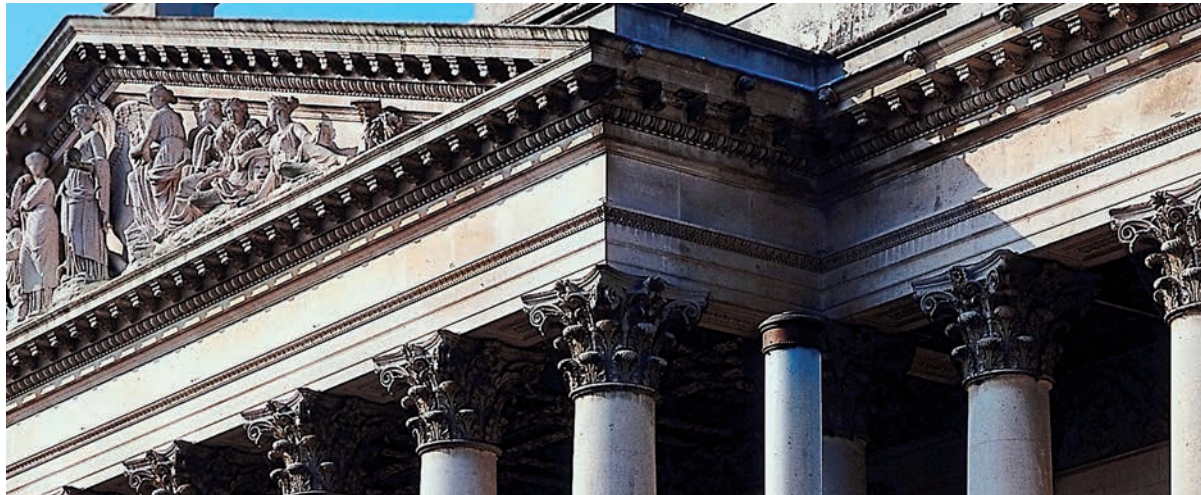


Risk and Regulation Monthly



March saw publication of **the Financial Advice Market Review** in the UK, a continued **retreat from models** at Basel, the Financial Policy Committee's (FPC) decision to enact the **Counter-cyclical Capital Buffer** in the UK, and a promise from the Financial Stability Board (FSB) to consult by mid-2016 on proposals to address structural vulnerabilities in the **asset management sector**.

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Capital (including stress testing)

The Basel Committee on Banking Supervision (BCBS) *consulted* on restrictions to the use of **internal model approaches for credit risk**. These included removing the ability to use internal models to calculate capital requirements for exposures to banks, other financial institutions and large corporates, and a new set of floors for internal models, including for probabilities of default and loss given default parameters. The BCBS is considering an overall capital floor for Internal Ratings-Based (IRB) approaches "in the range of 60% to 90%" of capital as calculated by the standardised approach.

The Bank of England *published* the Annual Cyclical Scenario (ACS) for its **2016 stress test**, including a macroeconomic stress spanning a five-year period, a traded risk stress and a misconduct costs stress. The Bank set out the principles behind the new ACS framework and said it intended to move both system-wide and firm-specific capital buffers up and down to match the risk environment. In addition, it published guidance for participating firms and guidance on the traded risk methodology.

The European Systemic Risk Board (ESRB) *published* the adverse scenario for the **2016 EU-wide stress test** conducted by the EBA. It identified four sources of systemic risk, to be applied over a period of three years. An abrupt reversal of compressed global risk premia, amplified by low secondary market liquidity, was identified as the most significant.

The UK Financial Policy Committee (FPC) *published* a statement from its **policy meeting** held on 23 March. The outlook for financial stability had "deteriorated" since November 2015, with domestic risks 'supplemented by risks around the EU referendum'. In line with this assessment, the FPC decided to raise the countercyclical capital buffer (CCyB) to 0.5% of RWAs from 29 March 2017. For the majority of firms, the increase in the CCyB would be offset by a corresponding reduction in the PRA buffer, as the PRA *clarified* in a statement.

