CMA [published](#) a summary of the stakeholder roundtable on **consumer vulnerability in digital markets**. Key challenges identified included price discrimination through more sophisticated use of consumer data, and growing levels of digital exclusion. Some stakeholders suggested the creation of a state-sponsored price comparison website as well as a role for government and regulators joining up to share data on vulnerable customers to address some of these issues.

The Payment Systems Regulator (PSR) [published](#) draft terms of reference for a **market review into the supply of card-acquiring services**. Stakeholders raised concerns, including that acquirers have not passed on to smaller merchants the saving they made from the interchange fee caps introduced by the Interchange Fee Regulation. The PSR said it will examine how competition in the supply of card-acquiring services operates including its nature and characteristics, and whether there are credible alternatives.

The European Supervisory Authorities [published](#) further guidance on the **Key Information Document for PRIIPs** and [updated](#) a flow diagram for the risk and reward calculations. This clarified, among other things, that when the recommended holding period (RHP) is less than one year, it should be assumed that the performance scenarios should reflect the projected return over the RHP, whilst the disclosure obligations in the performance scenarios for over one year and half of the RHP would not be applicable.

The EC [adopted](#) a delegated act relating to **UCITS** and [adopted](#) a delegated act on **Alternative Investment Funds (AIFs)**. These seek to eliminate differing interpretations among firms and regulators around the safekeeping of assets. They clarified that assets of UCITS, AIFs, and other clients can be commingled at the level of the first custodian provided that they are initially held by the same depository.

The ECON Committee of the European Parliament [issued](#) a briefing on implementing measures under the **European Benchmarks Regulation**. It provided an overview of specific issues that are expected to be covered by the forthcoming RTS, including the appropriateness and verifiability of input data.

The EC [referred](#) Slovenia and Spain to the European Court of Justice for **failure to transpose MiFID II** fully by the deadline.

ESMA **updated** its Q&As on **MiFID II and MiFIR investor protection and intermediaries**. It clarified that the provision of free research during a trial period in portfolio management or independent advice must be strictly defined and limited in time and that it must not last longer than three months.

ESMA **updated** its guidelines on **temporary product intervention measures** restricting the marketing, distribution or sale of contracts for difference (CFD) and binary options to retail clients. ESMA clarified that “turbo certificates” and structured finance products are not within the scope of the binary option and CFD decisions.

ESMA **issued** a report regarding oversight by National Competent Authorities (NCAs) of the **MiFID suitability requirements**, following the results of a peer review conducted in 2016. ESMA found that national competent authorities had made improvements but noted that for some NCAs, it remained questionable how far the supervision of suitability requirements had become part of the NCA’s “regular” supervisory approach.

ESMA **issued** a consultation paper on amendments to the **tick size regime under MiFID II**. ESMA identified issues arising from the application of the tick size regime to financial instruments for which the main pool of liquidity is located outside the EU. Subsequently, ESMA proposed a series of approaches including authorising trading venues to use the tick size applicable to the most liquid third country venue.

ESMA **provided** details of its action plan for **systematic internaliser** regime calculations, among other things. ESMA decided to publish data for equity, equity-like instruments and bonds and said it would postpone the publication for derivatives and other instruments to 1 February 2019 owing to data challenges.

ESMA **finalised** RTS on **the Prospectus Regulation**. The RTS covered areas including key financial information to be disclosed by issuers for the prospectus summary; the data for classification of prospectuses and the practical arrangements to ensure that such data is machine readable; and provisions concerning advertisements and situations where a supplement is required.

ESMA also **launched** a consultation on minimum information content for prospectus exemption, and **launched** a separate consultation on guidelines on risk factors under the **Prospectus Regulation**. The first paper detailed proposals on the offer of securities on a regulated market and the description and impact that a takeover, merger or division may have on the issuer’s operational and financial activities. The second paper is intended to provide NCAs with a means of ensuring that risk factor disclosure is material and specific to the issuer concerned.

ESMA **undertook** a peer review on the guidelines on **exchange traded funds and other UCITS issues**. It reported shortcomings in national supervision of efficient portfolio management by UCITS. ESMA found that for certain areas, the application of the guidelines is mostly satisfactory, but it identified some areas of divergence among national NCAs, for example, in relation to collateral management.

