



Risk and Regulation Monthly

April 2018

CENTRE *for*
**REGULATORY
STRATEGY**
EMEA

March saw a number of significant regulatory developments.

Brexit negotiations saw the UK and EU agree a transition period in principle as part of a newly published draft withdrawal agreement. The UK's Chancellor of the Exchequer, Phillip Hammond, gave a speech on Brexit and financial services in which he argued for a future EU-UK trade deal to include a mutual recognition agreement for financial services, going beyond the equivalence arrangements which underpin other third countries' market access to the EU for financial services.

Non-performing loans (NPLs) remained high on the European agenda. Daniele Nouy, Chair of the Supervisory Board of the ECB, mentioned them as a continuing challenge in her speech on European banking, while the EC published a proposal for statutory prudential provisioning backstops for newly non-performing loans. The EBA also published a consultation on its Guidelines for credit institutions on how to effectively manage non-performing exposures (NPEs) and forborne exposures (FBEs).

The EC published its **Action Plan on sustainable finance**. It is proposing to incorporate sustainability into prudential requirements and put in place a unified EU classification system to define sustainability, create an EU "green label" for financial products deemed sustainable, and identify the areas where sustainable investment can make the biggest impact. The Action Plan was mentioned by Vice-President Dombrovskis and Gabriel Bernardino of EIOPA, in speeches this month.

Brexit

Huw Evans, Director of the Association of British Insurers, [wrote](#) to Andrew Bailey, CEO of the FCA, on the implications of the **UK's withdrawal from the EU for insurer's customer communications**. British insurers are affected in three areas: the authorisation of EEA insurance branches, communications for new insurance contracts and renewals of policies that will remain in force when Article 50 ends, and new insurance contracts and renewals sold by British insurers to EEA customers.

The Committee on Economic and Monetary Affairs [welcomed](#) the ECB's President, Mario Draghi, to the first Monetary Dialogue of 2018, and [published](#) a number of accompanying in-depth policy analysis papers. Much of the analysis focused on **Brexit** as the catalyst for the current **CCP framework reform** (EMIR II). It highlighted Brexit risks, such as higher transaction costs and driving clearing overseas, and recommended changing the existing equivalence regime to make it more suited for the long-term.

The UK and the EU [published](#) a new draft Withdrawal Agreement, which **agreed a transition period in principle**. Key points included the end date of the transition period as December 31, 2020; agreeing to grant residency rights to EU citizens arriving in the UK during transition; the ability for the UK to negotiate, sign and ratify trade deals during the transition period; the continuation of the UK's obligations under the EU's international agreements and trade deals during the transition (although not necessarily the continuation of the UK's benefits under those deals, which would require the agreement of the relevant third countries); and the creation of a Joint Committee to ensure all parties act "in good faith" during the transition period.

Philip Hammond, the Chancellor of the Exchequer, [spoke](#) on what a **future financial services (FS) component** of a comprehensive trade partnership agreement between the UK and EU27 might look like. He outlined that in future the UK does not wish to be automatically a 'rule taker' and the UK should have the ability to deliver equivalent regulatory outcomes for FS through different means, going beyond the equivalence arrangements which underpin other third countries' market access to the EU for financial services.

Capital (including macro prudential and stress testing)

The Bank of England [published](#) **key elements of its 2018 stress test of the UK banking systems**. The stresses applied to the economic and financial market prices and measures of activity in the 2018 test will be the same as in 2017, while the hurdle rates will evolve from those used in earlier years. **Banks will be expected to complete the exercise using IFRS 9 provisioning approaches for the first time**, with adjustments being made to reflect the increased loss absorbency that will result from higher provisions in stress under the new IFRS 9 standards.

Dimitris Zafeiris, EIOPA's Head of Risks and Financial Stability Department, [gave](#) an interview on **macro prudential policy for insurers** and the Greek insurance industry. He highlighted the importance of identifying the potential sources of systemic risk and finding a balance between the entity-based and activity-based approaches to this risk for the insurance sector. He also argued that further progress was needed in the harmonisation of recovery and resolution for insurers.