The BCBS *consulted* on a new Standardised Measurement Approach for **operational risk**. Regulatory experience of modelling of operational risk was 'mixed' and the range of modelling approaches had not converged as initially expected. In addition, the BCBS proposed minimum data criteria for the collection and use of operational loss data, which banks will have to meet, or face potential additional requirements from their supervisors. The BCBS would provide 'sufficient time for implementation' after the finalisation of the framework.

The BCBS *published* the result of its latest **Basel III monitoring exercise**. On a fully phased-in basis and with data as of end-June 2015 all large internationally active banks met the Basel III Common Equity Tier 1 (CET1) target capital ratio of 7% and, where applicable, the surcharges on global systemically-important banks (G-SIBs). Results from the quantitative impact study on interest rate risk in the banking book (IRRBB) showed that a Pillar 1 treatment would lead to CET1 ratios falling almost two percentage points for large internationally active banks. For certain other banks, the decline would be even greater.

The BCBS *published* a working paper reviewing **recent research on capital, liquidity and supervisory requirements**. There was less literature on the benefits of higher capital requirements than on its costs, with a focus on the optimal amount of capital even rarer. Literature on liquidity was sparser than on capital given the relatively new nature of the requirements. The paper also discussed the effectiveness of capital buffers, the complexity of the regulatory landscape and the limitations of stress testing.

The BCBS *updated* its frequently asked questions (FAQs) related to the **Basel III monitoring exercise**. New FAQs include advice on filling in the worksheets, clarification on foreign exchange spot transactions, deferred tax assets and significant investments, and risk-weights for real estate loans.

The European Banking Authority (EBA) *published* the results of its latest **monitoring exercise for Basel III** and the fourth Capital Requirements Directive and Capital Requirements Regulation (CRD4 and CRR). The results showed that European banks “largely fulfil the future regulatory capital requirements”, with only a small number showing potential capital shortfalls. Depending on the group of banks, CET1 ratios ranged between 11.6% and 12.5% and the leverage ratio between 4.2% and 5%.

Andrew Bailey, Deputy Governor of the Bank of England, *spoke about* the **optimal level of bank capital**. He argued that the Bank did not diverge from the recommendations of the Independent Commission on Banking in clarifying the optimal level of capital, adding that a host of other post-crisis reforms, such as effective resolution regimes and changes to risk management and governance, would further strengthen banking resilience.

The Prudential Regulation Authority (PRA) *published* a discussion paper on **equity release mortgages (ERM)**. The PRA sought views on best practice relating to a wide range of issues, including the use of relevant market inputs for ERM valuation, the framework and calibration of valuation, the risk management of ERMs and their capital treatment, and specifically for insurers, restructuring for the Solvency II matching adjustment.

The European Central Bank (ECB) *published* an Opinion on a proposal amending the CRR so that commodity dealers do not become subject to its requirements regarding **large exposures and own funds**. While it had not identified systemic risks that made it necessary to remove the exemption, the exemption should only be of a temporary nature until a review of the prudential regulation of investment firms was completed.

The ECB *published* guidance on **recognising “significant risk transfers” (SRTs)**. The guidance implied greater scrutiny for SRTs, including continuous review of securitisation transactions by the ECB where originators have applied for SRTs in order to determine their capital requirements.

The ECB published a *Regulation and Guide on harmonising options and discretions (O&Ds)* in banking supervision. The Regulation clarified certain existing provisions, such as the consistent application of the 90 days past due criterion in the definition of default. The Guide would help Joint Supervisory Teams in determining the prudential requirements for significant credit institutions.

The European Insurance and Occupational Pensions Authority (EIOPA) *published* its Guidelines on the **supervision of branches of third-country insurance undertakings** under Solvency II, designed to ensure the same level of protection to policyholders as when dealing with an EU insurer.

The EBA *consulted* on draft Guidelines stipulating the corrections to be made to the **calculation of the modified duration for debt instruments**.

The EBA *reported* to the European Commission on the impact of the **SME Supporting Factor**. It found “no evidence” this had provided an additional stimulus to lending to small and medium-sized enterprises (SMEs) when compared to lending to large corporates. However, it noted the lack of available data and other constraints in assessing the impact. The EBA made a number of recommendations, including continued monitoring and assessment of the SME Supporting Factor and harmonising the SME definition in the CRR.

