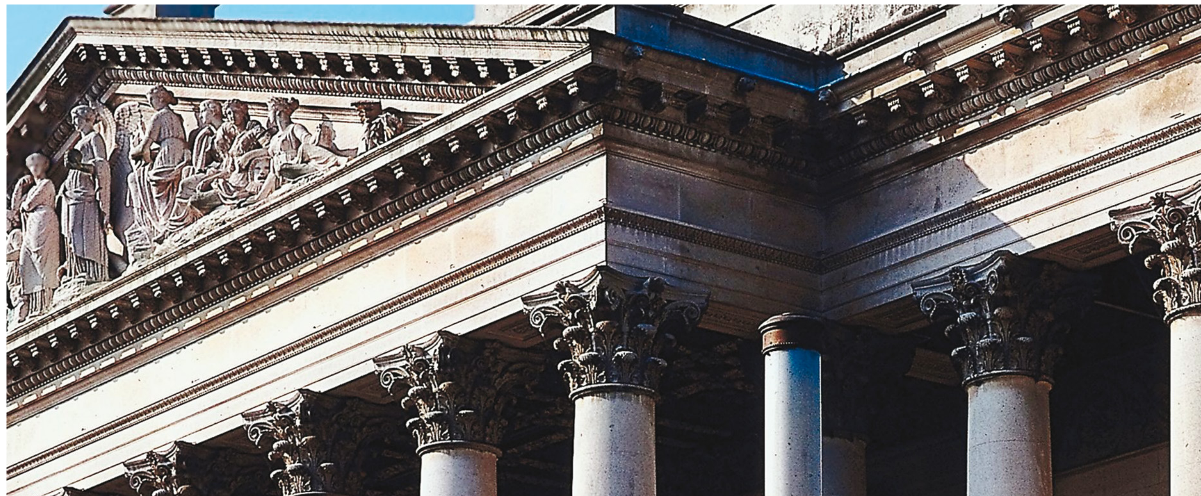
Risk and Regulation Monthly



A number of important announcements related to **bail-in and recovery and resolution planning**, and **banking capital standards,** were made in November, driven by the **G20 summit** in Brisbane. Additionally, regulatory action on **FX trading operations**, the **UK liquidity regime** and the **senior managers' regime** were of note.

This note is produced for information only on a best efforts basis, and does not constitute advice of any kind.

Capital (including stress testing)

The **Financial Stability Board (FSB)** *updated* its list of Global Systemically Important Banks (G-SIBs), specifying the additional capital buffer each G-SIB will face in the phase-in period starting in January 2016. Compared to the 2013 list, Agricultural Bank of China was added to the list in the 1% capital bucket, and Credit Agricole and UBS were moved down from the 1.5% bucket to the 1% bucket. The **Basel Committee on Banking Supervision (BCBS)** *published* the methodology for calculating the cut-off used to identify the updated list of G-SIBs and which bucket they will fall into.

The **FSB** *made no changes* to its 2013 list of Global Systemically Important Insurers (G-SIIs). The designation of any reinsurers as systemically important was postponed pending further methodology development. The International Association of Insurance Supervisors (IAIS) committed to develop, by November 2015, the G-SII assessment methodology so it addresses all types of insurance and reinsurance, and other financial activities of global insurers. The revised G-SII assessment methodology will be applied from 2016.

The **BCBS** *reported* on measures to reduce excessive variability in banks' regulatory capital ratios, confirming it will introduce a permanent capital floor based on the Standardised Approach. A review of the Standardised Approach for credit risk is ongoing, in addition to those for operational risk, market risk, and counterparty credit risk. The BCBS also *reported* the results of a survey of its members, showing the current use of national discretions included in the Basel capital framework, with a view to examining the need for such discretions.

The **BCBS** *reported* on Basel III implementation progress. Capital ratios continued to improve, with the average Common Equity Tier 1 (CET 1) ratio for large internationally active banks standing at 10.2% of risk-weighted assets (RWAs) at the end of 2013, with an aggregate shortfall from the fully phased-in 2019 CET1 requirements of €15bn. The average leverage ratio stood at 4.4%, while the average liquidity coverage ratio (LCR) was 119%. All BCBS member countries had implemented the risk-based capital framework by the end of 2013, with work continuing in respect of the liquidity and leverage framework. The BCBS also noted that a large number of non-BCBS countries were adopting Basel II, Basel 2.5 and Basel III standards. In a speech, **Stefan Ingves**, Chairman of the BCBS, *said* that the BCBS' consistency assessments had contributed "demonstrably" to improved consistency by prompting amendments to local regulatory frameworks. The BCBS will continue to carry out hypothetical portfolio exercises, and in 2015 will extend its monitoring assessments to liquidity and the systemically important bank framework.

