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November proved to be another busy month for Brexit preparation, with significant preparatory activities undertaken by UK policy makers and EU regulators. This resulted in the publication of a further significant number of consultations and draft legislative documents.

November has also been a busy month for stress-testing. The Bank of England's (BoE) stress test results show that all banks remain above their risk-weighted capital and leverage hurdle rates. However, some banks will need to undertake work on their model governance and infrastructure as part of their model risk management frameworks.

The European Banking Authority (EBA) and the European Central Bank (ECB) stress test results show that the aggregate capital ratio at the starting point of the 2018 stress test is notably above the aggregate capital ratio reported by banks at the beginning of previous EU-wide exercises. Although there is no "pass/fail" threshold, the results will feed into the Supervisory Review and Evaluation Process (SREP).

Brexit

The BoE **published** its assessments of the **potential impact of EU withdrawal scenarios and monetary and financial stability**, in response to a request from the UK Parliament's Treasury Committee. Amongst other scenarios, the BoE's Financial Policy Committee (FPC) reviewed a "disorderly" Brexit scenario with no deal and no transition period, which would lead to a severe economic shock. Based on a comparison of the results with the **2018 stress test**, the FPC judged that the UK banking system is strong enough to continue to serve UK households and businesses, even in the event of a "disorderly" Brexit.

The PRA **published** a "Dear CEO" letter by David Bailey, Executive Director or Financial Market Infrastructure, on how the PRA envisages the process for **offering UK settlement finality protection to systems** designated under the EU Settlement Finality Directive (SFD) by an EEA state would take place. The letter describes what the 'steady state' regime for UK settlement finality designation will look like post-EU withdrawal, sets out the criteria that will determine whether a system would need SFD designation, and explains the application process for temporary SFD designation.

The FCA **published** a speech by Nausicaa Delfas, Executive Director of International, on "**Maintaining market confidence: an update on Brexit**". Ms. Delfas indicated that, so far, over 1,300 firms and funds have expressed their interest in joining the Temporary Permissions Regime. She welcomed HM Treasury's proposal to give financial services regulators the power to phase in changes made as part of the process of -shoring EU law into UK law. Finally, she highlighted that some "cliff edge" risks remain, particularly around data, contractual continuity, and clearing.

The FCA also **published** its "**EU Withdrawal Impact Assessment**" (along with a **letter** from Andrew Bailey, CEO, to Nicky Morgan, Chair of the Treasury Committee). The FCA reached three key conclusions: (i) from the perspective of the FCA's statutory objectives, an implementation period is preferable to exit without agreement next March; (ii) it is better to have an implementation period in place which provides a bridge to the new relationship between the UK and the EU to ensure greater clarity over future regulatory arrangements; and (iii) it is welcome that the political declaration contains a commitment for the EU and the UK to undertake, during the implementation period, equivalence assessments in financial services regulation where those are provided for existing directives.

The FCA **issued** a **second consultation on further proposed changes to its Handbook and Binding Technical Standards**. The amendments are made to reflect the Temporary Permissions Regime and the new credit rating agency and trade repository regimes. The FCA is also consulting on how non-handbook guidance should be interpreted after Exit day. The Consultation is open until 21 December 2018.

HM Treasury **published** a policy note on its "**Financial Services (Implementation of Legislation) Bill**", which provides the power, in a no-deal scenario, for the UK to implement and make changes to a specified list of "in-flight files". These are pieces of EU financial services legislation agreed or in negotiation at the point of exit, with implementation dates falling in the two years after exit. Only those "in-flight" files considered necessary for UK financial services following exit are within the scope of power. The Bill was submitted to second reading on 4 December.

HM Treasury published nine draft Statutory Instruments (SI) covering:

- **Money Laundering and Transfer of Funds**;
- **Interchange Fee**;
- **Packaged Retail and Insurance Based Investment Products**;
- **Insurance Distribution**;
- **Investment Exchanges, Clearing Houses and Central Securities Depositories**;
- **Credit Institutions and Insurance Undertakings Reorganisation and Winding Up**;
- **Long-term Investment Funds**; and
- **Collective Investment Schemes**.

HM Treasury also published guidance around upcoming SIs related to:

- **Financial Services (Distance Marketing)** ;
- **Onshoring of elements of the E-Commerce Directive relating to financial services**;
- **Official Listing of Securities, Prospectus and Transparency**;
- **Mortgage Credit**;
- **Financial Services and Markets Act 2000**;
- **Benchmarks**;
- **Market abuse**; and
- **Money Market Funds**.

The EBA, EIOPA and ESMA **proposed** a draft Regulatory Technical Standard (RTS) to amend the **risk mitigation techniques for OTC derivatives not cleared by a CCP under EMIR**. The draft RTS would apply only in case of no-deal and, if agreed, would allow UK counterparties to be replaced with EU ones without triggering the bilateral margin procedures and related margining requirements. In terms of scope, the exemption would only apply to novations to new EU27 counterparties, and would not extend to other life-cycle events.

The ECB **published** a speech by Luis de Guindos, Vice-President, on "**Promoting the stability and efficiency of EU financial markets beyond Brexit**". He highlighted the need: (i) for further harmonisation of the regulatory and supervisory framework of third-country branches in the EU; (ii) to adapt how large investment firms are supervised to reflect the many similarities between their activities and those of banks; and (iii) to finalise the review of the European Market Infrastructure Regulation.

