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CENTRE *for* REGULATORY STRATEGY EMEA

In October, with less than five months before the UK's departure from the EU next March, there was a significant increase in preparatory activities by UK policy makers and EU regulators, resulting in the publication of a significant number of consultations and draft legislative documents.

Cryptoassets continued to be an area of focus for both international and UK authorities. The Financial Stability Board (FSB) concluded that, while crypto-assets currently do not pose a material risk to global financial stability, vigilance is needed given the speed of market developments and the difficulty in monitoring potential risks. The UK Cryptoassets Taskforce announced that over the coming months participating authorities will consult on ways to mitigate the risks that cryptoassets pose to consumers and market integrity, and to prevent their use for illicit activity.

Brexit

Charles Randell, Chair of the Financial Conduct Authority (FCA), gave a speech at a conference organised by the Association for Financial Markets in Europe in which he explained that **the FCA will not engage in a "race to the bottom" after Brexit**. He indicated that the FCA has committed to review its regulations after Brexit, but he dismissed calls for regulation to be driven by competitiveness considerations.

The FCA published a speech given by Andrew Bailey, Chief Executive, at the City Banquet. Mr Bailey said the **FCA is on course to be ready for a hard exit from the EU and has the resources to handle it.** He also stressed that in the future relationship all parties should "do everything [they] can to preserve open financial markets." Sam Woods, Deputy Governor for Prudential Regulation and CEO of the Prudential Regulation Authority (PRA), gave a speech at the same event, in which he noted that the PRA has been working with firms "to ensure they have in place liquidity sufficient to accommodate a severe dislocation in financial markets."

Sarah Rapson, Director of Authorisations at the FCA gave an update on the **FCA's approach to authorisation and Brexit preparations**. She confirmed that the FCA is preparing for all Brexit scenarios, including the possibility of 'no-deal', and consulting on a Temporary Permission Regime (TPR) to mitigate the risks faced by European Economic Area (EEA) firms currently passporting into the UK. She added that firms can help quantify the scale of the challenge in implementing a TPR by responding to the FCA online survey.

Nicky Morgan, Chair of the Treasury Committee, reiterated her expectations that the **FCA and the Bank of England (BoE) should publish analyses they have produced on the impact of Brexit** on the British economy and UK consumers.

Mark Carney, Governor of the Bank of BoE, replied to Nicky Morgan, Chair of the Treasury Committee, confirming that **the Bank will provide an analysis of how Brexit will affect its ability to deliver its statutory remits for monetary and financial stability, including in a "no deal no transition" scenario**. The analysis will be available after the negotiations between the UK government and the EU Commission have concluded, "but in good time before any Parliamentary vote".

The BoE's Financial Policy Committee (FPC) stated that it continues to judge that the **UK banking system would be strong enough to serve UK households and businesses through a no-deal Brexit**. However, it also highlighted that "timely action by EU authorities is needed to mitigate risks to financial stability, particularly those associated with derivative contracts and the transfer of personal data". The FPC also reiterated its view that EU authorities should take actions to reduce the legal uncertainty about whether EU clearing members could continue to meet their ongoing obligations to UK Central Counterparties (CCPs) and about the consequences for UK CCPs of continuing to provide services to the EU.

Sir John Cunliffe, recently re-appointed Deputy Governor for Financial Stability at the BoE, gave evidence to the Treasury Sub-Committee. He stressed the need to implement a **Memorandum of Understanding (MoU)** between the UK, the European Supervisory Authorities (ESAs) and national competent authorities to cooperate on cross-border services.

The BoE published several "Dear CEO" letters to update firms on the **Bank's approach to their preparations for EU withdrawal**. Sam Woods sent a letter to all firms authorised and regulated by the PRA, as well as EEA firms undertaking cross-border activities into the UK from the rest of the European Union via passporting. Additionally, Jon Cunliffe, Deputy Governor for Financial Stability, sent letters to non-UK CCPs and non-UK CSDs.