ECRS EMEA Centre for Regulatory Strategy

The **European Banking Authority (EBA)** *consulted* on draft regulatory technical standards (RTS) on the assessment methodology for the internal ratings-based (IRB) approach in the Capital Requirements Regulation (CRR), setting out rules for authorities assessing a firm's compliance with the minimum IRB requirements.

HM Treasury (**HMT**) *consulted* on whether to grant the Financial Policy Committee (FPC) powers of direction over the leverage ratio framework for the UK banking sector, with powers to set a minimum leverage ratio requirement; a supplementary buffer to apply to G-SIBs and other major domestic UK banks and building societies, including ring-fenced banks; and a countercyclical leverage ratio buffer. Alongside the consultation, HMT *set out* the measures in a draft order.

Sabine Lautenschläger, vice chair of the Single Supervisory Mechanism (SSM), *outlined* upcoming priorities for the SSM and how the findings of the European Central Bank's (ECB) Comprehensive Assessment fitted into the picture. She noted divergences in how far individual banks currently benefitted from transitional adjustments in their CET1 calculations, and said the SSM will carefully examine how far these reflected balance sheet composition, and how far discretions applied at the national level. The ECB will also assess banks' overall capital situations and then determine appropriate actions to be taken.

The **Royal Bank of Scotland (RBS)** was *required* to resubmit its 2014 EU-wide stress test results following a recalculation of its CET1 ratio to reflect the treatment of Deferred Tax Assets. The amendments led to RBS' capital ratio under the Adverse Scenario falling from 6.7% to 5.7%, still above the 5.5% minimum requirement for the Adverse Scenario.

The European Insurance and Occupational Pensions Authority (EIOPA) *announced* the results of its 2014 EU-wide insurance stress test. Of those in scope, 14% (representing 3% of total assets) did not meet the Solvency Capital Ratio (SCR) requirement under the baseline scenario. In a prolonged low yield stress scenario, 24% would not meet their SCR and certain companies could face problems in meeting their promises in 8-11 years' time. Overall, the stress test demonstrated that the sector was more vulnerable to scenarios combining decreases in asset values with a lower risk free rate. Following the test, EIOPA issued recommendations to national authorities, which included (i) engaging in "rigorous assessment" of the preparedness of insurers for Solvency II, in particular where capital increases and/or balance sheet actions will be needed; (ii) ensuring insurers have a clear understanding of their risk exposures and vulnerabilities and their capacity to take recovery actions if these materialised; (iii) examining asset / liabilities management and risk management strategies and practices, especially with regard to a prolonged low yield environment.

EIOPA *consulted* on the risk-free interest rate term structure under Solvency II. It outlined its calculation method of the Risk Free Rate (particularly where market information is not available), including the credit risk adjustment, extrapolation method, last liquid point, convergence point and ultimate forward rate; and the fundamental spread and risk correction spread for Matching Adjustment and Volatility Adjustment respectively.

The **PRA** *consulted* on measures for the implementation of Solvency II. The consultation paper set out (i) two proposed sets of rules on the appointment of actuaries and schemes of operations to align the PRA rulebook with the Solvency II Directive; (ii) two national templates specific to the Society of Lloyd's; and (iii) five supervisory statements on regulatory reporting exemptions, regulatory reporting for internal model outputs, Own Risk Solvency Assessments (ORSA) and the ultimate time horizon for non-life firms, quality of capital instruments, and treatment of pension scheme risk. The PRA also *published* the list of approvals (other than internal model approvals) required under Solvency II.

The **PRA** *published* a letter from Andrew Bulley, Director of Life Insurance, and Chris Moulder, Director of General Insurance, providing information on the PRA's latest consultation papers on Solvency II. It also stated that by December, the PRA will publish information on reporting dates for non-31 December year-end firms. During 2015 Q3, the PRA intends to send a questionnaire to general insurance firms asking for information on stress testing to support the PRA's monitoring of how insurers are developing their ORSA, and to provide an overview of the UK industry's reliance on specific counterparties and jurisdictions under stressed conditions.