The FSB **released** a statement on **interest rate benchmark reform**. It found that for some markets, notably the largest part of the interest rate derivatives markets, it will be important that transition away from interbank offered rates is to the overnight RFRs rather than to term RFR rates. The FSB highlighted that there are key weaknesses which could undermine the robustness of term rates and that term rates are still at an early stage.

IOSCO **sought** feedback on proposals for **commodities storage and delivery infrastructures**. IOSCO found disparities in practices related to the oversight, governance, operations and controls of storage infrastructures, and in the transparency afforded by those practices. It examined examples of good practices which included preventative practices that seek to establish good governance and dispute resolution procedures.

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

The BoE [published](#) its **Financial Stability Report** and [released](#) the record of the Financial Policy Committee (FPC) meeting held on 19 June 2018. The BoE reported that the 2017 stress test showed that the UK banking system is resilient to severe domestic, global and market shocks and that the UK banking system could support the real economy through a “disorderly” Brexit. The FPC agreed to set standards for how quickly critical financial companies must be able to restore vital services following a cyber – attack. Furthermore, the report and minutes found that continued reliance by financial markets on LIBOR poses a risk to financial stability that could be reduced only through a transition to alternative rates.

The BoE and the FCA [released](#) a discussion paper on **operational resilience**. The paper emphasised incident recovery – using the concept of “impact tolerance” – and highlighted that the regulators’ focus would be on the ability of firms and financial market infrastructures to resume critical business services. The report included an expectation that firms should prioritise their most important business services and be able to identify the systems and processes that support them, whether internally to the organisation or if outsourced to a third party.

The PRA [consulted](#) on applying **the leverage ratio framework** to systemic ring-fenced bodies and reflecting the systemic risk buffer in the leverage ratio. The PRA proposed to apply leverage ratio requirements on a sub-consolidated basis to those ring-fenced bodies whose groups are already required to meet leverage ratio requirement on a consolidated basis.

The ECB [published](#) a report on **recovery planning**. The ECB highlighted that not all banks adequately comply with the EBA guidelines on recovery plan indicators, as some banks fail to reflect in their indicator frameworks the risks and vulnerabilities that are most relevant to them. Furthermore, it specified that each bank’s recovery plan should include a sufficiently wide range of recovery options, in line with the nature of its business, its size and its interconnectedness within the financial system.

Elisa Ferreira, Vice-Governor of the Bank of Portugal, [spoke](#) on **completing the Banking Union** and emphasised the need to establish the European Deposit Insurance Scheme. Furthermore, she observed that resolution authorities need to be able to rely on alternative sources to support resolution funds, especially in the current period of transition during which loss-absorbing capacity is not yet available.

EIOPA [published](#) a discussion paper on **resolution funding and national insurance guarantee schemes**. EIOPA was of the view that a minimum degree of harmonisation in the field of policyholder protection in the EU would benefit policyholders, the insurance market and, more broadly, financial stability in the EU. It sought feedback on the design features of insurance guarantee schemes, such as its ownership structure or policyholder eligibility.

The Committee on the Global Financial System at the Bank for International Settlements (BIS) [published](#) a paper on the **implications of a prolonged period of low interest rates**. It found that a “low for long” scenario would have a more adverse impact on insurers and private pension funds than on banks. Furthermore, it found that even in the absence of greater risk – taking, a future snapback in interest rates could be challenging for financial institutions.

Regulatory perimeter

The CMA [published](#) its provisional decision on its **investment consultancy and fiduciary management market investigation**. The CMA suggested that problems in these markets are likely to result in “material harm” to customers. It set out proposed actions including a duty on pension trustees to carry out a competitive tender before awarding a fiduciary management mandate for the first time; those which already use fiduciary management services but did not tender must do so within five years. The FCA [welcomed](#) the CMA’s provisional decision.

The FCA [published](#) its Approach on **Payment Services and Electronic Money**. The Approach document set out a comprehensive view of the payment services and e-money regulatory regime in the UK, and provided guidance for a practical understanding of the FCA’s requirements and regulatory approach.