The EBA [updated](#) its list of regional governments and local authorities that are treated as central governments under the Standardised Approach for the **calculation of capital requirements** under the CRR. The updated list includes changes to the regional governments and local authorities in Finland.

The EBA [published](#) its thirteenth Report of the **CRDIV-CRR/Basel III monitoring exercise** on the European banking system. This exercise presents aggregate data on EU banks' capital, leverage, and liquidity ratios assuming full implementation of the CRD IV-CRR/Basel III framework. The results showed a further improvement in European banks' capital positions, with a total average Common Equity Tier 1 (CET1) ratio of 13.8% (versus 13.4% as of 31 December 2016).

The EBA [published](#) its advice on the European Commission's proposal for a **statutory prudential provisioning backstop for newly non-performing loans**. The EBA's analysis found that after 7 years, the statutory prudential backstop would lead to a decrease in the CET1 capital ratio of 56 basis points for the average European bank, rising to 205 basis points after 20 years.

The EBA [published](#) an **assessment of the current credit risk mitigation (CRM) framework** as a part of its work on the review of the internal ratings-based (IRB) approach. The EBA noted that the fulfillment of the three mandates for regulatory technical standards (RTS) in the area of CRM in the CRR could lead to disproportionate regulation with limited benefits, and recommended that the mandate RTS on liquid assets be deleted from the CRR.

The ECB [consulted](#) on draft Guides to the **internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP)**. The Guides clarify the ECB's expectations on both the interplay between ICAAP and ILAAP elements and the integration of the ICAAP and the ILAAP into the institution's overall risk management framework. The Guides are not legally binding, and the consultation closes on 4 May 2018.

The ECB [published](#) its Addendum to its Guidance to banks on non-performing loans (NPLs). The document sets out its supervisory expectations for prudential provisioning for NPLs and introduces a **Pillar 2 backstop for newly non-performing loans**. Newly non-performing loans which are fully unsecured should be fully covered after 2 years, while NPLs that are fully secured should be fully covered after 7 years.

The EC [consulted](#) on the impact of the **finalisation of Basel III**. The consultation covers changes to the standardised approach for credit risk, internal ratings-based approaches for credit risk, the CVA risk framework, the operational risk framework, and the output floor. The consultation closes on 12 April 2018.

The EC [published](#) a proposed **package of measures to reduce non-performing loans (NPLs)**. The measures include: a Regulation introducing a Pillar 1 statutory prudential backstop for newly originated loans that become non-performing; a Directive facilitating out-of-court collateral enforcement and fostering the development of secondary markets for NPLs by developing an EU passport; and a non-binding blueprint for the set-up of national Asset Management Companies.

The BIS [published](#) follow-up reports on **Basel III implementation assessments**. The Committee also updated its Handbook for jurisdictional assessments, which incorporates lessons from the Committee's experience in conducting the Committee's Regulatory Consistency Assessment Programme (RCAP) and expands the methodology to cover assessments of the Net Stable Funding Ratio (NSFR) and the large exposures framework.

The BIS [published](#) its 2018 **Regulatory Consistency Assessment Programme (RCAP)**. This is a summary of post assessment follow-up actions, which are taken or planned by member jurisdictions after the assessments to address findings identified by the RCAP assessments. Findings reflect major divergences from the Basel standards or timing differences with respect to forthcoming standards.

Liquidity

Benoit Cœuré, Member of the Executive Board of the ECB, [spoke](#) on the importance of **euro interest rate benchmark reforms**. He outlined plans to develop an adoption plan for a risk-free overnight rate that can serve as the basis for an alternative to the benchmarks currently used in the euro area, and to ensure a smooth transition to this new benchmark.

The ECB [launched](#) a second public consultation on a new **euro unsecured overnight interest rate**. This consultation followed the ECB's earlier [decision](#) to develop such a rate based on transactions already reported by banks in the Eurosystem. The consultation seeks to gather stakeholder views on the methodology for the rate and its key parameters.