EIOPA **called** for i**mmediate action to ensure service continuity in cross-border insurance**. It stated that, in case of a withdrawal without an agreement, 9.1 million EEA30 policyholders might face uncertainty and delays in receiving payments. Based on the data collected through the monitoring of the contingency planning, EIOPA's assessment is that the service continuity issue does not give rise to financial stability risks.

ESMA **issued** its latest Risk Dashboard, which **highlighted rising market nervousness and sensitivity linked to Brexit risks**. ESMA noted that while Brexit is seemingly weighing increasingly on economic and market expectations, it has also contributed to increasing levels of operational risks, both for investors and infrastructures, given the continuing possibility of a no-deal exit.

ESMA **released** a short statement in **support of the Commission's contingency planning communication**, indicating that it is working with the Commission to prepare for the recognition process of UK CCPs in the case of a no-deal outcome. ESMA also confirmed that it has already started engaging with UK CCPs to carry out preparatory work, with the aim of ensuring continued access to UK CCPs for EU clearing members and trading venues as of 30 March 2019 "should all the conditions in EMIR, including any conditions set out in the equivalence decision, be fulfilled".

ESMA has **proposed** draft RTS under EMIR to **introduce a limited exemption to facilitate the novation of certain non-centrally cleared OTC derivative contracts to EU counterparties** during a specific time-window (from date of application until twelve months after withdrawal). The RTS allows UK counterparties to be replaced with EU ones without triggering the clearing obligation, and would only apply in case of a no-deal outcome. ESMA has also made clear that it does not consider general grandfathering of legacy OTC derivatives contracts to be appropriate, nor is it in its mandate.

The SRB **published** a four-page position paper on its **expectations for banks to ensure resolvability in the context of Brexit**. The document covers requirements relating to: (i) MREL stock and issuances; (ii) internal interconnections with respects to capital and liquidity; (iii) operational continuity arrangements; (iv) arrangements to maintain continuity of access to financial markets infrastructures; (v) governance arrangements; and (vi) management information systems/databases and local capabilities to support the work of an independent valuer appointed by the SRB.

Capital (including macro prudential and stress testing)

The BoE's **published** its 2018 **stress test results**. It concluded that the **UK banking system is resilient** both to deep simultaneous recessions in the UK and global, which are more severe overall than the global financial crisis, and which are concurrent with large falls in asset prices, and to a simultaneous stress of misconduct costs. Even in this very severe simultaneous stress, all participating banks remain above their risk-weighted CET1 capital and Tier 1 leverage hurdle rates and would be able to continue to meet credit demand from the real economy. In addition, The BoE **published** comments on **effective model risk management** as part of the stress test results. The document noted that banks have demonstrated an increased awareness of the need to have effective MRM frameworks. However, some banks have yet to raise the management of model risk to a standard required for stress testing.

The PRA published a statement on securitisation in relation to **general requirements**, **capital framework** and **significant risk transfer**. The statements set out the PRA's **expectations of firms and processes under the Securitisation Regulation**, expectations of firms seeking to become sponsors of Simple, Transparent and Standardised (STS) Asset Backed Commercial Paper programmes, and PRA expectations and approach regarding the securitisation capital framework for CRD firms. The statements will come into effect from 1 January 2019.

The PRA **published** its final PS on **applying the UK leverage ratio framework to systemic ring-fenced bodies** and reflecting the systemic risk buffer. The PS applies the UK leverage ratio framework on a sub-consolidated basis to ring-fenced banks in scope, amends the additional leverage ratio buffer to reflect the systemic risk buffer and, where applicable, expects firms to hold capital on a group consolidated basis to address ring-fenced bank group risk.

The EBA **published** its final draft **regulatory technical standards on the specification of an economic downturn**. The draft RTS set out the notion of an economic downturn to be taken into account when estimating the loss given default and the conversion factors. The draft RTS will apply from 1 January 2021.

The EBA **published** an overview of information disclosed by EU Competent Authorities on the **implementation and transposition of the Capital Requirements Directive and Capital Requirements Regulation** across the EU. The overview addresses the use of options and national discretions by each Competent Authority along with information on the supervisory tools adopted for the purpose of the supervisory review and evaluation process.

The EC **released** a third progress report on **risk reduction and trends in non-performing loans** (NPLs). It showed that the declining trend in NPL ratios continues and that the quality of banks' loans portfolios has improved. Specifically, it found the gross NPL ratio was down by 1.2% year-on-year. The total volume of NPLs across the EU still stands at €820 billion, however the spread of NPL ratios across the EU is uneven, and ranges from 0.6% to 44.9%.

The ECB **published** its guide to **on-site inspections and internal model investigations**. The guide seeks to explain how the ECB conducts inspections.

The ECB **published** the first chapter of its **guide to internal models**. The guide follows its public consultation and outlines the ECB's understanding of the most important aspects of the relevant regulations on internal models. The publication covers topics such as the internal ratings-based approach including overarching principles, implementation, internal governance, internal validation, internal audit, model use, model change management and third-party involvement.

The ECB **decided** on a **harmonised definition of default** which it published under its regulation on the materiality threshold for credit obligations past due. The ECB reached the harmonised definition by setting a single materiality threshold thereby improving the comparability of risk-weighted assets and defaulted exposures across significant institutions.