Gabriel Bernardino, EIOPA Chairman, *gave* a speech on EIOPA's strategic priorities. Solvency II implementation was the highest priority: "the real challenge will be to ensure that Solvency II is implemented in a consistent way throughout the EU". Other priorities included adequate, safe and sustainable pensions, and risk-based regulation and supervision of conduct of business.

Liquidity

The **PRA** *consulted* on the transition to the liquidity framework set out under the CRR, including the LCR, reporting requirements, and areas where the PRA's liquidity regime will go beyond the CRR, in the LCR phase-in period. In contrast to the EU approach, the PRA proposes to extend the LCR to the investment firms it supervises. It also plans a transition to 100% LCR from 1 January 2018, commencing with an 80% requirement from 1 October 2015, rising to 90% on 1 January 2017, compared with the EU requirement which starts at 60% from 2015. Additionally, the PRA *permitted* overseas firms with UK branches to extend the duration of certain liquidity modifications, which allow the recognition of liquidity resources held elsewhere within the firm.

The **IAIS** *published* draft guidance on liquidity risk management for G-SIIs. It recommended G-SIIs have a policy for the day-to-day and long-term management of liquidity risk. G-SII Boards should be responsible for the effectiveness of the policy, as well as for approving liquidity contingency funding plans.

Governance and risk management (including remuneration)

HMT *proposed* to extend stricter banking conduct standards to UK branches of foreign banks. Under the proposals, the Senior Managers and Certification Regime would cover all banks that have a presence in the UK. Specifically, foreign financial services firms with a branch in the UK and which are credit institutions or PRA-designated investment firms would be designated "relevant authorised persons" (RAPs) for the purposes of Part V of the Financial Services and Markets Act 2000.

The **PRA** *consulted* on a new Senior Insurance Managers Regime (SIMR) for senior managers in executive roles or key functions. The appointment of individuals to designated functions will be subject to regulatory pre-approval. These individuals will be held responsible for ensuring the ongoing safety and soundness of their firm and the appropriate protection of policyholders. Firms will have to allocate certain responsibilities, including specific responsibility for developing and embedding the culture of the firm. The potential criminal sanctions and the 'presumption of responsibility' present in the banking regime will not apply under the SIMR.

The **Financial Conduct Authority (FCA)** also *consulted* on changes to the approved persons regime (APR) for insurers, aligning it with Solvency II requirements, including on reporting. Certain controlled functions which the PRA is proposing not to maintain would be designated as Significant Influence Functions (SIFs) and therefore subject to FCA pre-approval. New FCA Conduct Rules mirroring those proposed for relevant RAPs should apply to FCA and PRA approved persons. The FCA will defer consideration of whether to include Non-Executive Directors (NEDs) within the amended APR for Solvency II firms, while it considers responses to its parallel consultation on banks.

The **FCA** *published* details on how an investment firm in its scope, deemed significant under the revised Capital Requirements Directive (CRD IV) (with total assets over £530mn), can apply for waivers from the requirements to have risk, remuneration, and nomination committees.

The **Organisation for Economic Co-operation and Development (OECD)** *published* a draft revised text of its Principles of Corporate Governance. The final version is scheduled for completion in 2015.

The **EBA** *consulted* on draft guidelines on product oversight and governance arrangements for retail banking products, covering mortgages, personal loans, credit/debit cards, savings products, payment services and current accounts. The guidelines require the establishment of internal arrangements for the design, marketing and life cycle maintenance of products and are aimed at ensuring that products are designed to meet the interests, objectives and characteristics of the target market. The guidelines apply to both manufacturers and distributors of retail banking products.

Niilo Jääskinen, Advocate General of the European Court of Justice (ECJ), *presented* his opinion on the UK Government's legal challenge to the bankers' bonus cap. He concluded that limiting the ratio of bankers' bonuses compared to their basic salary was valid, suggesting that all the UK pleas were rejected. Afterwards, George Osborne, Chancellor of the Exchequer, *wrote* to Mark Carney, Governor of the Bank of England, confirming that the UK would drop its legal challenge.

The **FSB** *reported* on the implementation of its Principles for Sound Compensation Practices. Most authorities assessed the level of implementation by significant banks as medium or high, although significant differences existed among jurisdictions in the identification of material risk takers. The report highlighted that progress was more evident on "malus" than on clawbacks, due to legal factors. Future work will cover compensation practices at significant insurance firms.