Olli Rehn, the Governor of the Bank of Finland, [spoke](#) on **climate change and green finance**. He emphasised that correct pricing and supervision of financial risks stemming from climate change (and other environmental hazards) are needed. Furthermore, he noted that the industry has incentives to be part of the solution (for example, insurers’ risk models need to adjust to the increasing frequency and severity of extreme weather conditions) and that financial regulation and management should take into account not only the risks to which investment projects are vulnerable, but also the risks that unsustainable projects could pose to the economy.

The FSB [consulted](#) on the effects of financial regulation reforms on **infrastructure finance**. The FSB noted that while none of the G20 reforms specifically target the provision of infrastructure finance, a broad range of regulations can potentially affect it, for example, Basel III. Overall, the FSB concluded that its analysis thus far did not identify material negative effects of the reforms on infrastructure finance.

Disclosure, valuation and accounting

The PRA [published](#) a policy statement on changes in **insurance reporting requirements**, including on the scope, content and format of some National Specific Templates (NSTs). The PRA made some minor amendments to the draft rules and LOG files to provide further clarity on completion of the relevant NSTs; it also amended the definition of “employers’ liability” to align it with the definition under Solvency II.

The **Institutional Disclosure Working Group** (IDWG) [published](#) a summary report on its recommendations for cost disclosure; the FCA [published](#) a statement welcoming the recommendations. The IDWG recommended to the FCA the use of five templates: a summary user template; a main account-level template covering most product types; a separate private equity template; a separate physical assets template; and a separate ancillary services (custody) template. IDWG noted that while the use of templates should be voluntary, market participants could support their use in a number of ways including through pressure from institutional investors.

The FCA [published](#) a consultation on proposed changes to the regulatory framework for **loan-based and investment-based crowdfunding platforms**, following its Post-Implementation Review in 2016. To ensure investors are given clearer information about investments, charges and risk, the FCA proposed to set out the minimum information that peer-to-peer platforms need to provide to investors.

ESMA [consulted](#) on revising guidelines on **periodic reporting by credit rating agencies (CRAs)**.

Among a host of revisions, the guidelines seek to introduce an updated approach to determine a CRA’s reporting obligations, moving away from a static distinction based on whether a CRA was liable for supervisory fees by proposing instead a dynamic distinction of reporting categorisations that are based on ESMA’s internal risk assessment. ESMA also proposed more proportionate reporting frequencies based on these reporting categorisations.

ESMA [published](#) supplementary guidance on the application of the **endorsement regime for non-EU credit ratings** under the Credit Ratings Agencies Regulation. It clarified that there are two ways for an EU CRA to ensure that an endorsed credit rating issued by a third-country CRA meets the “as stringent as” test. The EU CRA has verified and is able to demonstrate that, either the conduct of the third-country CRA fulfils the relevant endorsement provisions; or it has established and adheres to requirements which are at least as stringent as the relevant endorsement provisions of the regulation.

Information security and data privacy

EIOPA [launched](#) an industry survey on the use of **Big Data** to analyse the potential benefits and risks of Big Data in motor and health insurance by (re)insurance undertakings and intermediaries. EIOPA asked firms to provide information on various areas including data sources and big data analytics, the use of big data analytics throughout the insurance value chain and the use of big data analytics for pricing and underwriting.

The FSB [published](#) a consultation on a **Cyber Lexicon**, among other things, to support cross-sector common understanding of relevant cyber security and cyber resilience terminology.

Innovative technology

The FCA [revealed](#) the **fourth round of successful firms in its regulatory sandbox**. The FCA received 69 applications, and 29 were accepted to proceed to test. Christopher Woolard, Executive Director of Strategy and Competition, highlighted the increase in this cohort of the number of firms testing wholesale propositions and distributed ledger technology.

The Treasury Select Committee held a [hearing](#) on **cryptocurrencies**. It was noted that the fifth Anti-Money Laundering Directive will enter into force on 9 July 2018 (with transposition due within 18 months of that date) and that HM Treasury will consult on how to transpose it, with a specific focus on custodian wallet providers and cryptocurrency exchanges.

The EBA [published](#) a report assessing the **risks and opportunities from FinTech** and [published](#) a report on **FinTech’s impact on incumbents’ business models**. The EBA assessed the microprudential risks of seven use cases in the banking industry, including biometric authentication, mobile wallets and robo-advice. Its report on business models identified risks to the sustainability of incumbents’ business models, in which context it noted potential challenges such as formal and slow governance structure, further restricted by legacy ICT systems, or legacy non-performing assets.