Governance and risk management (including remuneration)

The FCA [published](#) a statement saying that it intends to consult on proposals to make information available on a wider range of individuals at authorised firms, through the **introduction of a public register** of individuals covered by the Senior Managers & Certification Regime. This could include non-executive directors, financial advisers, traders and portfolio managers.

The FCA [conducted](#) its **product governance review of small and medium-sized retail banks**. All firms interviewed were found to have an effective governance framework covering all stages in the product lifecycle, and had effective design and product review processes capturing feedback from existing customers. The FCA also highlighted examples of good practice and called out areas for improvement, including the need for some firms to strengthen the product governance review process and to test customer understanding of T&Cs.

Megan Butler, Director of Supervision - Investment, Wholesale and Specialists at the FCA, [delivered](#) a speech on **women in finance**. She highlighted the importance of diversity as a way to mitigate conduct risk within firms, and stated that the FCA would “continue to impress on senior management the importance of diversity”.

The Payment Systems Regulator [published](#) its third report on **access to payment systems** and the **governance of payment system operators**. The report found that there is increased choice for payment service providers (PSPs) to access interbank payment systems alongside increasing competition in the provision of indirect access.

Danièle Nuoy, Chair of the Supervisory Board of the ECB, [spoke](#) on **governance**. She highlighted five key areas in which banks need to improve: fit and proper assessments for board members; independence of the board; the link between internal control functions and the board; risk appetite frameworks; and data quality.

Sabine Lautenschläger, Vice-Chair of the Supervisory Board of the ECB, [spoke](#) on the need to **align banking regulation and supervision**. She argued that large investment firms and third-country branches should be subject to European-level supervision; that options and national discretions contained in European banking regulation should be harmonised; and that a common approach to insolvency laws and moratoriums should be created.

The EC [published](#) proposals for a [Regulation](#) and a [Directive](#) on **cross-border distribution of investment funds**. The proposals seek to reduce distribution costs to support a more integrated single market for investment funds. The draft Directive proposes to ban the imposition of physical presence for UCITS, through the use of electronic or other distance communication with investors.

The EBA [consulted](#) on its Guidelines on the **management of non-performing exposures** (NPEs) and forborne exposures. The Guidelines set out the key elements for developing and implementing an NPE workout framework, including governance and operations, the internal control framework, NPE monitoring, and early warning processes. The consultation closes on 8 June 2018.

The European Systemic Risk Board (ESRB) [published](#) a report on **macro prudential structural buffers** and a revised Handbook on Operationalising Macro-prudential Policy in the Banking Sector. The publications included additional guidance for national authorities on Other Systemically Important Institution (O-SII) buffer calibration and proposed an increase in the O-SII cap from 2% to 3%.

The FSB [published](#) a progress report on addressing **declines in correspondent banking** and recommendations on remittances. The report noted the steps being taken to address the decline in correspondent banking, including the publication of the Correspondent Banking Due Diligence Questionnaire in February 2018. Recommendations on remittances included better application of the risk-based approach and better supervision.

IOSCO [launched](#) a consultation on mechanisms used by trading venues to **manage extreme volatility** and preserve orderly trading. It recommended that venues should have appropriate volatility control mechanisms, details of which should be shared with regulators and other market participants.

Conduct of Business (including MiFID)

Mary Starks, Director of Competition and Chief Economist at the FCA, [spoke](#) on **price regulation**. Starks indicated that fixing or capping prices can have serious unintended consequences, including undermining the intent of policy, and fuelling black market or other criminal activity. Therefore, she encouraged policy makers to review price caps regularly.

The FCA [fined](#) Vanquis £1,976,000 for failing to disclose the full price of an add-on product, called **Repayment Option Plan (ROP)**. The firm will also repay an estimated £168,781,000 in compensation which constitutes the amount of the charges not disclosed to customers when they bought the ROP.

Andrew Bailey, Chief Executive of the FCA, [spoke](#) on **financial markets developments**, focusing on a recent spike in market volatility. In relation to MiFID II introduction, he reassured that the FCA “would not use [its] enforcement powers in a disproportionate manner”. He also discussed the global transition from LIBOR to alternative reference rates, and a possibility of developing a “synthetic” LIBOR (a risk-free rate plus an add-on).