The European Securities and Markets Authorities (ESMA) sent a **letter calling on the Commission to introduce changes to the MiFID II third country regime**.

More specifically, ESMA suggests that: (i) the outsourcing of critical and important functions to third country entities should be subject to a stricter regime under MiFID II; (ii) the Commission should push to ensure that third country firms comply with relevant MiFID II/MiFIR provisions and come under supervision in the EU; and (iii) the Commission should implement changes to the annual report third country firms should submit to ESMA, as well as an enhanced cooperation agreement.

Steven Maijoor, Chair of ESMA, gave a speech on **"The State of implementation of MiFID II and preparing for Brexit"**, in which he highlighted some elements around **ESMA's preparations in case of a no-deal Brexit**, including: (i) the need for a comprehensive and harmonised EU regime for third-country trading venues; (ii) the need to ensure continued access to UK CCPs for EU clearing members and trading venues; (ii) changes to the requirements around the Double Volume Cap to avoid the negative impact of a hard Brexit, which would prevent the granular daily exchanges of data currently in place between the EU27 and the UK; and (iv) the need for national competent authorities and ESMA to sign MoUs with UK counterparts on supervision and enforcement. On this last point, Steven Maijoor indicated that ESMA has coordinated the preparations for such MoUs together with the EU27 NCAs, and plans to start negotiations with the FCA with the objective to have these MoUs in place sufficiently ahead of the end of March 2019.

Finally, with less than five months until the UK's departure from the EU, the UK authorities have issued a number of consultations and draft legislative documents as follows:

HM Treasury (HMT) published several draft Statutory Instruments (SIs) and pieces of Guidance on:

- Solvency II and Insurance;
- The Alternative Investment Fund Managers Regulations;
- The Collective Investment Schemes Regulations;
- The Markets in Financial Instruments Regulations;
- The Trade Repositories Regulations;
- The Central Securities Depositories Regulations;
- The Bank Recovery and Resolution and Miscellaneous Provisions Regulations;
- The Over the Counter Derivatives, Central Counterparties and Trade Repositories Regulations;
- Credit Rating Agencies;
- Ring-fenced bodies;
- Financial Conglomerates and Other Financial Groups;
- Regulations relating to the European Supervisory Authorities (ESAs) and the European Systemic Risk Board (ESRB);
- A proposal for a temporary transitional power to be exercised by UK regulators.

The FCA published two Consultation Papers (CPs) on:

- Brexit: proposed changes to the Handbook and Binding Technical Standards
- Temporary permissions regime for inbound firms and funds

The BoE also published various CPs covering:

- The Bank of England's approach to amending financial services legislation under the European Union (Withdrawal) Act 2018
- UK withdrawal from the EU: Changes to PRA Rulebook and onshored Binding Technical Standards
- UK withdrawal from the EU: Changes to FMI rules and onshored Binding Technical Standards
- UK withdrawal from the EU: The Bank of England's approach to resolution statements of policy and onshored Binding Technical Standards

The Bank also published a new web-page containing previous communications to firms on the UK's Withdrawal.

Capital (including macro prudential and stress testing)

The FPC expressed concern about the **rapid growth of leveraged lending in the UK**, including to UK businesses. The Committee will assess any implications for banks in the 2018 stress test and will review how the increasing role of non-bank lenders and changes in the distribution of corporate debt could pose risks to financial stability. The FPC nevertheless decided to maintain the UK countercyclical capital buffer rate at 1%.

The PRA published a Policy Statement (PS) on **Solvency II**. It clarified that if a firm does not earn a yield of the risk-free rate plus Volatility Adjustment (VA) from the assets that it actually invests in to cover its liabilities, but has already taken credit for this yield upfront through its use of the VA, then it will have to draw on its surplus assets to fund the shortfall.

In line with the Treasury Committee 2017 Report on Solvency II, the PS confirms that the PRA has adopted a principles-based approach which allows it to be flexible when assessing firms' applications for a VA.