The **FCA** and **PRA** *adopted* changes to remuneration data collected via a Benchmark Information Report and a High Earners Report, in line with recent EBA recommendations. For benchmarking purposes, the supervisors required more detailed data across a wider range of business areas. For high earners, in-scope firms must submit aggregated and anonymised data (22 pieces) on employees receiving over €1mn in a financial year. The scope of the FCA requirements was extended to all institutions including branches of third-country firms.

The **FCA** *banned and fined* three former directors of insurance broker Swinton a total of £928,000 for breaches of the Statements of Principle for Approved Persons. The fines were notable for the emphasis the FCA placed on culture, and the individuals' failure to recognise the prevalence of a sales-focused culture which adversely affected consumers.

Conduct of Business (including MiFID)

The **FCA** *fined* five banks a total of £1.1bn for failing to control business practices in their spot foreign exchange operations. It said "the right values and culture were not sufficiently embedded" in the firms' practices, and will launch an industry-wide remediation programme to drive up standards and ensure firms address the root causes of these failings. The fines were the largest ever imposed by the FCA, or its predecessor, the Financial Services Authority (FSA). Swiss and US regulators also fined several banks. The **Bank of England's Oversight Committee** *published* a report which said there was no evidence that any Bank of England official was involved in "any unlawful or improper behaviour" in the foreign exchange market between 2005 and 2013.

The **FCA** *announced* details for its market study into competition in the credit card market, which will focus on how easy it is for consumers to shop around and compare cards; how firms recover their costs across different cardholder groups and the impact this has on the market, and issues around unaffordable lending and whether particular groups of consumers are over-borrowing or under-repaying their credit card balances.

The **FCA** *published* a thematic review on complaint-handling, recommending improvements to firms' operating models, policies and practices. These included avoiding a tick-box approach to compliance with FCA's rules; reviewing the definition of complaint; staff training; ensuring systems and processes provide for accurate recording of complaints; consistency of redress and distress and inconvenience payments; the approach to root cause analysis; and improvements to MI (messaging, interpretation, quality metrics and use of targets).

The **FCA** published findings of its *review* of conflicts of interest arising from wealth management and private banking firms' use of in-house investment products (IHPs) in retail discretionary and advisory investment portfolios. Overall, it found that firms recognised the potential risks to their customers from conflicts of interest when using IHPs and had taken steps to manage them.

The **FCA** *finalised* rules on price caps on charges for borrowers of high-cost, short-term credit. Under the new rules, customers must never have to pay more in fees and interest than 100% of what they borrowed. Interest and fees charged on loans must not exceed 0.8% per day of the amount borrowed. If borrowers default, fees must not exceed £15 (though firms can continue to charge interest after default but not above the initial rate). The price cap will apply from 2 January 2015.

The **European Securities and Markets Authority (ESMA)** *published* technical advice on delegated acts required by the fifth Directive for Undertakings for the Collective Investment of Transferable Securities (UCITS V). In relation to the insolvency protection of UCITS assets when delegating safekeeping, ESMA proposed a number of arrangements for the third party to which custody is delegated as well as measures to be put in place by the depositary. On the independence requirement, ESMA's advice identified two types of link between the management company/investment company and the depositary (namely common management/supervision and cross-shareholdings between these entities) which may jeopardise independence, and recommended measures to address the risks that may arise.

The **Council of the EU and EU Parliament** *adopted* the Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs). It will apply two years after entry into force.

EIOPA *consulted* on product intervention powers under PRIIPs, providing technical advice on the criteria and factors to be used for determining significant investor protection concerns or threats to the orderly functioning and integrity of financial markets or to the stability of the financial system.

The **Joint Committee of the three European Supervisory Authorities** (ESAs) *published* a discussion paper on key information documents (KIDs) required under PRIIPs, focused on the different sections of the KID that would need to be covered in the forthcoming RTS. The RTS will also address measures on the revision, review and republication of the KID, and on the timing of delivery of the KID to the retail investor.

The **Competition and Markets Authority (CMA)** *confirmed* its decision to launch an investigation into personal current accounts and accounts of small and medium sized enterprises (SMEs). The timetable for the investigation and its proposed focus were also *announced*. The CMA intends to publish provisional findings in September 2015 followed by a final report in April 2016. The investigation is intended to drive up levels of customer switching, increase transparency and remove barriers to entry and expansion.