The ECB **commented** on the results of the **EU-wide stress conducted by the EBA**. The test covered 48 banks over a three-year stress period, and applied a more severe adverse scenario than in the 2016 stress test. The results show that the capital base of the 33 largest banks directly supervised by the ECB had increased both when entering the test, and after the three-year stress period. The ECB highlighted that despite this higher level of resilience shown, some challenges remain especially around business models and legacy issues, and that it will carefully monitor developments in these areas.

The Single Resolution Board **published** its **2018 MREL policy for the first wave of resolution plans.** The policy makes several updates: (i) the policy caters for all resolution tools, not only for strategies based on an open-bank bail-; and (ii) it removes the reference to the Basel I floor in the MREL formula – liabilities held by retail investors will be eligible under the 2018 policy. However, the SRB noted that holdings of subordinated or senior instruments by retail customers could prove to be an impediment to resolution.

The BIS **published** a speech by Randal Quarles, Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System, on the **future of stress testing practices**. He highlighted the successes achieved by stress tests. He further stated that regulating bodies must consider ways of preserving the dynamism of stress testing whilst reducing its volatility. Lastly, he emphasised the role of transparency, explaining that it is key to maintaining the credibility of stress tests.

The BIS **published** a speech by James Proudman, Executive Director of UK Deposit Takers Supervision at the BoE, concerning **supervision of ring fencing activity**. He outlined the progress that has been made on ring-fencing and gave some insight into the Bank's priorities for supervising ring-fenced entities and ring fences from 2019 onwards. The priorities broadly fell into two categories: (i) the effects of ring-fencing on the financial sector and on the retail market and (ii) how the PRA will supervise the ring-fencing.

IOSCO **sought** feedback on the proposed **framework for assessing leverage in investment funds**. The framework sets out a two-step process aimed at achieving a meaningful and consistent assessment of global leverage. The first step involves excluding funds that are unlikely to create stability risks to the financial system; while filtering and selecting a subset of other funds for further analysis. The second step involves a risk-based analysis of these other funds.

Liquidity

The BoE **published** a "Dear CCO letter" on **internalised settlement reporting under the Central Securities Depositories Regulation**. The

Bank has asked firms whether they settle transfer orders on behalf of clients on their own account, and therefore will be captured by the requirements, which will take effect from July 2019.

The ECB published guides to the internal **liquidity** and **capital** adequacy assessment process (ILAAP and ICAAP), setting out **seven principles that will be considered in the ICAAP and ILAAP assessments** as part of the supervisory review and evaluation process for significant credit institutions. The guides seek to inform banks about the ECB's expectations relating to their internal capital and liquidity management, assist them in strengthening their ICAAPs and ILAAPs, and encourage best practice. The ECB will use these guides from 1 January 2019.

ESMA **renewed** its binary options prohibition for a further three months. ESMA considers that there remains a significant **investor protection concern related to the offer of binary options** to retail. The extension of the current prohibition on the marketing, distribution or sale of those products to retail clients will apply from 2 January 2019.

ESMA **published** its "**Simple, Transparent, and Standardised**" (STS) **reporting instructions** in which it confirmed that it had finalised the remaining pillars of its transparency-related policy deliverables expected under the Securitisation Regulation. These will follow the publication of ESMA's Final Reports on disclosure technical standards and on its STS notification technical standards. The briefing confirmed that ESMA is legally permitted to publish STS Notifications on its website until the Securitisation Regulation and its accompanying technical standards have entered into force on 1 January 2019.

The FSB **published** a report examining the effects of G20 financial regulatory reforms on incentives for the central clearing of OTC derivatives. The report concluded that the **reforms are achieving their goals of promoting central clearing**, especially for the most systemic market participants, but found that the concentration in clearing service provision could amplify the consequences of the failure or withdrawal of a major provider.

The FSB **published** its thirteenth progress report on the **implementation of OTC derivatives markets reform**. The report concludes that good progress continued to be made across G20 jurisdictions, with 18 FSB member jurisdictions having in force comprehensive standards/criteria for determining when standardised OTC derivatives should be centrally cleared.

IOSCO **published** a 2018 **survey on the implementation of principles for regulation and supervision of commodity derivatives markets**. It indicated that IOSCO members overall had made improvements across all areas covered by in the principles. The report also highlighted the role of several pieces of legislation in strengthening compliance with the principles: MiFID II/MiFIR's in establishing pre- and post-trade transparency requirements, position limits, and position reporting requirements for commodity derivatives, and EMIR's in relation to trade reporting obligations. The report concludes IOSCO's review of the implementation of the principles.

EMMI (European Money Markets Institute) **launched** its second consultation on the **hybrid methodology for Euribor**. EMMI considers that this methodology is a robust evolution of the current quote-based approach and is compliant with the EU BMR. EMMI decided that, as of 3 December 2018, panel banks' individual contributions to the benchmark will not be published; instead it will publish anonymised indication of the reliance on each of the different levels of the new methodology, aggregated volume underpinning the benchmark's determination, and the percentage of counterparty types in certain submissions.

Governance and risk management (including remuneration)

The BoE **published** a speech by Mark Carney delivered at the Accounting for Sustainability Summit 2018. He remarked on the PRA's recent draft supervisory statement on **managing the financial risks from climate change**, and highlighted improvements needed regarding the quality of disclosure of material, decision-useful climate-related financial risks. He also noted that three quarters of globally systemic banks have already signed up to support the Task Force on Climate-related Financial Disclosure.