The PRA *consulted* on underwriting standards for buy-to-let mortgages. Some firms could see their capital requirements for such mortgages increase under new *proposals* from the PRA which would rule out the application of the SME Supporting Factor for such mortgages. The PRA proposed a range of measures which may constrain the buy-to-let market, such as stricter underwriting standards and new affordability tests.

Liquidity

The European Commission *published* an Implementing Regulation on the **liquidity coverage ratio (LCR)**. This laid down technical information for firms with regard to the supervisory reporting of the LCR. The Commission also *published* an Implementing Regulation for the reporting of **additional liquidity metrics**.

Governance and risk management (including remuneration)

The European Securities and Markets Authority (ESMA) published its final Guidelines on **sound remuneration policies** under the Undertakings in Collective Investment in Transferable Securities (UCITS) Directive and the Alternative Investment Fund Managers Directive (AIFMD). Half of the variable remuneration for retail investment fund managers should be deferred over a period of at least three years, and fifty per cent of it should be awarded in non-cash instruments. It will also be subject to clawback provisions.

The PRA published a policy statement on **strengthening individual accountability in banking** following an earlier consultation, setting out the amended definition of 'significant risk taker' that has now been aligned with 'material risk taker' and the PRA's remuneration rules. The FCA also published a statement to this effect.

In response to the Treasury Select Committee, the PRA published a **Management Responsibilities Map** explaining how it would apply the Senior Managers Regime (SMR) internally. It pointed out that the application of the SMR to the PRA as a public authority would differ from what the regulator expected from a regulated firm.

The PRA published a *policy statement* and final *supervisory statement* on **board responsibilities**, complementing the individual accountabilities established by the SMR and the Senior Insurance Managers Regime.

The EBA published a report on **high earners and the effects of the bonus cap**, showing that the number of high earners in EU banks increased, while the average ratio between fixed and variable remuneration decreased. The bonus cap significantly affected remuneration practices in firms but was said to have no impact on their financial stability or cost flexibility.

The Financial Services Consumer Panel (FSCP) published a paper on **banking culture** setting out indicators for measuring changes in culture. It urged banks, the Banking Standards Board (BSB) and the Chartered Banker Professional Standards Board to use these indicators and recommended that the FCA should monitor them, and look at progress made in other jurisdictions on bank culture.

Following consultations with ten financial institutions, the BSB published its **first annual review**. This found that firms used different approaches in measuring their culture including staff engagement and culture surveys, a range of indicators consolidated into 'culture dashboards', and methods to validate their progress such as benchmarking exercises. In 2016, the BSB will seek to promote professionalism, explore the relationship between law, regulation and ethics, and develop voluntary standards to support a better service for customers.

Conduct of Business (including MiFID)

HM Treasury (HMT) and the FCA published their final *report* on the **Financial Advice Market Review (FAMR)**, which was launched in August 2015. The report made 28 recommendations on the affordability and accessibility of advice, and consumer redress. It recommended that the definition of regulated advice should be aligned with the EU definition under MiFID II, and ruled out a 15 year limitation period on complaints relating to financial advice. The report recommended the establishment of an Advice Unit for automated advice models. HMT also published a consultation on the government's plans to restructure the delivery of *public* financial guidance. It plans to replace the Money Advice Service with a slimmed down money guidance body and merge the functions of The Pensions Advisory Service and Pension Wise into a new pensions guidance body.

The European Commission asked ESMA to redraft Regulatory Technical Standards (RTS) on **non-equity transparency, the ancillary activity exemption, and position limits**, for the second Markets in Financial Instruments Directive (MiFID II). The European Parliament's rapporteur said the 'position limits regime urgently needs a comprehensive redrafting in order to effectively curb food speculation'. In response, ESMA published separate letters on *position limits*, the *ancillary activity*, and *non-equity transparency* saying it will redraft the RTS on the assumption that the Commission intends to endorse these and not make further changes.