Benoît Cœuré, Member of the Executive Board of the ECB, [spoke](#) on the **future of financial market infrastructures**. He observed that an incremental modernisation of the existing retail and wholesale payments systems may well succeed in bringing about the benefits promised by new immature technologies, such as distributed ledger technologies.

Olli Rehn, Governor of the Bank of Finland, [gave](#) a speech on **central bank digital currency** (CBDC). He highlighted that CBDC raises three questions for central banks, namely around the role and meaning of legal tender; the capacity for central banks to maintain the ability of official oversight to ensure the safety and efficiency of payment systems; and how the efficiency of monetary policy objectives and the objectives of macroeconomic and financial stability are to be maintained, if all money is issued by private parties, not all of which are necessarily banks.

Marja Nykänen, Member of the Board of the Bank of Finland, gave a [speech](#) on **banking in the digital age**. She observed that the more digital a bank becomes, the more vulnerable it is to cyber-attacks. Furthermore, she predicted that the industry would look more diverse, with new entrants providing financial services. She added that it will be important that authorities actively monitor the structural transformation and ensure a fair and uniform operating environment.

BIS [published](#) a paper on **innovative technology in financial supervision** (SupTech). It found that SupTech can help enhance supervisory effectiveness, cut costs and improve capabilities. A number of supervisory agencies, particularly those active in exploring data analytics applications, recently created dedicated units. However, the report highlighted that agencies face challenges including computational capacity constraints and increased operational risks, including cyber-risk, data quality, finding the right talent, management support and buy-in from supervision units.

The FSB published a [report](#) to the G20 on the work by the FSB and standard-setting bodies on **crypto-asset markets**. While the FSB considered that, at present, crypto-assets do not pose a material risk to global financial stability, it supported vigilant monitoring in the light of the speed of developments and data gaps. In collaboration with the Committee on Payments and Market Infrastructures, the FSB developed a framework and identified metrics to monitor financial stability implications of crypto-currencies. The framework included monitoring the size and rate of growth of crypto-assets; as well as the use of leverage and institutions' exposures to crypto-assets.

Financial Crime

Mark Steward, Director of Enforcement and Market Oversight, [spoke](#) on **MiFID II and the fight against financial crime**. He observed that since MiFID II, the FCA had processed nearly 3.5 billion transaction reports. Furthermore, using FCA software, the regulator could track potentially related trading activity on different venues and detect cross-market manipulation. Mr Steward highlighted that the FCA had launched a number of systems and control investigations.

The EBA [made](#) a number of changes to its Guidelines on **fraud reporting under Payment Services Directive 2** and related annexes. In particular, the final guidelines no longer required quarterly reporting of high-level data and a more detailed set of data on a yearly basis, but the reporting of a uniform set of data on a semi-annual basis instead. Furthermore, the geographical scope of the data were reduced in size and complexity.

Other

ESMA [announced](#) fines on five banks for **infringing the Credit Rating Agencies Regulation** by issuing credit ratings without being authorised by ESMA to do so. The banks issued credit research which included "shadow ratings". The reports related to different entities and underlying financial instruments and included opinions, which ESMA found had met the definition of a credit rating set by the regulation. However, none of the banks had acquired the necessary ESMA authorisation to issue ratings.

Francois Villeroy de Galhau, Governor of the Bank of France, [delivered](#) a speech entitled "**Europe in a disruptive world**". He spoke of a new cycle of disruption in banking and predicted a "new financial constellation in Europe" post-Brexit, new customer needs and new players within the banking industry, and new technologies which would necessitate new regulations.

EIOPA [published](#) its **Q1 2018 Risk Dashboard**.

Among its key observations was that profitability and insurance risks benefited from the fading out of the impact of last year's natural catastrophes on (re) insurers' technical results; it also noted that solvency ratios remained robust, though the reliance of some life insurers on transitional measures is high.

Contacts

Andrew Bulley

Partner, Centre for Regulatory Strategy
+44 (0)20 7303 8760

Rod Hardcastle

Director, Centre for Regulatory Strategy
+44 (0)20 7007 1640

Sherine El-Sayed

Manager, Centre for Regulatory Strategy
+44 (0)20 7007 5912

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