The EBA has **considered** the following **third country authorities to be equivalent** and have recommended them on that basis: The ADGM Financial Services Regulation Authority, The Abu Dhabi Global Market, The Financial Supervisory Service of the Republic of South Korea, The National Bank of Moldova of the Republic of Moldova and The Securities and Futures Commission of Hong Kong. The EBA's assessment is pursuant to the relevant provisions of the fourth iteration of the Capital Requirements Directive (CRD IV).

The ECB **published** a speech by Sabine Lautenschläger on **good governance and the role of supervisory Boards**. She noted several areas of improvement for supervisory Boards, including the collective knowledge of the Board, integration of the Board within the bank, and Board independence, including independence of thought. She further stated that non-financial risks are often overlooked in the risk appetite framework, and that the risk appetite framework must become an integral part of decision-making.

EIOPA **published** a **Decision on the cross-border collaboration of NCAs**. This Decision replaces the former Budapest Protocol which had to be revised as a result of the new IORP II Directive, the latter due to be transposed into national law by the European Union Member States by 13 January 2019. The Decision describes different situations and possibilities for NCAs to exchange information about cross-border activities in relation to the "fit and proper" assessment and the outsourcing of key functions, both new provisions of the IORP II Directive.

Conduct of Business (including MiFID)

The FCA **proposed** the introduction of a **price cap on rent-to-own firms to protect vulnerable consumers** from high costs, with the rules due to apply from 1 April 2019 to new products introduced to the market. Under the proposed cap, credit charges cannot be more than the cost of the product. The draft rules also proposed to prevent firms from increasing their insurance premiums, extended warranty prices or arrears charges in order to compensate for lost revenue from the price cap.

The FCA published a **thematic review** (TR) and associated "**Dear CEO letter**", a **market study** (MS) terms of reference on **general insurance pricing practices**, and a **discussion paper** (DP) on **fair pricing** in financial services. Some of the findings of the TR included firms failing to have appropriate and effective strategies, governance, control, and oversight of their pricing practices. The MS focuses on the home and motor insurance sectors, and will investigate, among other things, the differences between prices paid for insurance by different consumers. The DP focuses on price discrimination and outlines how it occurs, and sets out a case-by-case framework for assessing fairness, and associated harm.

The FCA **published** a speech by Andrew Bailey, Chief Executive, on "The **role of regulation in encouraging good culture**". Mr Bailey said that it is not uncommon for cultures to tend towards complacency, and that strong firm and fund governance were an important safeguard in this regard. That was why the FCA has made the case for a stronger independent director presence in asset management governance.

The FCA **published** a speech by Christopher Woolard, Executive Director of Strategy and Competition, on "**Fairness, flexibility and the long-term view: the FCA's vision for the mortgage market**". Mr Woolard noted that the FCA's vision for mortgage markets was one where borrowers can access suitable, good value products that meet their needs; competition empowers consumers to make effective choices at every stage of the mortgage lifecycle; and firms operate with a culture of treating customers fairly.

The FCA **published** its **approach to authorisation**, setting out the legal basis for authorisation and the minimum standards that firms and individuals must meet to be authorised, the difference between authorisation and registration, how the FCA evaluates whether firms and individuals meet the minimum standards, and how it uses authorisation to promote effective competition.

The PRA **published** a note outlining its position regarding the **re-designation of Senior Insurance Management Functions** (SIMF) to Senior Management functions (SMF), and the provision of "Statements of Responsibilities" to the PRA by insurers. The note explained that all those who have a PRA designated "current approved person approval" for a SIMF as at Monday 10 December 2018 will automatically be re-designated for the appropriate SMF in the SM&CR.

The EBA **published** a speech by Adam Farkas, Executive Director, on **upcoming policy under development with EIOPA and ESMA**. This includes Guidelines on AML Risk factors and simplified and enhanced customer due diligence, risk-based supervision guidelines, and an Opinion on innovative solutions available for customer due diligence. He noted that the EBA is developing a cooperation agreement between the ECB and national authorities and its own initiative guidelines on cooperation between AML competent authorities.

The ECB **published** a speech by Danièle Nouy, Chair of the Supervisory Board, entitled "Being good pays off: how ethical behaviour affects risk, reputation and returns". Ms Nouy said that a **cultural shift in banking is needed**, and that it is up to the banks to change the values on which they base their actions. She added that if banks are serious about a cultural shift, they have to accept more diversity, and also emphasised the role of the Board as a check on the executive.

The ESAs **published** a joint consultation paper on **amendments to the PRIIPs KID**. The main proposal concerns changes to the approach for performance scenarios, such as including information on past performance in the KID whenever it is available, and amending the narrative explanations by including a more prominent statement that the scenarios are based on simulations.

The FSB **published** recommendations for national supervisors on reporting on the **use of compensation tools to address potential misconduct risk**. It sets out what types of data can support improved monitoring of the use of such tools in significant financial institutions. A separate overview of consultation **responses** highlighted industry **concerns about privacy and confidentiality** of the data collected, and technological challenges associated with collection and analysis of data.

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

The BoE **published** a press release noting that it had carried out a one-day exercise designed to test the financial sector's **resilience to a major cyber incident** affecting the UK.