The PRA consulted on the implementation of the **passporting and algorithmic trading** provisions of MiFID II. Its proposals on algorithmic trading 'closely mirror' those of the FCA, but dual-regulated firms should be aware of both regulators' approaches. The regulator also clarified that a firm's existing MiFID passport will remain valid but if a firm wants to revise its existing passport arrangements to include new activities, it must notify the PRA.

ESMA published draft guidelines on **inside information for commodity derivatives markets** and related spot markets under the Market Abuse Regulation (MAR), setting out an indicative list of information that should be disclosed. ESMA used the weekly reports on the aggregate positions of commodity derivatives required under MiFID II as an example, and for spot commodity contracts, information on wholesale energy products published under REMIT (the Regulation on wholesale energy market integrity and transparency) and other European sectoral regulations. It also discussed oil-related products and gas, agricultural commodities and metals.

ESMA fined the trade repository **DTCC Derivatives Repository Limited** €64,000 for negligently failing to put in place systems capable of providing regulators with direct and immediate access to derivatives trading data.

HMT *published* an **independent review of claims management regulation** with a view to ensuring 'claims management services function effectively, in the interests of consumers and relevant markets'. The review identified a number of conduct issues including poor value for money services offered by claims management companies and misrepresentation of services offered to customers.

HMT *consulted* on a new regulatory framework for **insurance-linked securities**. It examined the features of an effective authorisation and supervision process, corporate structure and the taxation of these vehicles.

The FCA *finalised* its guidance on **voluntary redress schemes** under the Competition Act 1998. This covered the applications for approval of redress schemes and the conditions for their approval. In particular, the FCA explained how an approved redress scheme can be enforced and listed the criteria it intends to adopt in deciding whether to proceed with the enforcement.

The Competition and Markets Authority (CMA) *extended* the deadline in relation to its **retail banking market investigation** to 12 August 2016.

The FCA *published* details on **compensation and complaints data**. Overall complaints fell by 1.4%, driven by a reduction in those over current and savings accounts, but Payments Protection Insurance complaints rose.

The FCA *published* its thematic review and *Dear CEO letter* on **fair treatment of long-standing customers in the life insurance sector**. The review assessed how firms treated 'closed-book' customers with products that were sold before the year 2000. It identified poor customer outcomes in the areas of effective product reviews, communication with customers, and the application of charges and their impact on policies.

The FCA *published* a feedback statement on **'value measures' for general insurance add-on products**. It had decided to take forward the 'scorecard' option, whereby information on claims frequencies, claims acceptance rates and average pay-outs would be published to help consumers assess the value of add-ons. A pilot scheme would be run over two years before the introduction of a broader requirement. It also *published* a number of case studies to assist firms in understanding its expectations under the new rules and guidance.

The Payment Systems Regulator (PSR) *published* guidance on its approach to the application of the **Interchange Fee Regulation** in the UK, setting out how interchange fee caps for card payments will apply, along with its *approach* to monitoring compliance with the new rules. Card issuers, acquirers and schemes will need to provide data to the PSR to demonstrate compliance, which it may require to be externally audited.

The PSR *published* its **final super-complaints guidance** providing certain representative bodies, to be determined by HMT, with a mechanism to raise complaints with the regulator. The proposal was modelled upon that of the CMA and includes examination of quality of information supplied, further enquiries such as internal research and requests for information, and publication of a response within 90 days.

The FCA *published* Handbook changes regarding the **segregation of client money and peer-to-peer (P2P) agreements**. P2P agreements will become a regulated activity and can be held in a new component of the individual savings accounts (ISAs) known as an innovative finance ISA. The FCA also published a statement on applications of P2P firms for full authorisation. Eight had been fully authorised, but 86 were awaiting a decision, with full authorisation a requirement for innovative finance ISA eligibility.

The FCA *published* its future regulatory treatment of Consumer Credit Act (CCA) regulated **first charge mortgages**. Its mortgage regime will apply to pre-2004 first charge CCA mortgages in the same way as it applies to firms in relation to other regulated mortgage contracts.