The FCA [published](#) **general insurance value measures data** for 36 insurers, covering claims frequencies, claims acceptance rates and average claim pay-outs. The FCA also collected information about reasons for claims rejections, finding the main causes as; claim conditions not being met, claims being outside the policy cover, and not having cover for the claim.

The FCA [published](#) a Discussion Paper on **Transforming Culture in Financial Services**, “to provide a basis for stimulating further debate on transforming culture in the sector.” The paper presented a variety of views from academics and industry thought leaders, and reaffirmed the FCA’s prioritisation of culture and governance. The paper notes the FCA’s strong focus on the role of individuals as well as firms, identifying four main drivers of firms’ culture: a firm’s purpose, leadership, approach to rewarding and managing people, and its governance arrangements.

To accompany the paper, the FCA [published](#) a speech by Andrew Bailey, on **Transforming culture in financial services**. He highlighted the drivers of poor conduct (such as poor incentives), and the solutions to address these, such as the Senior Managers Regime and remuneration rules for Senior Managers of banks. He said that the pre-crisis culture in financial services was “essentially permissive, to the point of anything goes”, but that work on incentives could lead to a change in the way financial services firms understand the notion of “an ethical culture serving the public interest.”

The FCA [published](#) a speech by Sarah Rapson, Director of Authorisations at the FCA, in which she outlined that the **FCA uses authorisation** to improve conduct and culture in firms and promote competition and innovation, and highlighted common pitfalls firms encounter when applying for authorisation, such as applying prematurely or misunderstanding what is required of them.

The FCA [published](#) a speech by Jonathan Davidson, Director of Supervision – Retail and Authorisations, on getting affordability right in **consumer credit**. He said it was unacceptable and unsustainable for firms to have business models predicated on selling products to customers who could not afford to repay them; that firms need to consider whether a customer had a history of repaying, but whether they were likely to be able to do so in the future; and that a successful business model relied on having a healthy firm culture.

The FCA [published](#) a policy statement setting out the final rules and guidance to help customers in **persistent credit card debt**, requiring firms to intervene earlier to identify customers at risk. This is part of a package of measures introduced to implement the findings of the FCA’s credit card market study. The final rules come into force on 1 March 2018 and firms have until 1 September 2018 to be fully compliant.

The Civil Liability Bill was [introduced](#) into the House of Lords, and seeks to update the **personal injury discount rate (PIDG)**. If enacted into law, the Bill would introduce changes to the way whiplash and other soft tissue injury claims are handled, such as introducing a tariff of compensation. It would also call for a regular review of the PIDG, with the first one taking place within 180 days of the Bill entering law. This new rate would be set taking a rate of return on a “low risk” portfolio rather than the current “very low risk”.

The Department for Work and Pensions [published](#) a policy paper on protecting defined **benefit pension schemes**. Proposed changes include punitive fines, a criminal offence to punish those found to have committed willful or grossly reckless behaviour, and the requirement for trustees of Defined Benefit pension schemes to appoint a Chair. It also proposed “creating the right conditions for schemes to consolidate so benefits of scale can be realised securely”.

ESMA [updated](#) its EMIR **validation rules** to allow for reporting of exchange-traded derivatives in products for which the effective date may be earlier than the date of execution. It also clarified how the product identification should be validated in reports submitted on or after 3 January 2018.

ESMA [published](#) the **double volume cap** calculations under MiFID II/MiFIR for January and February 2018. Based on this, two caps will limit trading under the ‘reference price’ and ‘negotiated transaction’ waivers for certain equity instruments. NCAs are required to suspend the use of the waivers where the caps were exceeded, for six months starting from 12 March.

ESMA [published](#) its latest report on **trends, risks, and vulnerabilities** in securities markets, which found that overall risk levels remained high. The report analysed the exchange-traded derivatives market before MiFID II implementation and ESMA's approach to operational risk assessment. ESMA also warned about consumers investing in virtual currencies and initial coin offerings.

ESMA [clarified](#) the treatment of **package orders** under MiFIR's trading obligation for derivatives, suggesting that for certain packages the components should be executed on a trading venue only where it is feasible without creating undue operational or execution risk.