The PRA published a PS and Supervisory Statement (SS) which set out the **PRA's expectations of internal model firms** when determining the risks that might arise from the dynamic volatility adjustment (DVA) when calculating the solvency capital requirement. The PRA expects firms to treat the DVA as a new element of the model in accordance with the European Insurance and Occupational Pensions Authority (EIOPA) Guidelines. As such, any model extension to reflect DVA is expected to require PRA approval.

The PRA published a CP on **adjusting for the reduction of loss absorbency** where own fund instruments are taxed on write down. The consultation, published following the proposed hybrid instruments tax changes introduced by the 2018 UK Budget, proposed that insurers will deduct the maximum tax charge generated on write-down, when including certain items approved under Solvency II to be recognised as restricted Tier 1 own funds (rT1) in their own funds.

The BoE announced it will publish its **annual stress testing results on Wednesday 5 December**, having published the details of its 2018 Annual Cyclical Scenario in March. Recognising the deployment of resources both within the Bank and at private institutions to prepare for Brexit, the FPC and Prudential Regulation Committee decided to delay the Bank's launch of its next biennial exploratory scenario until September 2019. The results will be published in June 2020 alongside the Financial Stability Report.

The EBA published the results of its **2018 Basel III Monitoring Exercise**, which found that, compared with the previous reporting period (June 2017) the average Common Equity Tier 1 (CET1) capital ratio under the fully phased-in initial Basel III framework has increased from 12.5% to 12.9% for Group 1 banks, and from 14.7% to 16.0% for Group 2 banks. However, as this was the first EBA monitoring exercise to take into account reforms agreed to by the Basel Committee on Banking Supervision (BCBS) in December 2017, the EBA estimated that those upcoming Basel III reforms would result in an average increase of 16.7% in EU banks' Tier 1 minimum required capital when implemented.

The EBA published a report monitoring the current **implementation of liquidity measures** in the EU. The liquidity coverage ratio of EU banks stood at around 145% in December 2017, materially above the minimum threshold of 100%.

The European Central Bank (ECB) published its **Risk Assessment for 2019** which showed that, compared to last year, there has been a substantial decrease in risks stemming from economic and fiscal conditions in the euro area. The key risk drivers identified for next year were geopolitical uncertainties; legacy and potential future Non-Performing Loans (NPLs); and cybercrime and IT disruptions. The top geopolitical risk drivers were Brexit; trade protectionism; adverse developments in emerging markets; and regulatory fragmentation.

EIOPA published its **Risk Dashboard for the second quarter 2018**. The report showed broadly unchanged risk levels for the European Union insurance sector. Key trends highlighted included a warning of potential future deterioration of macro risks due to political and international trade tensions; an increase in the price-to-earnings ratio for some insurance groups; and an increase in the average ratio of coupons to maturity indicator leading to slightly increased liquidity and funding risks.

Gabriel Bernardino, Chairman of EIOPA, delivered a speech at the International Conference on Insurance Regulation. Mr Bernardino covered the **upcoming review of Solvency II**, proportionality, and supervisory convergence. He mentioned that Long Term Guarantee measures including the VA, the treatment of long-term illiquid insurance liabilities, and the assets that back them, and sustainability are some of the important issues to consider for the upcoming Solvency II review. He also announced that, this autumn, EIOPA will publish a Discussion Paper (DP) on the characteristics and risks of long term life insurance products.

EIOPA launched a request for feedback on the **envisaged approaches to assess the illiquidity characteristics of insurance liabilities**, the actual holding periods of assets of insurers, as well as the risks of holding assets over a longer term. Analyses of the feedback will contribute to EIOPA's assessment of whether the risks associated with illiquid liabilities and the assets covering long-term liabilities are adequately reflected in the current regulatory regime.

The BCBS issued the final version of its "**Stress testing principles"**. The document replaces the 2009 "Principles for sound stress testing practices and supervision", which were designed to address the weaknesses in stress testing practices highlighted by the global financial crisis. The revised principles reflect the growth in importance of stress testing both as a critical element of risk management, and as a core tool for banking supervisors and macroprudential authorities.