The CMA *published* a strategic assessment of the risks that consumers and markets face, with a draft plan setting out the priorities for its second year of operations. It will maintain focus on its existing programme, which includes major market investigations into banking and energy, a substantial number of ongoing enforcement cases and leading the presidency of the International Consumer Protection and Enforcement Network (ICPEN).

The **CMA** *decided* not to pursue its debit and credit card interchange fee investigations.

Lord Boswell, Chairman of the House of Lords European Union Committee, *wrote* to Andrea Leadsom MP, Economic Secretary, on the Mortgage Credit Directive. He said the Minister had failed to provide figures on the numbers in the buy-to-let market likely to be affected, in particular those forced into buy-to-let lending through inheritance of a property or an inability to sell.

Linda Woodall, FCA Director of Mortgage and Consumer Lending, *spoke* on mortgage lending post the Mortgage Market Review, outlining the next steps in the FCA's thematic work and the future challenges facing the mortgage industry; Findings are expected in June 2015. A key challenge was the downward trend in lending to people applying for interest-only mortgages, self-employed individuals and people with a poor credit record.

Jonathan Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union, *spoke* about how financial markets could bring benefits to the general public. Rather than investor protection, his speech focused on enabling consumers to help themselves through promoting competition, transparency and innovation. Hill also stressed the need to achieve a Single Market for all financial services and highlighted the importance of digital advances and innovation.

John Griffith-Jones, FCA chair, *argued* that despite improving conditions, the financial services sector must not assume that the problems which led to the crisis were resolved. While the FCA still has a "big job" ahead of it, he said this was "modest compared to the changes required of some of the firms we regulate … their future behaviour will shape the future of regulation."

The **PRA and FCA** *fined* RBS, NatWest and Ulster Bank a total of £56mn for an IT failure in June 2012 that resulted in 6.5mn customers being unable to access banking services. The Central Bank of Ireland also fined Ulster Bank Ireland Limited €3.5mn for IT governance failures.

The **FCA** *fined* Chase de Vere Independent Financial Advisers £560,000 for mis-selling Keydata products, as it judged that the advisers did not explain the risks of investing properly to customers and the firm compounded the problem by failing to provide standardised wording to advisers.

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

The **FSB** *published* proposals to require G-SIBs to meet a new prudential requirement, 'total loss-absorbing capacity' (TLAC), to facilitate their resolution. TLAC is designed to ensure that G-SIBs have enough capital to absorb losses, but also enough bail-in-able debt to facilitate a bail-in resolution strategy. The FSB proposed that G-SIBs meet a Pillar 1 minimum TLAC requirement of 16-20% of RWAs, to be supplemented by firm-specific Pillar 2 requirements. G-SIBs would be required to meet at least one third of their total TLAC requirement in bail-in-able debt. The FSB will conduct a quantitative impact study (QIS) in 2015, to fix the Pillar 1 minimum and refine the framework, with a view to finalising the proposals by the end of 2015. The FSB said TLAC would not be implemented before January 2019.

The **EBA** *consulted* on RTS setting out the EU's version of loss-absorbing capacity in resolution, known as the minimum requirement for own funds and eligible liabilities (MREL). The EBA elaborated on the set of criteria resolution authorities must consider when setting a firm's MREL, as defined by the Bank Recovery and Resolution Directive (BRRD). For large banks, the RTS implied a baseline of twice minimum capital requirements for MREL. This baseline of twice capital requirements would then be adjusted to reflect various other criteria, such as the size of a potential contribution by a Deposit Guarantee Scheme.

The **EBA** published several other draft technical standards and guidelines under the BRRD, including: *guidelines* on how valuation information helps to determine the terms of a bail-in; *RTS* on the contractual recognition of bail-in within liabilities issued under the laws of a non-EU country; and *RTS* on the valuations that are required before, during and after a resolution takes place

The **FSB** *published* a progress report on recovery and resolution regimes and planning. The report included preliminary results of the FSB's Resolvability Assessment Process (RAP) for G-SIBs which highlighted several commonly encountered impediments to resolvability, including management information systems which are not capable of providing relevant information in the right timeframe, and interdependencies across group structures. The RAP had been conducted for 10 G-SIBs, with the remaining G-SIBs to be covered by mid-2015. The FSB noted that only one cooperation agreement has been signed for a G-SIB. The FSB set out its work plan for 2015, and indicated that it would do further work on the liquidity needs in resolution, while a proposal on operational continuity had been delayed until the end of 2015.

