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Financial Services Group

Regulatory handbook 2015-2016

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Status	Definition
Proposed	Proposal pending consultation to be moved forward
Drafted	Consultation papers pending formal approval and enactment
Enacted	Formally implemented as an active piece of regulation, legislation or policy. Subject to compliance date

Introduction

Over the past seven years, regulation has challenged the business strategies, operational frameworks and functional business processes of every organisation operating across the financial services industry.

As regulators sought to address the fundamental shortcomings that ultimately led to the global financial crisis, legislative change emanated at a global, regional and national level, covering structural reform, capital and liquidity, culture, market structures and accountability.

Despite the shift in the regulatory agenda from policy-making to implementation, financial institutions must continue to drive change as the pace of regulatory reform remains relentless.

The banking sector must address structural reform in 2015, as the Volcker Rule and ring-fencing requirements under the Banking Reform Act come into force. Furthermore, the enactment of the Senior Managers Regime will fundamentally increase levels of personal accountability in UK banking. Final preparations for the implementation of Solvency II will be at the forefront of the insurance industry. Additionally, the development of a global Insurance Capital Standard for G-SIIs and Internationally Active Insurance Groups is likely to be completed within the year; the ramifications of which are as yet unknown. Investment businesses must continue to contend with the wide-ranging reforms featured under MiFID II, as well as address the challenges regarding the reforms in the savings and pensions market.

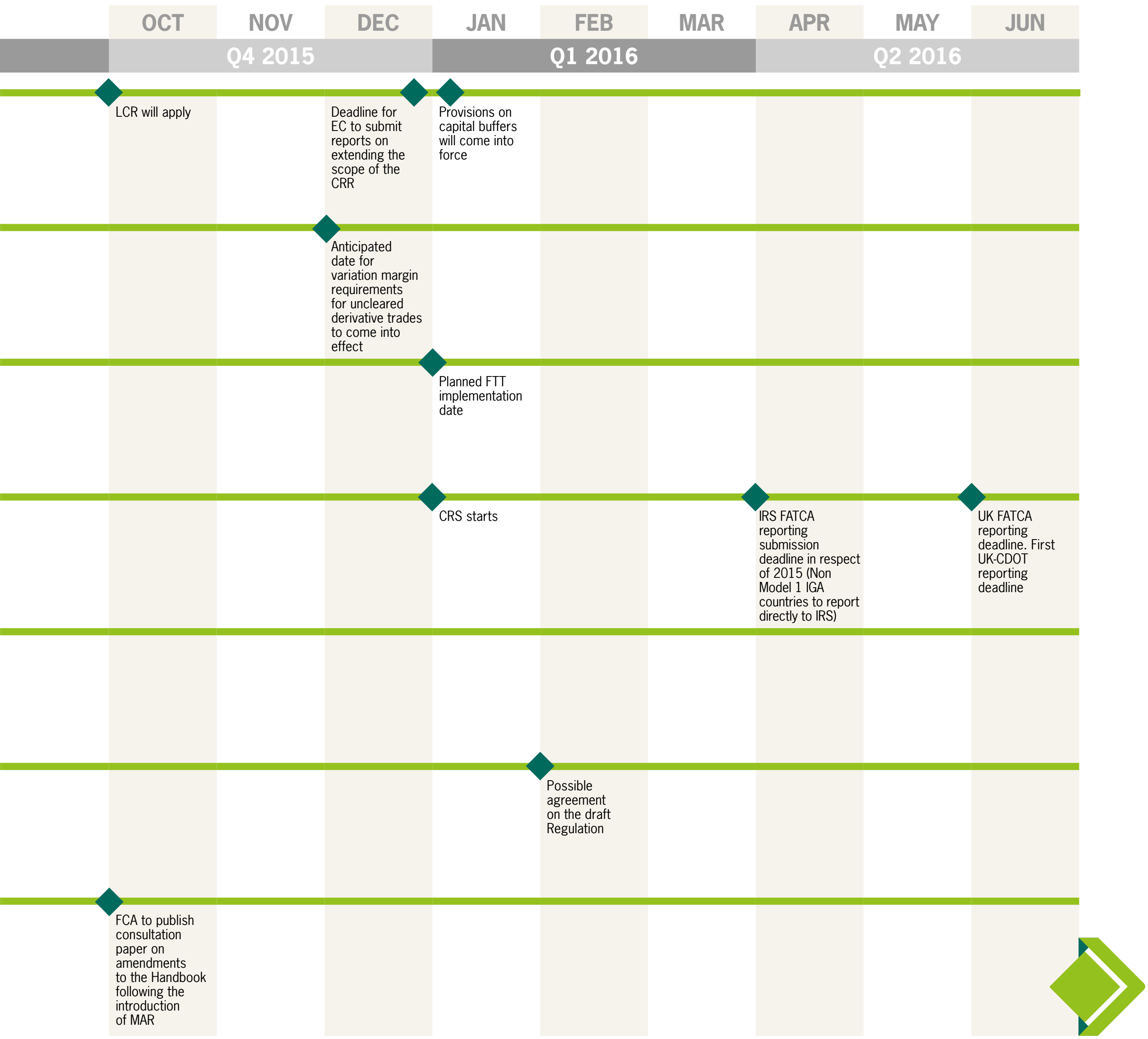
Alongside the specific industry challenges, a number of new institutions will begin to play a role in financial services regulation in 2015. In the EU, the Single Resolution Board (SRB) will begin to work with national regulators on resolution planning, resolvability assessments and the setting of loss absorbency. Moreover, the Payment Systems Regulator will begin monitoring the UK payments markets from April 2015.