BCBS issued a CP on the **treatment of initial margin as part of the Basel III Leverage Ratio Framework**. The consultation sets out 3 options: (i) retain the current treatment; (ii) exclude initial margin from an institution's leverage ratio exposure measure; and (iii) exclude initial margin and variation margin from an institution's leverage ratio exposure measure.

The BCBS published its 15th **progress report on the adoption of the Basel regulatory framework**. The Committee called for further progress in the implementation of the Basel framework in a number of areas, including the Net Stable Funding Ratio. The Committee encouraged all jurisdictions to commit to full, timely, and consistent implementation of Basel III. The report outlines the finalised post-crisis reforms published in December of last year which are set to take effect from 1 January 2022.

Liquidity

The ECB published a preliminary assessment of the **effectiveness and efficiency of potential macroprudential liquidity tools for investment funds**. It found that the suspension of redemptions could be a valuable crisis management instrument for regulators, and that structural requirements such as redemption duration restrictions could be developed further to improve the resilience of funds.

The ECB set out a **conceptual and monitoring framework for systemic liquidity**, including a dashboard of 20 indicators developed for banks and non-banks to assess the build-up of systemic liquidity risk over time. The study also noted that the lengthy and onerous activation and notification procedures for using macroprudential liquidity tools under the Capital Requirements Regulation might not allow for their effective and timely use, and, accordingly, recommended such procedures be amended.

Governance and risk management (including remuneration)

The FCA published proposed **guidance on statements of responsibilities (SoRs) and Responsibilities Maps** for firms under the Senior Managers and Certification Regime (SM&CR). The guidance sets out the SoRs and Responsibilities Maps' purpose, key questions firms should ask themselves, and examples of good and bad practices.

The FCA launched a DP on **its regulatory focus on climate change**. Its proposals included the need for pension schemes to evaluate environmental, social and governance considerations when making investment decisions; stimulating innovation in specialist green products, particularly through a Green Fintech Challenge; and exploring whether issuers of securities should be required to disclose more information about the financial implications of climate change.

Christopher Woolard, the FCA's Executive Director of Strategy and Competition, spoke on the **expected transformation of the financial services market by the transition to a low carbon economy**, as evidenced by the large growth in the demand for green financial services products. The FCA will not only establish a forum on climate risk with the PRA, but has also extended its regulatory sandbox initiative to help firms to develop innovative models in green finance and ethical investing.

The FCA published a PS on the **implementation of the extension of the SM&CR to insurers**. The PS extends the rule relating to individuals with FCA responsibilities (the 'responsibilities overlap rule') to Solvency II firms and large non-Directive Firms. This rule, which currently applies to deposit-takers, provides continuing approval of FCA responsibilities, where a PRA senior manager has stopped performing a PRA Senior Management Function and does not hold separate FCA approval to perform a Controlled Function in respect of these responsibilities.

The PRA consulted on its **approach to insurance supervision**, setting out its objectives and identifying risks to its objectives. The PRA highlighted that, with the SM&CR being extended to insurers in December, individual accountability will become a key tool for the supervisor. In addition, in a context of firms' increasing reliance on digital systems and the risk of cyber attacks, operational resilience is on track to become as embedded in the PRA's supervisory approach as financial resilience.

The PRA consulted on its **supervisory expectations of firms' management of climate-related financial risks**, including governance, risk management, scenario analysis and disclosure.

Actions proposed for firms include assigning individual responsibilities for the relevant existing Senior Management Function holders, as well as articulating any material risk exposures in firms' Internal Capital Adequacy Assessment Process or Own Risk and Solvency Assessment. The PRA also expects firms to conduct climate-risk scenario analysis to inform their strategic planning.

The EU Commission Technical Expert Group on Sustainable Finance consulted on its **technical advice on the green taxonomy, green bond standard, benchmarks and disclosure of sustainability risks**. The document provided an overview of current plans, which show that the majority of the targeted consultations will be completed by February 2019.