Steven Majjoo, Chair of ESMA, [spoke](#) on the **Capital Markets Union, Brexit and the ESAs Review**. He talked about portfolio delegation in the context of Brexit and the challenges this poses to ESMA. He also welcomed the impact MiFID II and PRIIPs had had on promoting transparency around costs and charges. He said that ESMA would examine the PRIIPs cost calculation methodology if there is "concrete evidence" that it is flawed.

The FSB [called](#) for responses from firms on **legal barriers** to the reporting of full transaction information on OTC derivatives. Responses will help the FSB to evaluate which jurisdictions have met their commitments to remove such constraints.

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

Daniele Nouy, Chair of the Supervisory Board of the ECB, [spoke](#) on **opportunities and challenges for European banks**. She cited old challenges stemming from the financial crisis, non-performing loans (NPLs), the long period of low interest rates, as well as new challenges such as technological change, and digital transformation. She cited Greek banks as an example, speaking about their improving conditions but also their continuing NPL challenge.

EIOPA [published](#) the second of a series of papers on **systemic risk and macro prudential policy in the insurance sector**. EIOPA identified, classified and provided a preliminary assessment of the tools or measures already existing within the Solvency II framework which could mitigate any of the systemic risk sources that were identified in EIOPA's first paper, such as the volatility adjustment and the matching adjustment.

The Basel Committee [published](#) the results of its latest **Basel III monitoring exercise** based on data as of 30 June 2017. Findings show that all the banks in the sample meet both the Basel III risk-based capital minimum Common Equity Tier 1 (CET1) requirement of 4.5% and the target level CET1 requirement of 7%. All banks reported a Liquidity Coverage Ratio (LCR) at or above the 90% minimum requirement for 2018.

Sabine Lautenschläger, Vice-Chair of the Supervisory Board of the ECB, [spoke](#) on **banks and the market**. She outlined the important role banks play in the European economy, and how they must be able to fail, otherwise the economy will suffer in the long run. However, banks must fail in an orderly manner as otherwise financial stability will suffer; and the European resolution framework helps to make this possible.

Regulatory perimeter

Mark Carney, Governor of the Bank of England, [gave](#) a **speech on the future of money**. He explained that although crypto-assets fail to fulfil the traditional role of money, they present risks for financial stability and customer protection, and should therefore be held to the "same standards as the rest of the financial system".

Andrew Bailey [gave](#) a speech at the Finance & Leasing Association, where he highlighted **that consumer credit continues to be a key sector for the FCA**, and that it is looking at developments in consumer credit to ensure that lending is affordable and sustainable. This includes whether firms are appropriately assessing affordability; conflicts of interest arising from commission arrangements; the clarity and transparency of consumer information and whether firms are managing the risk that asset valuations could fall.

Carole Begent, the Payment Systems Regulator's (PSR) Head of Legal, [gave](#) a speech on **compliance and the PSR's enforcement work**. She discussed the purpose of the PSR and its new enforcement powers in relation to the second Payment Services Directive (PSD2). She also spoke on the New Payment System Operator that will soon take over operation of BACS, Faster Payments and the new image clearing system for cheques.

The FCA [published](#) an update on their **work on motor finance**, finding most of the growth in the sector has been to lower credit risk consumers, and that arrears and default rates have remained low overall, although they have increased for higher credit risk consumers. The FCA thinks this may point to issues around firms' affordability assessments and is reviewing firms' current procedures. The FCA has also noted that some types of commission arrangements can perversely incentivize brokers to arrange higher cost finance for consumers, and will look into this further.

The PSR [published](#) its **Annual Plan and Budget for 2018/2019**. It will focus on the procurement process in infrastructure for payment systems, the establishment of the New Payment System Operator and the New Payments Architecture, and the development of a reimbursement model for the victims of authorised push payment scams. The PSR also reaffirmed its commitment to the exploratory work it started in 2017, focusing on data associated with payments, changing competitive dynamics, and consumer protection.