The **European Commission** *published* its proposal on the calculation of bank contributions to the Single Resolution Fund (SRF), including transitional provisions which phase-in contributions over a period of eight years, starting in 2016.

The **ECB's Governing Council** *published* an opinion on the EU's bank structural reform proposals. While supporting the proposal in general, it emphasised consistency in implementation across the EU. The ECB noted that banks had scaled back their proprietary trading activities significantly in recent years, but that a ban on proprietary trading was still warranted as a forward-looking preventative measure. The ECB also supported a large degree of supervisory discretion over whether to require a bank to separate its trading activities from insured deposit-taking. The ECB argued that the regulation should avoid negative consequences for market making unless justified by "significant risks."

EIOPA *issued* 14 principles for insurance crisis prevention, management and resolution to ensure that national supervisors develop relevant frameworks consistently, in response to FSB and IAIS initiatives on insurance resolution. EIOPA addressed the organisational setup and the emergency plans for crisis prevention and management, the development of recovery and resolution plans, the need to design early warning systems and to define triggers for intervention, and the need for adequate resolution powers and communication strategies.

The **International Swaps and Derivatives Association (ISDA)** *issued* a set of principles for central counterparty (CCP) recovery. ISDA made recommendations relating to risk management, stress testing, 'skin in the game', recovery planning, and ultimately closure and the potential resolution of a CCP. ISDA said "questions remain" around the structure and adequacy of CCP loss-absorbing capacity, and that market participants would like more transparency over CCP practices.

David Bailey, Director for Financial Market Infrastructure at the Bank of England, *said* there were areas related to CCP resolution planning and risk management in which additional guidance would be beneficial, such as counterparty credit risk management and stress testing. There also needed to be a "flexible resolution toolkit" for CCPs, including a liability write-down or bail-in power: regulators should consider if the concept of 'total loss absorbing capacity' could be translated to CCPs. Separately, ESMA's chair, Steven Maijoor, *said* CCP RRPs are now "the main forthcoming regulatory challenge" given the systemic consequences of CCP failure.

The **Committee on the Global Financial System** – based in Basel – *published* a report on market-making and proprietary trading, covering industry trends, drivers, and policy implications. The report found signs of increased splitting of market liquidity and other forms of fragility, with markets concentrating around the most liquid instruments, and deteriorating elsewhere. The report did not find conclusive evidence of a "widespread" rise in trading costs, but it urged vigilance in the face of fragile liquidity in an environment of low interest rates.

The **EBA** *consulted* on draft guidelines on methods for calculating contributions to deposit guarantee schemes (DGSs). The guidelines, which will apply both to ex-ante and ex-post contributions, set out principles on the risk component of the calculation method, capturing various aspects of the institutions' risk profile.

The **International Association of Deposit Insurers (IADI)** *published* a revised version of its core principles for effective deposit insurance systems. Deposit insurance standards were strengthened in several areas including speed of reimbursement, coverage, funding and governance, and guidance was added on the deposit insurer's role in crisis preparedness and management.

The **Bank of England** *widened* access to the Sterling Monetary Framework (SMF) to broker-dealers deemed critical to the stability of the UK financial system and CCPs operating in UK markets.

Regulatory perimeter

The new UK **Payment Systems Regulator (PSR)** *consulted* on how it proposes to regulate the £75tn payments industry in the UK after it becomes fully operational on 1 April 2015. Among its proposals were the creation of a Payments Strategy Forum, the opening up of ownership, control and governance of payment systems, including publication of Board minutes, more transparency around indirect access to interbank systems, and more open direct access to payment system operators. The PSR also announced two market reviews to be launched in April 2015 around ownership and competitiveness, and indirect access. Separately, it *commissioned* a report on payments innovation internationally, which will be used to inform its policymaking.

The **FSB** *published* its eighth report on the implementation of over-the-counter (OTC) derivatives market reforms. While implementation was not complete, progress had continued across reform areas and more was anticipated for 2015. The greatest progress had been in implementing higher capital requirements for non-centrally cleared derivatives, and trade reporting requirements, with less progress on the promotion of trading on exchanges or electronic trading platforms. The report also identified a number of practical implementation issues, including usability of trade repository data, central clearing arrangements, finalisation and implementation of international standards, and cross-border coordination.