Sabine Lautenschläger, Member of the Executive Board of the ECB, spoke on **risks, rules and supervision ten years after the crisis**. She stressed that global implementation of Basel III is now key and, warning against "losing momentum". She highlighted Europe's divergence on the Net Stable Funding Ratio and market risk. She advocated an intrusive and international approach to regulatory supervision, and flagged physical risks, green finance and the low-carbon economy transition as the key current challenges for banks.

Danièle Nouy, Chair of the Supervisory Board of the ECB, spoke on risk reduction and risk sharing. She noted **three barriers to further European integration**: the fragmented nature of the regulatory framework, the prevalence of ring-fencing, and complacency. She further emphasised her view that the Eurozone had reduced risks sufficiently for the European Deposit Insurance Scheme to start.

Augustín Carstens, General Manager of the Bank for International Settlements, spoke on deposit insurance and financial stability. He discussed the **challenges to implementation of the European Deposit Insurance Scheme**, including the risk that if national authorities are not fully responsible for providing full protection for retail depositors they may reduce oversight and allow more risk-taking by banks. He further argued that countries should resolve legacy issues and address moral hazard prior to implementation of EDIS.

The ECB published a report investigating **whether the G-SIB framework incentivises window-dressing behaviour**.

The ECB's findings indicate that G-SIBs and other banks with reporting obligations tend to reduce their risk category scores at the end of the year, relative to other quarters, in an attempt to increase the probability of being allocated a lower bucket with less stringent requirements. On the same theme, the BCBS released a statement in which it warned banks against "window dressing". The Committee recommends three measures to national supervisors: more frequent reporting, focused supervisory inspection, and additional public disclosures.

Conduct of Business (including MiFID)

The CMA investigated the **factors driving customers to search for, and switch to, a new bank account**. Higher education, financial literacy and confidence in the use of the internet increased the probability of search, but they did not lead to a material increase in switching. Customers with high credit balances were found more likely both to search and switch, while overdraft users were less likely to switch.

The FCA confirmed final rules on **improving the quality of pension transfer advice**. The new rules set out how advice should be provided to consumers who are considering giving up safeguarded benefits, primarily for transfers from defined benefit (DB) to defined contribution pension schemes, and include a requirement for firms to provide a suitability report regardless of the outcome of advice, and guidance to illustrate how firms can carry out an appropriate 'triage' service (an initial conversation with potential customers).

The FCA consulted on **new rules to improve the approach to open-ended funds investing in illiquid assets**. The proposed include a requirement for Non-UCITS retail schemes (NURS) to suspend dealing when the Standing Independent Valuer expresses 'material uncertainty' about the valuation of immovable assets that amount to at least 20% of the scheme property, as well as additional disclosure requirements for NURS investing mainly in illiquid assets.

The FCA published a "Dear CEO" letter on the **affordability of high-cost short-term credit loans**. The FCA is particularly concerned about repeat borrowing and it encouraged firms to take prompt action to assess their lending activity to determine whether creditworthiness assessments are compliant, and if deficiencies are found, consider whether proactive redress is required.

The FCA published its **approach to competition** document. The approach sets out how the FCA diagnoses potential harm in the market; the tools it uses to remedy this harm; and how it measures the impact of its interventions. It also highlights a number of current regulatory themes, such as value for money and consumer vulnerability, to which the FCA is likely to pay particular attention when identifying harm and deciding what action to take.

Andrew Bailey spoke on a regulator's perspective on **trust and ethics**. He expressed the view that, prior to the financial crisis, the "culture towards the public interest and ethical custom were essentially permissive". He considered that the SM&CR has provided a shift of emphasis towards individual accountability, and that the FCA's work on firm culture aims at continuing to restore trust in the financial system.