HM Treasury [launched](#) its **FinTech Sector Strategy**, which focuses on removing barriers to entry and growth for FinTech firms, and embracing the opportunities offered by them. The strategy includes the creation of a Crypto Assets Task Force, the development of industry standards for the partnerships between banks and FinTech firms, and the launch of robo- regulation pilot schemes aimed at helping FinTech and other FS firms comply with rules through automation.

The FCA [published](#) a joint call for input with The Pensions Regulator on their strategy for the **retirement income sector** and to clarify their respective regulatory remits. The FCA would like to hear views on drivers of opportunities and risks, and how the FCA interacts with the rest of the sector.

Valdis Dombrovskis, Vice President of the European Commission, [gave a speech on cryptocurrencies](#). Dombrovskis said that “blockchain technology holds strong promise for financial markets”, but cryptocurrencies also pose substantial risks in terms of consumer protection and money laundering. He highlighted that the Commission will continue to assess whether regulatory action at EU level is required.

The European Commission [published](#) a **proposal for a Regulation on European Crowd Funding Service Providers (ECSPs)**. The proposal seeks to help ECSPs overcome the divergence in national regulatory frameworks on crowd funding in the EU, and to scale up their activities through passporting. It also gives ESMA the mandate to authorise, supervise and sanction ECSPs. The Commission also proposed to amend MiFID II to exclude ECSPs authorised under the new EU regulation from its scope.

The European Commission [published](#) its **FinTech Action Plan**. The plan sets out a list of 19 initiatives focused on three main topics: (i) enabling innovative business models to reach EU scale; (ii) supporting the uptake of technological innovation in the financial sector; and (iii) enhancing security and integrity of the

financial sector.

Ignazio Angeloni, Member of the Supervisory Board of the ECB, [spoke on proportionality in banking supervision](#). He cautioned against pursuing “proportionality” aimed only at softening the prudential burden for certain institutions. He also said that the ECB does not favour a modification of the existing legal framework to allow for less frequent reporting requirements for smaller banks.

The ECB [published](#) two guides for the assessments of **licence applications for banks and FinTech credit institutions**. The first document presents the general application process and requirements regarding governance, risk management and capital. The second complements the first and explains the specific requirements for applications from FinTech firms.

Andrea Enria, Chairperson of the EBA, [gave](#) a speech at the Copenhagen Business School in which he criticized the **overly complex regulatory structure of FinTech in the EU**. He also announced the launch of the EBA FinTech Roadmap.

The EBA [published](#) its **FinTech Roadmap**, which presents the Authority’s priority areas for the period 2018/2019. Over the next two years, the EBA will focus on issues related to the regulatory perimeter, innovation facilitators, the impact of FinTech on business models and prudential risk, cybersecurity, consumer protection and conduct, and AML/CFT.

The EBA [issued](#) an opinion on measures to address **macro prudential risk**. The EBA did not object to the French High Council for Financial Stability’s intention to tighten large-exposure limits applicable to large and highly indebted non-financial corporations (NFCs) in France. The applied measure prevents French systemically important institutions incurring an exposure exceeding 5% of their eligible capital (versus the prescribed large exposure limit of 25%) for highly indebted NFCs or groups of connected NFCs.

The EBA [published](#) a report on the **functioning of supervisory colleges** in 2017. It found that significant improvements had been achieved in college interactions, responsiveness, and in the quality, coverage and reasoning of the joint decision documents, but that further efforts are expected from both home and host supervisors to enhance the joint decision process and the completeness of SREP assessments.

The FSB [published](#) its **Global Shadow Banking Monitoring Report 2017**. The report sets out a number of observations on the interconnectedness and activities of the shadow banking sector, including that the activity-based, narrow measure of shadow banking grew by 7.6% in 2016 and represented 13% of the total financial system assets in the jurisdictions monitored.

The FSB [published](#) a letter from its Chair to the G20 Finance Ministers and Central Bank Governors, setting out the **FSB's priorities** under the Argentine Presidency. These include vigilant monitoring to identify, assess and address new and emerging risks; completing the G20's outstanding financial reform priorities; and evaluating policies that have been implemented to ensure the reform program is efficient.