The PRA **published** its CP on the **systemic risk buffer**. The publication was targeted at ring-fenced bodies as well as large building societies that hold more than £25 billion in deposits and shares. In the CP, PRA proposed to: (i) abolish the requirement to review the SoP every two years as per SRB regulations; (ii) replace references to "CP25/16" with the appropriate PRA SoP as it pertains to its methodologies for setting Pillar 2 capital following publication of the final policy; and (iii) include references to Supervisory Statement 45/15 "The UK leverage ratio framework".

The European Commission **published** a draft delegated regulation on **rules on solvency for insurance companies**. The draft regulation amends, *inter alia*: the counterparty default risk sub-module in the standard formula, by changing the treatment of financial derivatives and reinsurance arrangements as risk mitigation techniques; the look-through approach, by extending it to related undertakings whose main purpose is to hold or manage assets on behalf of the participating insurance or reinsurance undertaking; and simplifies the standard formula calculations.

The ECB **published** a speech by Luis de Guindos, Vice-President, on the rising **role of the investment fund sector for financial stability in the euro area**. He noted the changing structure of the financial sector, pointing out that last year euro area investment fund assets had grown to 42% of total banking sector assets (EUR 12 trillion). He highlighted financial stability risks arising from current trends in liquidity, leverage and interconnectedness in the investment fund sector.

The ECB **published** a speech by Danièle Nouy, Chair of the Supervisory Board, on **financial crisis preparedness**. She concluded that European banking supervision is now better prepared to face the next crisis and banks have become more resilient since the Lehman collapse. She highlighted that banks now hold more and higher-quality capital, and have also improved their funding and liquidity due to new rules such as the liquidity coverage ratio and the net stable funding ratio.

The ECB **published** a speech by Danièle Nouy, Chair of the Supervisory Board, on **how supervisors can help banks prepare for crises**. Ms Nouy highlighted the areas where banks need to improve in order to be fully prepared for the next crisis, including governance, the aggregation of risk data, and risk appetite frameworks. She further noted that banks need to improve their ability to evaluate non-traditional risks, including money laundering risk, cyber risk, risks created by digitalisation, and political risks.

The SRB **published** its **2019 work programme** outlining a number of activities including completion of the 2018 resolution planning cycle, publication of the updated policy on MREL, defining binding MREL requirements and the consolidated and individual level, and new policies on funding in resolution.

The BCBS **published** a report comprising further details on **global systemically important banks**. The publication included: (i) a list of all banks in the assessment sample; (ii) the denominators of each of the 12 high-level indicators used to calculate the banks' scores; (iii) the 12 high-level indicators for each bank in the sample used to calculate the denominators; (iv) the cut off score used to identify G-SIBs in the updated list; (v) the thresholds used to allocate G-SIBs to buckets for the purpose of calculating the specific higher loss absorbency requirements; and (vi) links to disclosures of all banks in the assessment sample.

The FSB **published** its **2018 Resolution Report**, updating on progress in implementing the framework and policy measures to enhance the resolvability of systemically important financial institutions. The report found that jurisdictions had undertaken substantial reforms to mitigate the "too-big-to-fail" (TBTF) problem. It noted, however, that progress is less advanced for insurance companies and central counterparties than in the banking sector.

The FSB **published** a discussion paper on **financial resources to support CCP resolution and the treatment of CCP equity in resolution**. The purpose is to obtain public comment on the need for further FSB guidance on the matter. The paper sets out some considerations that could guide authorities in assessing the nature and quality of financial resources needed to absorb losses and achieve orderly CCP resolution, and in developing possible approaches to the treatment of CCP equity in resolution. The deadline for responses is 1 February 2019.

The IAIS **published** a proposed **holistic framework for the assessment and mitigation of systemic risk in the insurance sector**, with implications for the identification of G-SIIs and for G-SII policy measures. The IAIS is proposing to evolve its current approach to systemic risk to an approach involving a proportionate application of an enhanced set of policy measures to address activities and exposures that can lead to systemic risk, targeted at a broader portion of the insurance sector.

The IAIS **published** a **draft application paper on recovery planning**, to provide guidance on draft supervisory material covering recovery planning in the Insurance Core Principles and the Common Framework for the Supervision of Internationally Active Insurance Groups.

Disclosure, valuation and accounting

The BoE's **SONIA Stakeholder Advisory Group** published its meeting minutes. The view from the group is that the transition to the reformed SONIA was "as smooth as it could have been", and was "an example of best practice, and is being followed by a number of group members for other benchmark transitions". The minutes noted that the recent small decline in SONIA volumes had not resulted in volatility in the rate.

HM Treasury published a letter to the EU Committee on **low carbon and positive carbon benchmarks**. The letter stresses that the new benchmark categories will remain optional for benchmark administrators, and that some flexibility for administrators to design their formulae will be included, although the scope of this flexibility is still in development.

ESMA issued a Consultation on its draft **guidelines on the reporting to competent authorities under** Article 37 of **the Money Market Funds** (MMF) **Regulation**. The consultation represents the first step in the development of specific reporting templates containing the information that managers of MMFs will be required to send to their competent authority. ESMA confirmed that managers will need to send their first quarterly reports in Q1 2020. The Consultation in open until 14 February 2019.