ESMA *consulted* on revised European Market Infrastructure Regulation (EMIR) standards on reporting to trade repositories, introducing a number of clarifications, adaptations and other improvements aimed at a more consistent and harmonised population of fields and reporting of complex derivatives.

Stephen Maijoor *wrote* to the European Commission's Jonathan Faull confirming that ESMA will delay the delivery of further draft RTS on the clearing obligation under EMIR until the Commission assessed the first RTS on OTC interest rate derivatives, submitted in 1 October 2014.

The **International Organization of Securities Commissions (IOSCO)** *reported* on its peer review of progress in adopting legislation, regulation and other policies in relation to money market funds. Self-assessments from 30 jurisdictions indicated that most either had measures in force in all the above areas or were progressing towards that outcome.

Rethinking the domestic and international architecture for regulation

The **FSB** published a range of documents for G20 Leaders ahead of the Brisbane Summit, including (i) a *letter* from its Chair to the G20 Leaders, (ii) a comprehensive overview *report* on progress in the implementation of reforms to strengthen financial stability, (iii) a progress *report* on shadow banking and (iv) a *report* to the G20 on the FSB's review of the structure of its representation. The FSB said the job of agreeing measures in response to the crisis was now "substantially complete" and that attention should turn to the next phase of the FSB's work "to promote a system based on mutual trust and cooperation." However, while progress had been made in many areas, implementation of derivatives standards remains "uneven and behind schedule."

Following the Brisbane Summit, **G20 Leaders** *stated* in a communiqué that they had "delivered key aspects" of their core commitments in response to the financial crisis. The G20 welcomed the progress laid out in the various FSB update documents provided to the Summit, but said that "critical work remains", including to finalise the remaining elements of regulatory reform, and full implementation of the agreed reforms.

IOSCO *published* a consultation report on cross-border regulation, considering the use of cross-border regulatory tools to protect investors, maintain market quality and reduce systemic risk. National authorities had increasingly to consider how national rules will affect global financial markets, and the report therefore examined how existing cross-border tools had been used. It proposed a cross-border regulatory 'toolkit' of common terminology and regulatory options to be used by IOSCO members, under the headings of 'national treatment', 'recognition', and 'passporting', and set out circumstances under which each tool could be used.

The **EBA** *published* an opinion on the interpretation of the term 'credit institutions' in EU legislation, noting "a degree of variation" between EU Member States. The EBA also noted "wide variation" in the prudential treatment of entities which conduct "bank-like activities" within the scope of credit intermediation but are not subject to solo prudential requirements under EU legislation. The EBA urged the European Commission to look at whether clarifications of definitions were necessary.

HMT *issued* a report assessing how far Government and regulators had implemented the recommendations of the Parliamentary Commission on Banking Standards (PCBS). The vast majority of the recommendations had been accepted and were being taken forward in some form, either through legislation or non-statutory measures. A number had not been taken forward, including the proposed abolition of UKFI (the body responsible for the UK Government's shareholdings in UK banks), the governance of the Bank of England, and the suggestion that the Governor of the Bank of England should be under an obligation to "raise the alert" if he believed there was "excessive lobbying" by banks.

Mark Carney, Governor of the Bank of England and Chair of the FSB, *spoke* about the "next phase" of financial reform, now that, in his view, the Brisbane G20 Summit had "settled" most of the post-crisis system of prudential regulation. There was much to keep industry and regulators busy through 2015, but "just avoiding a repeat of past mistakes can't be the height of our ambitions". As such, he highlighted three areas for attention: the diversity of sources of finance for the wider economy, in particular through non-bank finance; the openness of the global financial system and trust between regulators; and reforming culture and incentives.

Mario Draghi, European Systemic Risk Board (ESRB) chair, *provided* details of the ESRB's work in rebuilding confidence and operationalising macro-prudential policy in the European banking system. The ESRB plans to devise (together with the EBA) a minimum methodology for banks to apply in calculating potential misconduct costs under stress. The ESRB is also due to publish a report early next year on the regulatory treatment of sovereign exposures, identifying possible policy responses that could be applied in the medium term.

Disclosure, valuation and accounting

The **FSB** *published* a consultation on "Standards and Processes for Global Securities Financing Data Collection and Aggregation." The consultation defined the data elements for repos, securities lending and margin lending that national/regional authorities will be asked to report. The information will be used by the FSB to detect financial stability risks and develop policy responses.