The Committee on Payments and Market Infrastructures [published](#) a report on **central bank digital currencies** (CBDCs), analysing their implications for payment systems, monetary policy and financial stability. It found that CBDCs might improve settlement efficiency for securities and derivatives, and that some central banks are considering them as a potential alternative payment instrument although this would raise a variety of issues and "move central banks into uncharted territory".

The Basel Committee [discussed](#) its **work programme**, current policy work, implementation of its standards, and initiatives to promote strong supervision. The Committee agreed to assess further a recent stock take of identified transactions and behavioral responses by banks that could potentially constitute a form of regulatory arbitrage; exchanged views on recent market and supervisory developments, including the impact on the banking system of volatility in financial markets in the first quarter of 2018; and discussed the implications of the emergence of crypto-assets.

Rethinking the domestic and international architecture for regulation

Christopher Woolard, Executive Director of Strategy and Competition at the FCA, [delivered](#) a **speech at the Innovate Finance Global Summit in London**. He highlighted the important role that collaboration with international regulators has played in the FCA's FinTech activity since the creation of Project Innovate in 2014. Woolard also mentioned the FCA's potential initiative to create a global sandbox, aimed at tackling global issues such as money laundering and reducing the regulatory burden of compliance.

John Glen, the City Minister, [gave](#) a **speech at the Innovate Finance Global Summit**. He emphasized the role of the UK as a leader in FinTech, thanks to its focus on encouraging competition, the financing and capital provided to innovative businesses, and the connectivity throughout the country.

The FCA and Australian Securities and Investments Commission (ASIC) [signed](#) an **Enhanced Cooperation Agreement between their FinTech Innovation Hubs**. The FCA and ASIC will explore ways to quicken the licensing and authorisation of FinTech firms already authorised in one of the two jurisdictions. They will also co-host FinTech events, conduct joint policy and experimentation work, and explore secondment opportunities.

The FCA published its [Approach to Supervision](#) and its [Approach to Enforcement](#). The FCA's areas of focus and supervisory principles remain substantively unchanged compared to its previous approaches. Nevertheless, the FCA intends to place strong emphasis in its day-to-day supervision on firms' strategy and business models, culture and governance, and individual and firm accountability.

The FCA [published](#) a speech by Christopher Woolard, Executive Director of Strategy and Competition, on **consumer credit**. He highlighted that the FCA is identifying gaps in regulation, leading to new rules for credit card firms, especially for persistent credit card debt. He emphasised the FCA also relies on market participants to influence demand, for example in the area of high-cost credit, and that the FCA's Sandbox is a tool to foster competition and ultimately bring better outcomes to customers.

Sam Woods, chief executive of the PRA, [spoke](#) on insurance regulation at the Association of British Insurers Annual Conference 2018. He noted the PRA's proposed reforms to the **Solvency II framework** and argued that Solvency II has not dampened the productivity or growth of UK insurance companies and has not driven up prices for UK insurance policyholders.

Valdis Dombrovskis, Vice-President of the EC, [spoke](#) on the Commission's strategy to **complete the Capital Markets Union** (CMU), noting a number of new proposals, including: the introduction of common EU rules to boost covered bonds as a source of long-term finance; measures to boost the cross-border market for investment funds; and new rules to facilitate cross-border transactions.

The EC [published](#) its **Action Plan on sustainable finance**. It is proposing to incorporate sustainability into prudential requirements and put in place a unified EU classification system to define sustainability, create an EU “green label” for financial products deemed sustainable, and identify the areas where sustainable investment can make the biggest impact. Valdis Dombrovskis, Vice-President of the EC, also gave a [speech](#) in support of the plan.

To Accompany the EC’s Action Plan, Gabriel Bernardino, Chairman of EIOPA, [gave](#) a speech on **sustainable finance and sustainable pensions**. He set out how EIOPA plans to contribute to making European pensions “future-proof”, through promoting efficient risk management, improved funding, tailored systems of governance, a proper assessment of sustainable finances, and the introduction of Pan European Pension Products.