Information security and data privacy

The BoE published an analysis of the feedback to its Consultation on the **introduction of ISO 20022 compliant messaging to payments** in the UK. Overall, respondents largely agreed with the Bank's proposal to introduce the Common Credit Message (CCM), and with its project to work closer with Pay.UK in the future. Many responses emphasised the scale of transformation and investment required to deliver these changes safely and effectively.

The BoE published a speech given by James Proudman, Executive Director of UK Deposit Takers Supervision, on the **application of analytics in prudential supervision**. He noted the use of Artificial Intelligence and Machine learning (AI/ML) will require considerable investments from firms and could pose significant operational and execution risks to them. He added that AI/ML could change supervision too, and expects that, over the coming years, the PRA will develop a form of "cyborg supervision" involving humans and machines working together.

The FCA published the results of the **cross-sector survey on cyber and technology resilience** it conducted on 296 firms from 2017 to 2018. Overall, the FCA noted an increase by 138% in the number of technology outages last year. In addition, failed IT transitions, cyber-attacks and third-party issues represented respectively 20%, 18% and 15% of operational incidents reported to the regulator.

The FCA published a speech given by Rob Gruppetta, Head of the Financial Crime Department, in which he explained how the FCA has been collecting data annually to get an **industry-wide view on key financial crime risks** that firms face. He highlighted that the FCA has been moving away from a rule-based prescriptive world to a more data-driven, predictive way of regulating and supervising.

The FCA published a speech **given** by Christopher Woolard, Executive Director of Strategy and Competition, in which he presented the main **conclusions from the Cryptoassets Taskforce's** report. He listed the key next steps for the regulators, including: (i) clarifying which cryptoassets fall within the FCA's regulatory remit; (ii) HMT's consultation on a potential extension of the regulatory perimeter; (iii) the FCA's consultation on the prohibition on the sale to retail consumers of derivatives referencing certain types of cryptoassets; (iv) HMT's consultation and legislation on the application of the fifth EU Anti-Money Laundering Directive; and (v) HMT's analysis on whether and how regulation could effectively address risks.

The PSR (Payment Systems Regulator) **issued** a Consultation on its proposed **general directions on implementing Confirmation of Payee** (CoP). The CoP is the industry-agreed way of ensuring that names of recipients are checked before payments are sent. The PSR is consulting on potential regulatory interventions to ensure that payment service providers (PSPs) implement CoP. Specifically, the PSR proposes that PSPs should be capable of receiving and responding to CoP requests from other PSPs by 1 April 2019, and that PSPs should send CoP requests and present responses to their customers by 1 July 2019.

The European Commission **published** a speech by Valdis Dombrovskis on **regulating virtual currencies and Initial Coin Offerings**. He explained that whether the current EU financial regulatory framework applies to crypto-assets depends on the specifics of each crypto-asset but also on how EU law is applied in national law and supervision. He highlighted that the European Supervisory Authorities are currently conducting a mapping exercise on how EU member states apply EU law to crypto-assets, and will report back on their assessment by the end of the year.

The ECB **published** the findings from its **survey on digitalisation and its impact on the economy**. Overall, the vast majority of respondents saw digitalisation as having a positive impact on their company's sales, in particular through better access to customers and by increasing their flexibility regarding price setting. Firms also saw digitalisation as increasing productivity, driven by the ease of sharing knowledge and more efficient production processes. Respondents highlighted a small negative impact on employment, and emphasised the importance of retraining and upskilling.

The BIS **published** a speech by Luiz Awazu Pereira da Silva, Deputy General Manager, on **financial inclusion in the age of FinTech**. He highlighted that the development of FinTech has been a key driver of the increase in financial inclusion globally, by increasing access to financial services for the unbanked and by changing the way small businesses operate throughout the world. He added that some adjustments are required to leverage the benefits of FinTech further.

The BIS **published** a speech by Francois Groepe, Deputy Governor of the South African Reserve Bank (SARB), on "The **evolution of South Africa's electronic payment systems and the potential of FinTech**". He talked about the benefits of FinTech for financial inclusion.

The BIS **published** a speech by Agustín Carstens, General Manager, on "Money in a digital age". He highlighted that there is an **immediate need to apply anti-money laundering and combatting the financing of terrorism requirements for payments using cryptocurrencies**. Most specifically, he noted that regulations equivalent to those imposed on the use of sovereign cash may be necessary. However, regulators and supervisors should determine the legitimate uses and purposes of cryptocurrencies before deciding whether there is a fundamental economic case for regulating those instruments.

The BIS **published** a speech by Francois Groepe, Deputy Governor of the South African Reserve Bank, on "**Fintech: reflections on the phenomenon and its future potential**". He highlighted that the three defining trends around FinTech have been: (i) central banks in the regulatory community have teamed up to analyse how to leverage the benefits of those innovations; (ii) central bankers have also been concerned about the threats and risks that FinTech can pose; and (iii) central banks themselves have started leveraging technology for their own regulatory and supervisory work.

The CPMI **published** a speech by Benoît Cœuré, Chair, on the new **frontier of payments and market infrastructure: on cryptos, cyber and CCPs**. Mr Cœuré said that further economic analysis of the interactions, particularly in times of stress, between CCPs, their clearing members and the end users of derivatives are needed. On cyber, strengthening cyber-resilience must be part of any policy agenda, and that upcoming work of the G7 cyber expert group includes a cross-border cyber-crisis simulation exercise. On cryptos, work on the implications for both monetary policy and financial stability of central banks issuing their own digital currencies was needed, and that 69% of surveyed Central Banks are or will soon conduct work on this.