The FCA confirmed plans to **extend access to the Financial Ombudsman Service (FOS) to a greater number of Small and Medium-sized Enterprises** (SMEs). Once implemented, SMEs with an annual turnover below £6.5m, with fewer than 50 employees or an annual balance sheet below £5m will be able to refer unresolved complaints to the FOS. Around 210,000 additional UK SMEs are expected to become eligible. The FCA also proposed to increase the award limit from 1 April 2019 to £350,000 for new complaints and £160,000 for all other complaints.

The FCA and The Pension Regulator published **their joint regulatory strategy**. Some of the issues they highlighted included people struggling to maximise their pension savings, including due to lack of appropriate products; money not being managed in line with savers' needs, including underfunding of DB schemes; pensions not being safeguarded, with for example money being lost through governance or administration errors; and people not being able to make good decisions due to lack of accessible financial advice services

The FCA published an update on the **progress of its Payment Protection Insurance (PPI) complaints deadline** consumer communication campaign and supporting supervisory work. As the campaign enters its second year, the FCA focus will be on strengthening consumers' understanding of PPI and the August 2019 deadline for complaints, particularly amongst ethnic minorities and disabled consumers. The FCA will publish its final report in early 2020.

The FCA published a thematic review (TR), an associated Dear CEO letter, and a market study (MS) terms of reference on **general insurance pricing practices**, together with a DP on **fair pricing in financial services**. The TR emphasised that in the area of pricing firms need to improve their strategies, governance, control and oversight; and evidence that their pricing practices are treating their customers fairly. The MS will focus on the home and motor insurance sectors, and will investigate the differences between prices paid for insurance products by different consumers compared to the cost of providing them. The DP set out possible remedies, including using reminders and nudges, or a complete or partial ban on price discrimination practices.

The ESAs wrote to the EU Commission expressing their concerns about the possibility of **duplicating information requirements for investment funds** from 1 January 2020 and the importance of legislative changes to avoid such a situation. The ESAs intend to propose targeted amendments to the **Packaged Retail and Insurance-based Investment Products** (PRIIPs) Delegated Regulation.

ESMA renewed its decision to **prohibit the marketing, distribution and sale of binary options to retail clients**. The decision came into force from 2 October for a period of three months.

The Single Resolution Board (SRB) published an article by Vice Chair Timo Löyttyniemi on the common backstop to the Single Resolution Fund (SRF). He noted that the common backstop to the SRF will boost market confidence during a crisis and ensure a level playing field with other jurisdictions. He further noted the recent agreement by Euro Area Member States for the European Stability Mechanism to provide the Backstop.

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

The EBA published its **final guidelines on non-performing and forborne exposures**. The guidelines cover several areas including the development and implementation of the NPE strategy; supervisory expectations for the use of forbearance; and supervisory requirements on the collateral valuation of movable and immovable property. Credit institutions are expected to apply the guidelines as of 30 June 2019 on the basis of gross NPL ratios calculated at 31 December 2018.

Andrea Enria, Chairman of the EBA spoke of the process of **repairing EU banks' balance sheets** and the need for supervisors to continue the pace of adjustment in the NPL area. He also added that the EBA is preparing a paper on regulatory obstacles to cross-border supervisory convergence and consolidation.

Andrea Enria wrote to the EU institutions suggesting **changes to the Risk Reduction Measures package**, including amendments to the Fundamental Review of the Trading Book (FRTB) implementation, own funds, liquidity, reporting requirements, and Total Loss-Absorbing Capacity and Minimum Requirement for Own Funds & Eligible Liabilities. In particular, he argued that the FRTB's implementation into EU legislation should move ahead as soon as possible, so that the framework is operational in January 2022. He said a solution would be to move ahead with full implementation in the Level 1 text, and give the EBA responsibility for developing technical solutions in line with final texts from the BCBS.

The EBA updated its Risk Dashboard for Q2 2018. It showed that EU banks continue to improve the overall quality of their loans' portfolio, with NPLs falling to the lowest level since the harmonisation of the NPL definition (3.6%). It revealed, however, that **banks' profitability remains a key challenge**, with the average return on equity rising only by 0.4 percentage points in comparison to Q1.