Information security and data privacy

The **PRA, the FCA and HM Revenue & Customs (HMRC)** *reported* to the Chancellor on advances in their information sharing mechanisms since the PCBS final report. The institutions have agreed a range of "operational changes", such as establishment of regular meetings, and the creation of a Memorandum of Understanding. However, certain recommendations were not taken forward, such as the PCBS recommendation that the PRA should commission reports on behalf of HMRC to aid HMRC's tax objectives.

The City of London Police Commissioner, **Adrian Leppard,** *highlighted* the increasingly sophisticated fraud and cyber threats facing world financial centres, particularly the City of London and Wall Street. Risks posed by state-sponsored espionage and terrorism using complex malware, such as Ransomware and Direct Denial of Service attacks, could threaten the integrity of trading platforms and major deals. Companies should be legally obliged to report to authorities when they have been subject to a cyber-attack to ensure steps could be taken to protect other financial institutions and to target the offenders.

The **Information Commissioner's Office (ICO)** *warned* organisations they must make sure their websites are protected against one of the most common forms of online attack – known as *SQL injection*. The warning came following a serious data breach where attackers gained unauthorised access to the full payment card details of almost 4,000 individuals.

The **Article 29 Working Party** – the EU privacy watchdog –confirmed that website operators using new "device fingerprinting" technologies to track users' behaviour will be required to obtain users' consent, in accordance with the same EU legal rules that apply to the use of cookies.

Financial crime

Julian Rifat, a former senior execution trader at Moore Capital Management LLC, *pleaded* guilty to eight counts of insider dealing (profits from which exceeded £250,000) under the FCA's insider dealing probe, Operation Tabernula. Rifat, who will be sentenced in the new year, is the third individual charged in this operation to plead guilty to insider dealing offences.

The **FCA** *reviewed* how small banks managed money laundering and sanctions risk. The FCA found there were significant and widespread weaknesses in most banks' anti-money laundering systems and controls, and in some banks' sanctions controls. It also *published* a thematic review on managing bribery and corruption risk in commercial insurance broking. Most intermediaries in the sample did not adequately manage this risk. Risk assessments were often too narrow and many firms failed to take a rounded view of the risks associated with individual relationships. Half of the third party and client files reviewed were inadequate and oversight from senior management was often weak. To follow up on both reviews, the FCA *consulted* on a proposed guidance on financial crime systems and controls.

The **Joint Money Laundering Steering Group (JMLSG)** amended its guidance on the prevention of money laundering and combating terrorist financing (both *Part I* and *Part II*), clarifying some provisions in the areas of risk assessment and monitoring the effectiveness of systems and controls. Amendments also included relevant contextual material from the new FATF documentation relating to the risk-based approach.

Other

Intercontinental Exchange (ICE) *announced* that ICE Benchmark Administration (IBA) will assume the role of administrator of the London Bullion Market Association (LBMA) gold price from early 2015.

ESMA *published* the risk dashboard for the third quarter of 2014 in European financial markets, looking at liquidity, market, contagion and credit risks. Systemic stress indicators had increased, contagion risk risen and liquidity and market risk remained at high levels, with potential for further increases ahead. Overall, market sentiment continued to be at odds with sluggish economic fundamentals and guarded expectations.

The **PRA** *consulted* on changes to its Rulebook, including on rules for status disclosure, controllers, close links, notifications and systems and controls; draft supervisory statements; and a policy statement on insurance business transfers. It is the second in a planned series of consultations aimed at reshaping Handbook material inherited from the Financial Services Authority (FSA) to create a Rulebook with only PRA rules.

The **FCA** *consulted* on changes to the policy on the fees and levies of the FCA, Financial Ombudsman Service, Financial Services Compensation Scheme, the Money Advice Service and, from 2015/16, the Payment Services Regulator. Within the consultation, the FCA sought views on how to recover the cost of providing pensions guidance under the Pensions Schemes Bill.

IOSCO *published* its strategic framework for investor education and financial literacy. The strategic framework will guide the Committee on Retail Investors' (C8) efforts in establishing investor education initiatives. The paper also identified practices currently used by C8 members to help guide IOSCO members in developing and enhancing their own investor education and financial literacy programmes. The appendix also includes a list of common behavioural biases that IOSCO considers important for investors to know.

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Designed and produced by The Creative Studio at Deloitte, London. 40588A