The FSB **published** its **Cyber Lexicon**. The Lexicon provides internationally-agreed definitions for 50 "core terms" related to the cyber security of the financial sector.

The IMF **published** a speech by Christine Lagarde on "The Case for New Digital Currency". She highlighted that **states should consider the possibility of issuing digital currency** in order to supply money to the digital economy. The currency could satisfy three public policy goals, namely: (i) financial inclusion, (ii) security and consumer protection, and (iii) privacy in payments. However, state-issued digital currency also pose risks to financial stability and integrity, and could stifle innovation if the central bank ends up offering a full-service solution, from digital wallet to back-end settlement services.

The IMF **published** a report on **central bank digital currencies** (CBDCs). The report highlights that the impact of introducing a CBDC will depending on country-specific characteristics and the currency's features, particularly anonymity, security, transaction limits, and interest earned. While CBDCs could have benefits in terms of the security of the payment systems and encouraging financial inclusion, it may also be particularly exposed to disruptions and cyberattacks. The report notes, however, that a CBDC is unlikely to affect monetary policy transmission significantly, although operations may need adaptation.

Rethinking the domestic and international architecture for regulation

The BoE **published** a speech by Victoria Cleland, Executive Director for Banking, Payments and Financial Resilience, on "Transforming our **payments infrastructure**". She stated that the Bank will continue to seek to avoid the costs of direct access to CHAPS being prohibitive to prospective and existing participants, and that the Bank is working to increase the resilience of the whole financial system.

The ECB **published** a speech by Danièle Nouy, Chair of the Supervisory Board, announcing the **creation of an AML Office**. The AML Office will help to coordinate SSM related AML activities within the SSSM and contribute to the development of ECB positions on AML topics. She noted that geopolitical risks have intensified, including political risks in Europe and risk arising from trade protectionism.

The ECB **published** a speech by Sabine Lautenschläger, Vice-Chair of the Supervisory Board, on the **state of the banking union**. She noted the progress made since the start of the SSM, including a 2.6% increase in the fully-loaded CET1 ratio of significant institutions and a €270 billion reduction in non-performing loans. She further spoke on areas which need to be improved, including divergence in fit and proper assessments at the national level and the lack of harmonised supervision of third-country branches and investment firms.

The ECB **published** a speech by Yves Mersch, Member of the Executive Board, on **political integration and economic convergence in the European Monetary Union**. He noted the overcapacity and fragmentation along national lines in the Banking Union created by Euro-area banks largely operating in their home markets. He further noted that the introduction of the Single Resolution Mechanism and creation of a European deposit insurance scheme would help reduce fragmentation.

The ECB **published** a speech by Ignazio Angeloni, Member of the Supervisory Board, entitled "The **Single Supervisory Mechanism: were expectations fulfilled?**" He stated that legal fragmentation, uncertainties surrounding the completion of the banking union, and the absence of a European deposit insurance scheme have been discouraging factors for integration in the Euro area.

EIOPA **published** a report on **supervisory practices and application of key functions**. The report assessed how NCAs supervise and determine whether an insurer's setting of key functions fulfils the legal requirements of Solvency II, with a particular emphasis on proportionality. The report found, *inter alia*, that about half of the NCAs reported cases where more than one individual is responsible for a particular key function. The report also set out some best practices.

EIOPA **consulted** on the **integration of sustainability risks and factors**. The proposed draft amendments to the Solvency II Delegated Regulation are aimed at ensuring identifying and assessing sustainability risks in the areas of underwriting and investments. The ESRB **published** a report on **macroprudential provisions**, **measures and instruments for insurance**. The main findings are that: there is a need for tools that target the key systemic risks of insurance; the two main risks are the risk of systemic failure of services and the risk of direct and indirect contagion; and that while current regulation already helps prevent or mitigate systemic risk by addressing certain systemic amplifiers and sectoral vulnerabilities, a broader macroprudential toolkit is needed to fill the gaps.

The FSB **published** a letter by Mark Carney, Chair, addressed to **G20 Leaders** ahead of the Buenos Aires Summit. Mr Carney highlighted that

2018 has been a year of transition from robust, broad-based global growth to a more uneven global expansion with **emerging downside risks**; that there was movement from accommodative to tightening financial conditions; and that there had been a reversal from strong capital inflows to emerging market economies to capital outflows from many of them, in some cases significantly so. The FSB work highlighted included making the core of the system as robust to operational risks as to financial ones, finalising and implementing Basel III, and making derivative markets safer, through better incentives to clear centrally.

The FSB **published** a report on the "**Implementation and Effects of the G20 Financial Regulatory Reforms**". The reports highlights that the FSB is now pivoting towards implementation of the G20 reforms. This will include implementing the final Basel III reforms; operationalising resolution plans for cross-border banks; effective resolution regimes for insurers and CCPs; making OTC derivatives trade reporting more effective; and furthering the oversight and regulation of non-bank financial intermediation. The FSB will continue to monitor and assess the resilience of evolving market structures and the impact of technological innovation, as well as the growth of non-bank financial intermediation and cyber risks.