The FCA *consulted* on draft Handbook changes and guidance for the **Payment Accounts Regulations (PARs) 2015**. The FCA proposed to issue guidance on the definition of a 'payment account', and on implementation of the provisions on packaged accounts, and introduce new reporting requirements in relation to switching and payment accounts with basic features.

The PSR, as competent authority for designating any alternative switching schemes under PARs, *consulted* on *draft guidance*. This covered the designation criteria and application process for alternative switching schemes, monitoring compliance with the requirements, and the PSR's approach to applying penalties.

The PSR *published* the interim report on its market review into the **supply of indirect access to payment systems** accompanied by a *commissioned report*, *annexes* and a *factsheet*. It highlighted a number of factors which 'limit competition and innovation' in payments, including barriers to switching between indirect access providers, and a variety of 'quality-related issues'. However, most of its concerns would be addressed by existing initiatives, and it did not propose to take immediate additional regulatory action.

The European Commission published a series of Delegated Regulations under MAR ahead of implementation in July 2016. These covered the arrangements for *suspicious orders or transactions reporting*, conditions applicable to *buy-back programmes and stabilisation measures*, the *content of notifications to be submitted to competent authorities*, and the technical arrangements for objective presentation of *investment recommendations*.

The Commission's Implementing Regulation on the timing, format and template of the submission of notifications under MAR was also published in the Official Journal of the European Union (OJ).

The FCA *announced* it was writing to 16,000 customers of **debt management firm PDHL**, which was refused authorisation to provide debt management activities as there were concerns about its treatment of customers.

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

The Financial Stability Board (FSB) *published* its second peer **review of resolution regimes**, finding only a subset of members had legal frameworks to require banks to improve their resolvability, and that bail-in remained one of the least well-established tools. However, the six EU member jurisdictions all had the full range of resolution powers as a result of the implementation of the Bank Recovery and Resolution Directive (BRRD).

Both the PRA and the FCA published updates to their approach to **ring-fencing transfer schemes** following feedback to their respective consultations. Neither made material changes to their proposed approaches, although they did provide a number of clarifications regarding their expectations.

The PRA *consulted* on changes to the Depositor Protection Part of the PRA Rulebook and a statement of policy on the calculation of **firm contributions to the Financial Services Compensation Scheme (FSCS)**. Under the proposals firms, that currently calculate their contributions to Deposit Guarantee Schemes (DGSs) on the basis of covered deposits, will have to adjust their levies for the risk incurred by each DGS member.

The PRA *consulted* on amendments to the **Bail-in Part of the PRA Rulebook**, proposing to disapply contractual recognition of bail-in for "phase 2" liabilities (other than unsecured debt instruments) issued under non-EU law and the bail-in of which is considered impractical. Firms need to consent to the modification of the contractual provision. Additionally, the PRA proposed technical amendments in order to align the PRA rules with the EBA's RTS on the contractual recognition of bail-in.

Following the review of the **UK Special Administration Regime (SAR)** by Peter Bloxham, the FCA *published* a discussion paper seeking feedback on client money distribution rules (CASS 7A) and how they work with the SAR. HMT also proposed some technical changes to the SAR provisions to speed up and simplify the process.

The Commission's Delegated Regulation laying down general principles and criteria for **the investment strategy and rules for the administration of the Single Resolution Fund (SRF)** was *published* in the OJ.

The European Commission *published* a Delegated Regulation that sets out RTS for the content of **recovery and resolution plans**, and the minimum criteria competent authorities need to consider in assessing recovery plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of write-down and conversion powers, the procedures and contents of notification requirements and of notice of suspension, and the operational functioning of resolution colleges.

The FCA *published* a policy statement on **disclosures to consumers by non-ring-fenced bodies (NRFBs)**. This requires NRFBs to provide prospective high net worth individual account holders with summary information about ring-fencing and the risks to which NRFBs are exposed, so that customers can make informed decisions about where to deposit their funds.

The European Commission *consulted* on insolvency rules in the EU as part of its work on Capital Markets Union, with a view to removing perceived "bottlenecks" to the integration of capital markets.