The EU Commission adopted RTS supplementing the Bank Recovery and Resolution Directive on the criteria for **assessing the impact of an institution's failure**. The RTS create a common framework for competent authorities to use when granting institutions simplified obligations for drafting their recovery and resolution plans. Under the framework resolution authorities will be able to assume automatically that failure of G-SIIs or O-SIIs will be likely to have a significant negative effect on financial markets.

The SRB published its **approach to Critical Functions**. This consists of a standardised template with a common set of indicators and assessment fields. The template specifies five economic functions which the SRB will assess: deposits; lending; payment, cash, settlement, clearing and custody services; capital markets; and wholesale funding. In future, the SRB will further develop the tools for benchmarking institutions' self-assessments and adjust the Critical Functions Template in line with the EBA's finalised ITS on resolution reporting.

Elke König, Chair of the SRB, highlighted the **SRB's priorities for 2019**. These include tailoring resolution strategies to banks' structures and business models; identifying and addressing impediments to resolvability; and defining MREL requirements, including the location of MREL. She added that all SRB banking groups will be covered by a resolution plan in 2019.

Regulatory perimeter

The FCA launched a pilot **Green FinTech Challenge** to provide regulatory support to start-ups, incumbents, and technology providers developing innovative green products and services. The project extends the FCA's Innovate services, including authorisation support and live market testing in the FCA sandbox, to successful applicants. Applications close on 11 January 2019.

The joint HMT, FCA and BoE Cryptoassets Taskforce published a report setting out the **UK's approach framework on cryptoassets and distributed ledger technology** (DLT) in financial services. The report concluded that while the development of DLT should be supported as it has the potential to deliver significant benefits, the authorities need to take action to mitigate the risks that cryptoassets pose to consumers and market integrity, and to prevent their use for illicit activity. The report will be followed by a number of consultations over the coming months.

The FSB published a report on **crypto-asset markets**, focusing on potential future financial stability implications. The report concluded that crypto-assets currently do not pose a material risk to global financial stability, but vigilant monitoring is needed in light of the speed of market developments. It also warned that monitoring potential risks is challenging because of sparse data and information gaps on the extent of leverage in crypto-assets markets and on direct and indirect exposures of financial institutions.

Disclosure, valuation and accounting

The FCA published the feedback received on its Call for Input on **Digital Regulatory Reporting (DRR)**. The feedback indicated that a common data approach across regulatory reporting would be the most helpful policy. More generally, respondents stressed the need for regulators to commit to a new DRR approach, including a closer collaboration between firms and regulators, both nationally and internationally, for the development of the technology and standards.

The FCA evaluated the impact of regulatory **benchmark reforms**. It found that these had resulted in benchmarks becoming more representative and robust against manipulation, and that trading costs and liquidity had improved for already liquid markets, e.g. the swap market. For less liquid markets, however, the perceived increase in regulatory risk may have contributed to a further reduction of liquidity and participation.

The PRA updated its SS on **Solvency II: External audit of, and responsibilities of the governing body in relation to, the public disclosure requirement**. To address the risk that firms close to the threshold might slip in and out of the reporting requirement, the PRA has decided to introduce a mechanism whereby if a firm remains a small insurer for audit purposes for two consecutive years it will not require an Solvency and Financial Condition Report (SFCR) audit. Equally, a firm will need to have an SFCR audit only if it is above the threshold for two consecutive years.

EIOPA published a report on the benefits of **International Financial Reporting Standards (IFRS) 17 Insurance Contracts**. EIOPA found that the expected increase in the transparency and comparability of insurers' financial statements through IFRS 17 have the potential to strengthen financial stability in the EEA. However EIOPA expressed reservations that IFRS 17's principles on determining the applicable discount rate and risk adjustment may exceed appropriate levels and give rise to potentially incomparable results.