Mario Draghi, President of the ECB, [spoke](#), on the **relevance of central clearing for monetary policy**. Draghi viewed the EMIR amendments for enhanced third-country supervision and role of the ECB as “welcome and necessary”. He stressed that “the existing regime was never intended to cope with large-scale euro-denominated clearing activities being carried out in a country outside the EU”, and said the adoption of amendments to EMIR should be finalised in advance of Brexit.

The IAIS [published](#) a report on **FinTech Developments in the Insurance Industry**. The report highlighted the potential impact of FinTech development in the insurance industry, including on consumer choice, data ownership and competitiveness. It concludes that the impact will depend on a combination of the technology used and societal changes.

Disclosure, valuation and accounting

The European Commission [published](#) a consultation on the **fitness check on the EU framework for public reporting by companies**. The consultation aims to assess whether the EU reporting framework is still fit for purpose, and fit for new challenges such as digitalization and sustainability.

The BCBS [consulted](#) on a technical amendment to the **additional Pillar 3 disclosure requirements** for jurisdictions implementing an expected credit loss (ECL) accounting model as well as for those adopting transitional arrangements for the regulatory treatment of accounting provisions. The changes introduce additional disclosure requirements around the impact of ECL requirements on Total Loss-Absorbing Capacity and the credit quality of assets. The consultation closes on 4th May 2018.

Information security and data privacy

Dave Ramsden, Deputy Governor for Markets and Banking at the Bank of England, [gave](#) a **speech on FinTech at the International FinTech Conference** in London. He announced the creation of a FinTech Hub to cover how the Bank understands and applies FinTech, and the launch of a proof of concept to assess the demands put on central real-time gross settlement infrastructure by a range of FinTech firms’ settlement models.

Yves Mersch, Member of the Executive Board of the ECB, [gave](#) a **speech on innovation and digitalisation in payment services**. He highlighted that, in the context of PSD2, only the creation of an API built on standardised technical foundations will be effective in boosting competition in European payment markets. He also insisted on the need for market players to develop a fully-fledged cyber strategy and response plan.

EIOPA [published](#) its **response to the European Commissions’ consultation on the fitness check on supervisory reporting**. It highlighted the importance for supervisors of receiving meaningful data of sufficient granularity, scope, frequency and rapidity to quickly identify risks faced by the industry. It also renewed its commitment to assess the costs of, and consistency between, various regulatory frameworks.

The ESAs [published](#) their final report on **Big Data**, analysing its impact on consumers and financial firms. Findings showed that the benefits to consumers, including more tailored products and services and improved fraud analytics, outweighed the risks posed by Big Data such as increasing consumer segmentation.

The FSB [provided](#) an update on its **Cyber Lexicon** work to the G20. The Lexicon aims to provide a common understanding of relevant cyber security and cyber resilience terminology, and should help with effective information-sharing and effective practice identification across jurisdictions. The FSB plans to deliver the final Lexicon at the G20 summit in November 2018.

Financial Crime

The FCA [fined](#) former Deutsche Bank trader, Guillaume Adolph, £180,000 and banned him from performing regulated activities for improperly **influencing LIBOR** submissions to benefit his own trading positions

The FCA [banned](#) former Co-op Bank Chair, Paul Flowers, from the financial services industry on **fitness and propriety** grounds.

Other

The FCA [published](#) its 12th Data Bulletin, focused on **findings from its Financial Lives Survey 2017**, particularly on the pensions and retirement income sector, and the latest trends in the retirement income market. Findings include that 75% of all non-retired UK adults have not considered “much, or at all, how they will manage financially in retirement”, and a 13% drop in new annuity sales.

The European Council [agreed](#) the dates for the **2019 European Parliament elections** to take place on 23 – 26 May 2019. Parliament was consulted on a draft Council decision to fix these dates, and the Council is expected formally to adopt its decision before the end of June.

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

Felix Bungay

Manager, Centre for Regulatory Strategy
+44 (0)20 3741 2939

Deloitte.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2018 Deloitte LLP. All rights reserved.

Designed and produced by The Creative Studio at Deloitte, London. J15520