Regulatory perimeter

The Joint Committee of the European Supervisory Authorities (EBA, EIOPA, and ESMA – collectively the ESAs) *published* final draft RTS on the exchange of collateral to cover exposures arising from **non-centrally cleared OTC derivatives**. The RTS outlined procedures relating to collateral eligibility and valuation, methods to determine collateral haircuts, documentation, the timing of the collateral exchange, and the treatment of intragroup derivative contracts. They are broadly in line with standards from the Basel Committee and IOSCO, the International Organization of Securities Commissions.

The European Commission *published* its Implementing Decision on the **equivalence of the regulatory framework of the United States for central counterparties (CCPs)**. CCPs registered with the US Commodity Futures Trading Commission, once recognised by ESMA, can continue to provide their services in the EU while being subject to US rules. Recognised CCPs will also obtain qualifying CCP (QCCP) status under the CRR, meaning that EU banks' exposures to them will be subject to a lower risk weight in capital calculations.

ESMA *published* its report on the **risks and costs of CCP interoperability** under the European Market Infrastructure Regulation (EMIR), describing the current EU CCP interoperability arrangements for different product types and assessing the benefits and costs for the relevant parties. The document considers the prudential analysis at CCP level and the risk management tools to mitigate risks arising from interoperability. ESMA found that the provisions and guidelines under EMIR sufficiently addressed counterparty credit risk which it considered a key risk associated with CCP interoperability.

The European Commission published its *Delegated Regulation* (including an *Annex*) with regards to the **clearing obligation for certain Credit Default Swaps (CDS) under EMIR**. These CDS classes will be added to the clearing obligation on a phased basis from Q1 2017 onwards.

The FCA *published* its Feedback Statement on **regulatory barriers to innovation in digital and mobile solutions**. Next steps include a discussion paper on smarter consumer communications, engagement to maximise the Fourth Money Laundering Directive's potential for digital solutions, seeking stakeholder views on the implementation of the amended Payments Services Directive (PSD2) and addressing the issues raised in the FAMR.

ESMA *published* a Discussion Paper (DP) on the **reporting framework** under the Securities Financing Transactions Regulation (SFTR). The reporting requirements will affect firms engaging in SFTs, including repurchase agreements, and commodity and securities lending.

The Bank of England *published* its **annual report on the supervision of financial market infrastructures** (FMIs) which highlighted operational and cyber resilience, CCP recovery, board effectiveness, ring-fencing of UK banking groups, and supervision under the Central Securities Depositories Regulation as the Bank's forthcoming priorities in the supervision of FMIs. The FCA *published* the 2015 performance statement on its MoU with the Bank of England which identified no material duplication in FMI supervision by the two bodies.

The European Commission *launched* a public consultation under the **Start-up Initiative**, intended to identify new policies at both EU and national level for supporting the needs of start-ups. To this purpose the questionnaire distinguished between the 'stand-up', the 'start-up', the 'scale-up' and the potential exit phase.

Yves Mersch, Member of the Executive Board of the ECB, *spoke* about shaping the future of Europe's financial market infrastructure. He mentioned that the drivers of change have been integration and increasing efficiency and that the Eurosystem will explore synergies between TARGET2 and TARGET2 Securities (T2S) in order to achieve a consolidated market infrastructure for large-value payments and securities settlement.

Commissioner Jonathan Hill gave a *speech* on the **Capital Markets Union** at the Seventh Bruges European Business Conference. He highlighted the Commission's work on creating a proposal to 'restart Europe's securitisation markets', strengthen venture capital markets, overhaul the Prospectus Directive and encourage cross-border investment by improving the passport system for investment funds.

The Commission *published* a list of **planned initiatives throughout 2016**, including fifty level 2 measures under MiFID II and MiFIR, level 2 measures under MAR, and a Delegated Regulation on SRF contributions.

The PSR *published* its **annual plan** and budget for 2016/17, saying it will seek to keep ahead of technological change and the evolving EU regulatory environment. Among its other priorities, it will publish the final reports of its two major market reviews into indirect access and the ownership of the payments infrastructure, and will consult on the second phase of implementation of the Interchange Fee Regulation.