Benoît Cœuré, Member of the Executive Board of the ECB, spoke on Euro Short-Term Rate (ESTER) and interest rate benchmark reform. He said that the ECB plans on publishing ESTER by October 2019, but warned that a sufficient period of testing is required. He invited market participants to propose credible transition paths, and called on firms to "spread the word" among smaller and less sophisticated market players about the need to transition.

Information security and data privacy

The FCA fined Tesco Bank £16.4m in relation to a 2016 cyber attack. The fine was issued for failing to exercise due skill, care and diligence in protecting personal current account holders against a cyber attack.

HMT amended the Financial Guidance and Claims Act 2018 privacy requirements. This will affect businesses offering to obtain compensation for mis-sold PPI.

Pursuant to the new act, businesses are barred from using or encouraging the use of public electronic communications services to make unsolicited calls for direct marketing in relation to claims management services, except where permission has been granted for such a call.

EIOPA published the result of the work of the **EU–US Insurance Dialogue Project in 2018 on cybersecurity**, including the cyber insurance market, big data, and intra-group transactions supervision. The papers formed the basis for the panel discussions at the EU-US Insurance Project on 10 November 2018 in Luxembourg.

Financial Crime

The FCA published the results of its thematic review following FCA visits to 13 Electronic Money Institutions (EMIs) to assess their **Anti Money Laundering (AML) and Counter Terrorist Financing (CTF) controls**. The FCA set out several findings in the paper including that (i) the majority of EMIs had effective controls in place; (ii) most EMIs had revised their policies to comply with AML regulations; and (iii) fraud was clearly seen as a risk by EMIs.

HMT updated its advice on **money laundering and terrorist financing controls** in higher risk jurisdictions. In response to the latest statements from the Financial Action Task Force, identifying jurisdictions with strategic deficiencies in their AML/CTF regimes, the Treasury advised firms to apply counter measures and/or enhanced due diligence in relation to Iran and the Democratic Peoples' Republic of Korea.

The European Council adopted a new **anti money laundering directive**, imposing tougher rules and criminal penalties on money laundering activities and terrorist financing. It establishes minimum standards for the definition of criminal offences and sanctions, common provisions for cross-border judicial and police cooperation in the EU, and a maximum term of imprisonment of four years for money laundering.

Vice-President Dombrovskis spoke at the ECOFIN press conference. He highlighted proposals to **ensure AML rules are enforced effectively across the EU**. The proposals would keep national supervisors in charge of AML, but would empower the EBA to ensure effective information exchange among different supervisors and request investigations into breaches of the rules.

Other

The Single Supervisory Mechanism published its **priorities for 2019**. New priorities include credit underwriting criteria and exposure quality; IT and cyber risk; liquidity stress testing; and trading risk and asset valuations. Business models and profitability drivers have been removed as a priority for 2019.

ESMA published its **work programme for 2019**. The key priorities for next year will be supporting consistent application of MiFID II/MiFIR, the Prospectus Regulation and Securitisation Regulation; utilising data gathered under MiFID II/MiFIR; contributing to the implementation of the Capital Markets Union Action Plan and the Fintech Action Plan; enhancing the effectiveness of its supervision of credit rating agencies and trade repositories; and preparing for registration and supervision of new entities under the Securitisation Regulation and the Securities Financing Transactions Regulation.

The EBA published its **2019 work programme**. The EBA's priorities include Basel III implementation; understanding risks and opportunities arising from financial innovation; and fostering the increase of loss-absorbing capacity of the EU banking system. Key outputs will include a comprehensive project on monitoring CET1 issuances and a public list of CET1 instruments; an assessment of the proportionality of reporting requirements; and improving synergies between recovery and resolution plans.

The Joint Committee of the ESAs published **its 2019 Work programme**. The Joint Committee will continue to focus on its work on consumer protection issues, including providing guidance for the PRIIPs Regulation, as well as monitoring financial innovation and sustainability developments. In addition, it will serve as a body for addressing cross-sectoral matters relating to Brexit, ongoing developments regarding proposals to enhance the operation of the ESAs, mandates stemming from Securitisation Regulation, and work on the long-term performance of retail investment products.

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