Financial Crime

ESMA **published** its first **annual report on sanctions under the Market Abuse Regulation** (MAR). It reports on how NCAs applied criminal and administrative sanctions and other measures in the first 18 months of MAR's application. The report shows that all seven criminal pecuniary sanctions were imposed in Germany and all related to market manipulation. In contrast, there were over 250 administrative sanctions, and these were imposed for insider dealing, unlawful disclosure, market manipulation and a number of other infringements.

The IAIS **published** a summary of the **key achievements from its 25th Annual Conference and Annual General Meeting of Members**. Notably, the IAIS received endorsement from its members on the future strategic priorities for 2020-2024, including FinTech, cyber risks, climate risk and sustainable development challenges. The Committee also approved important supervisory papers on the increasing digitalisation in insurance and its potential impact on consumer outcomes, supervision of insurer cybersecurity, and the composition and role of the Board.

Other

The CMA provisionally **found** that **Experian's takeover of ClearScore** is likely to result in less intense competition, and is asking for comments on its findings. A final decision on the merger is expected by March 2019.

The PSR **announced** that its **new Head of Policy**, Chris Hemsley, started to work in his new position, and that he had also begun his new role as the PSR's Chief Economist.

The ECB **published** a speech by Yves Mersch, Member of the Executive Board, on **climate change and central banking**. He highlighted that monitoring and analysing the extent to which climate change or other shocks may affect the transmission of monetary policy, the economic cycle, the soundness of individual banks and financial stability as a whole, and how they interact, is part of the ECB's forward-looking approach. Climate risks have been identified in the "ECB Banking Supervision's Risk Assessment" for 2019 and will be among the topics covered in the qualitative discussions held with banks on an individual basis.

The ECB **nominated** **Andrea Enria as the new Chair of the Supervisory Board**, and the EP approved the nomination. Mr Enria will replace Daniele Nouy starting from 1 January 2019, and will hold the position for five years. Enria currently serves as the Chairperson of the EBA.

The ECB **published** its **banking supervision risk assessment for 2019**. It found that the top risks affecting Euro area banking systems are geopolitical uncertainties, NPLs, and cybercrime/IT disruptions. Addressing legacy NPLs and the monitoring of banks progress in reducing them remains amongst the key priorities of the European banking supervision, especially given that the ongoing search for yield might increase the potential for a build-up of future NPLs.

EIOPA **published** its "**European Insurance Overview 2018**". It noted, inter alia, a rise in Gross Written Premiums driven mainly by large increases in Health reinsurance and Index-linked and Unit-linked insurance, and a median SCR (solvency capital requirement) ratio of over 200%, with Germany having the highest average SCR, and Latvia the lowest.

ESMA's Board of supervisors **appointed** **new chairs to four Standing Committees**. These are, Carmine Di Noia who will serve as chair of Committee for Economic and Markets Analysis, Christopher Buttigieg who will serve as chair of the the Data Standing Committee, Martin Moloney who will serve as chair of the Investment Management Standing Committee and Merel van Vroonhoven who will serve as chair of the Investor Protection and Intermediaries Standing Committee.

ESMA **published** a speech by Verena Ross, Executive Director, at DSW-Better Finance International Investors' Conference. Ms Ross gave an **update on various Capital Markets Union projects**, such as the Prospectus and Securitisation regulation, and mentioned FinTech and sustainable finance as other recent developments intrinsically linked to the CMU. She highlighted the importance of supervisory convergence as a way to attract capital from investors, also cross-border.

The FSB **announced** that the **Plenary of the FSB had appointed** Randal K. Quarles, Governor and Vice-Chairman for Supervision at the US Federal Reserve) as its new Chair and Klaas Knot (President of De Nederlandsche Bank) as Vice Chair, for a three-year term starting on 2 December 2018. The Plenary also agreed that after three years on 2 December 2021 Mr Knot will take over as Chair for the next three-year term.

The FSB **updated** its "**Correspondent banking data report**". It found that the decline in the number of correspondent banking relationships continued in 2017, and the year-on-year reduction was 4.1%. It concluded that this decline may affect the ability to send and receive international payments or drive some payment flows underground. From January 2011 to end-2017, the number of active correspondents declined by 15.5%.

The FSB **published** its evaluation of the **effects of financial regulatory reforms on infrastructure finance**. The FSB found that for widely implemented reforms such as the Basel III framework and over-the-counter derivatives reforms, it could not identify material negative effects on the provision and cost of infrastructure finance to date. The amount of infrastructure finance has increased in recent years following a decline during the financial crisis. Additionally, the reforms have contributed to shorter average maturities of infrastructure loans by G-SIBs.

The FSB **published** a progress report on **measures to address the decline in correspondent banking** and updated data. The report highlights that, so far, the FSB's work has focused on: (i) strengthening the tools available to correspondent banks to improve the efficiency of due diligence procedures, reduce compliance costs and address perceived uncertainty; (ii) clarifying the regulatory expectations and encouraging the transmission and dissemination of the guidance on correspondent banking; and (iii) fostering the build-up of stronger domestic capacity particularly around anti-money laundering and countering the finance of terrorism public supervision.

The FSB **published** a follow-up of its 2015 peer review **recommendations on trade reporting legal barriers**, finding that all but three of the FSB's member jurisdictions have removed or addressed barriers to full trade reporting, and recommended that jurisdictions encourage non-FSB members to remove barriers to trade reporting.

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