Verena Ross, Executive Director at ESMA, *spoke* on the opportunities and challenges presented by **financial innovation**. ESMA would take a balanced approach to the regulation of innovations such as exchange-traded funds (ETFs), automation in financial advice and crowdfunding. It would also do further analysis on distributed ledger technology to understand whether a regulatory response would be necessary.

Rethinking the domestic and international architecture for regulation

The Chancellor of the Exchequer wrote to the Bank of England setting out the **remit and recommendations for the FPC in the coming year**. While the remit remained broadly the same, the Chancellor noted the financial world had seen a "wave of fundamental reforms" and asked the FPC to build and implement a "stable regulatory environment" in 2016-17.

The FSB *published* a statement following its **Plenary meeting** in Tokyo. It would consult in mid-2016 on policy proposals to address "structural vulnerabilities" in asset management, with the intention of finalising its recommendations by end-year. It also discussed a potential framework for categorising areas of financial innovation, such as distributed ledger technology.

The PRA updated its approach documents on *banking and insurance* supervision. The update on **banking supervision** covered a number of topics, including new text regarding the leverage ratio framework, resolvability, and the Senior Managers Regime, and amendments to the capital and liquidity sections. The revisions to insurance supervision covered mainly Solvency II and the Senior Insurance Managers Regime.

The FCA and the Australian Securities & Investments Commission (ASIC) *signed* a **Co-operation Agreement** to establish a framework for cooperation and referrals between their "Innovation Hubs". The Agreement also set out how the two bodies planned to share and use information on innovation.

Commissioner Hill *spoke* at the Economist's **Future of Banking Summit**. He argued for "a period of greater regulatory stability" and said a proportionate approach should be applied when it came to implementation of internationally agreed standards. He also provided an update on the Capital Markets Union initiative, particularly around the harmonization of insolvency law and measures to strengthen venture capital markets.

Benoît Coeuré, Member of the Executive Board of the ECB, *spoke* about **sources of uncertainty in the banking sector**. More could be done to ensure certainty about the future of the regulatory regime, for example on exactly how the resolution framework will work. He also discussed financial innovation, where it remained to be seen if regulation was an answer to the risks and opportunities these provide.

Sarah Breeden, Acting Executive Director for International Banks, *gave* a speech on the **risks and benefits associated with international banking**. She argued for “committed cooperation” between home and host supervisors on the supervision of international banks. Key components of this approach were transparency around the financial position of the parent group, a credible resolution strategy and transparency around the intervention framework in each jurisdiction.

The European Parliament *passed* a **Banking Union** resolution asking the European Commission and the ESAs to conduct an in-depth assessment of the effect of increasing capital requirements in current and future legislation on credit supply, especially to SMEs. The Parliament described the establishment of the SSM as a success but identified a number of areas for improvement such as the need for effective coordination between micro – and macro-prudential policies.

In the lead-up to the referendum on UK membership of the EU, Mark Carney, Governor of the Bank of England, *sent* a letter to Andrew Tyrie, Chair of the Treasury Select Committee, about the **Bank of England’s ability to meet its statutory objectives** as a result of the agreement on “A settlement for the United Kingdom within the European Union”. Mr Carney said the settlement explicitly recognised the differences between euro-area and non-euro-area Member States. If commitments of the settlement were fulfilled, this would have a positive influence on the Bank of England’s ability to meet its statutory objectives.

The ECB *published* its **Macroprudential Bulletin** presenting its framework for macroprudential policy, its objectives and examples of the analytical tools used to measure the adequate level of capital requirements from a macroprudential perspective.

The BCBS **published** a handbook containing the procedures and processes for conducting jurisdictional assessments under its **Regulatory Consistency Assessment Programme (RCAP)**. The information in the handbook covered the main details of the framework and guidance on the use of the RCAP questionnaires, which member jurisdictions complete ahead of an assessment and keep updated.

The EBA **published its 2015 assessment of EU colleges of supervisors**, concluding that their functioning and the quality of group risk assessment had improved. The majority of colleges had also initiated the formal decision on the assessment of group recovery plans. The report recommended that colleges focus in 2016 on non-performing loans and ‘balance sheet cleaning’, business model sustainability and conduct and IT risks.

EIOPA *published* a paper proposing a **macroprudential approach to risks stemming from the low interest rate environment**. It discussed the problems associated with low interest rates, such as the collective “search for yield”, and listed instruments to tackle these, for example, an increase in capital requirements, higher loss absorbency requirements for global systemically important insurers and a strengthened recovery and resolution framework. However, there was currently little evidence to enable it to conclude that a macroprudential framework in insurance was needed.

Disclosure, valuation and accounting

The BCBS *consulted* on a new set of revisions to its **Pillar 3 framework**. The revisions can be broadly categorised into “enhancements” to the existing package of reforms (including disclosure of hypothetical RWAs under the standardised approach for all risk categories, and additional granularity for prudential valuation adjustments) and new additions to the framework as a result of “ongoing reforms” to the overall capital framework (with proposals on disclosing total loss absorbency capacity).

ESMA *published* a report on its enforcement activities when examining the **compliance of financial information** with applicable financial reporting frameworks in 2015. The main deficiencies were in the areas of financial statement presentation, impairment of non-financial assets, and accounting for financial instruments.

The EBA *consulted* on the **reporting of financial information** using Generally Accepted Accounting Practices (GAAP) across the EU. This consultation, being run with competent authorities, will allow some further analysis by the EBA on the interaction between GAAP practices and the FINREP framework.

Information security and data privacy

The **Information Commissioner’s Office (ICO)** updated its *Direct Marketing Guidelines*, to help organisations understand how to comply with privacy laws and follow good practice. The document provides enhanced guidance on third-party consent, more detail on obtaining “freely given” consent and an increased focus on marketing activities within the not-for-profit sector. In a recent blog *post*, the ICO also confirmed it is producing further guidance, including a ‘Privacy Notices Code, a checklist for selling and buying data and standard wording for organisations to use when collecting personal data for marketing purposes’.

Financial crime

Following the introduction of the Policing and Crime Bill, HMT *established* the **Office of Financial Sanctions Implementation** (OFSI) to ensure that financial sanctions are properly understood, implemented and enforced in the private sector. Chancellor of the Exchequer, George Osborne, said that 'OFSI will be a centre of excellence for financial sanctions, raising awareness and providing clear guidance to promote compliance'.

Other

IOSCO *published* its **securities markets risk outlook 2016**. It identified systemic risks from retail financial services conduct, the use of collateral in financial transactions, cyber, and corporate bond market liquidity.

The Treasury Select Committee *questioned* Mark Carney on the economic costs and benefits of the **UK's membership in the EU**. He said the UK would favour a 'proportionate' application of Basel III under which it might exempt certain small firms from full compliance. Both Mark Carney and Jon Cunliffe (the Bank's Deputy Governor for Financial Stability) argued that the UK could better maintain its influence on financial regulation from within the EU. A detailed *letter* to the Select Committee set out more detail on the Bank's views.

The European Parliament *confirmed* the appointment of **Fausto Parente** as the new Executive Director of EIOPA, who joins the authority from the Italian Insurance Supervisor. His five-year term started on 1 April 2016. EIOPA also *appointed* new members of its Stakeholder Group. The authority said that 'the new composition ensures the adequate consumer and increased independent academic representation as well as the appropriate gender balance'.

The ESRB *published* its **Risk Dashboard**.

Market perception of systemic risk had ticked upward in 2016. Recovery in the EU continued, but debt sustainability in the public and non-financial private sectors remained a concern. Activities of investment funds continued to grow, while bank profitability was still a challenge.

The FCA *published* its rules on the FSCS Management Expenses Levy Limit 2016/17, set at £72.7mn.

The PRA *consulted* on its proposal to set its Annual Funding Requirement (AFR) for 2016/2017 at £257.3mn. The PRA also estimated there will be a refund to fee payers in 2015/16 amounting to £4.5mn.

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