Critical to surviving in this challenging environment is an in-depth understanding of the regulatory panorama and its operational implications.

Regulatory timeline - Cross Financial Services

	APR	MAY	JUN	JUL	AUG	SEP
	Q2 2015			Q3 2015		
Capital Requirements Regulation and Directive (CRD IV) Jurisdiction: EU Status: Enacted						
European Market Infrastructure Regulation (EMIR) Jurisdiction: EU Status: Enacted				Long stop date for reporting any derivatives for which a trade repository is still unavailable		
Financial Transaction Tax (FTT) Jurisdiction: EU Status: Proposed						
The Foreign Account Tax Compliance Act (FATCA) Jurisdiction: Global Status: Enacted			First UK FATCA reporting submission deadline	FATCA due diligence to have been completed on pre-existing accounts exceeding $1 million held by individuals		
The Fourth Money Laundering Directive (MLD4) Jurisdiction: EU Status: Enacted			MLD4 expected to be published in the OJ, and to come into force 20 days after publication			
General Data Protection Regulation (GDPR) Jurisdiction: EU Status: Proposed						
Market Abuse Directive Legislative Package (MAD II) Jurisdiction: EU Status: Enacted				ESMA to deliver the final RTS and ITS on MAR to the Commission	ESMA expected to consult on its guidelines under MAR	

For dates beyond June 2016, please see individual timelines on the respective pages



Regulatory timeline - Cross Financial Services *contd*

	APR	MAY	JUN	JUL	AUG	SEP
	Q2 2015			Q3 2015		
Markets in Financial Instruments Regulation & Directive (MiFID II) Jurisdiction: EU Status: Enacted						ESMA to submit final draft technical standards
Wire Transfer Regulation (WTR) Jurisdiction: EU Status: Drafted			Revised WTR expected to be published in the OJ, and to come into force 20 days after publication			
Securities Financing Transactions (SFT) Regulation Jurisdiction: EU Status: Proposed	Trialogue discussions expected to commence					
TARGET2-Securities (T2S) Jurisdiction: EU Status: Enacted			T2S to go live – first wave			

For dates beyond June 2016, please see individual timelines on the respective pages

OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
	Q4 2015			Q1 2016			Q2 2016	
		FCA will commence formal consultation on Handbook changes to implement MiFID II	ESMA to submit final ITS to the Commission					Delegated acts under Level 2 must be transposed by Member States
European Parliament to consider SFT Regulation in plenary session								
					Second wave			

Regulatory timeline - Banking and Securities

Regulation	APR	MAY	JUN	JUL	AUG	SEP
	Q2 2015			Q3 2015		
Bank Recovery and Resolution Directive (BRRD) Jurisdiction: EU Status: Enacted			Phased UK Implementation begins			
BCBS 239 Jurisdiction: Global Status: Enacted						
Benchmark Regulation Jurisdiction: EU Status: Drafted				Final agreement expected to be reached regarding text of the Regulation		European Parliament to consider proposed Benchmark Regulation in plenary session
Central Securities Depositary Regulation (CSDR) Jurisdiction: EU Status: Enacted			ESMA is required to submit Level 2 draft RTS to the Commission			
EU Banking Structural Reforms Jurisdiction: EU Status: Enacted			European Commission's preferred deadline for the adoption of the final text of the Regulation			
European Commission Communication on Shadow Banking Jurisdiction: EU Status: Drafted				European Parliament to consider proposed SFT Regulation in plenary session		
The Financial Services (Banking Reform) Act 2013 Jurisdiction: UK Status: Drafted	Operational launch of the Payment Systems Regulator	Deadline for the completion of all relevant secondary legislation				

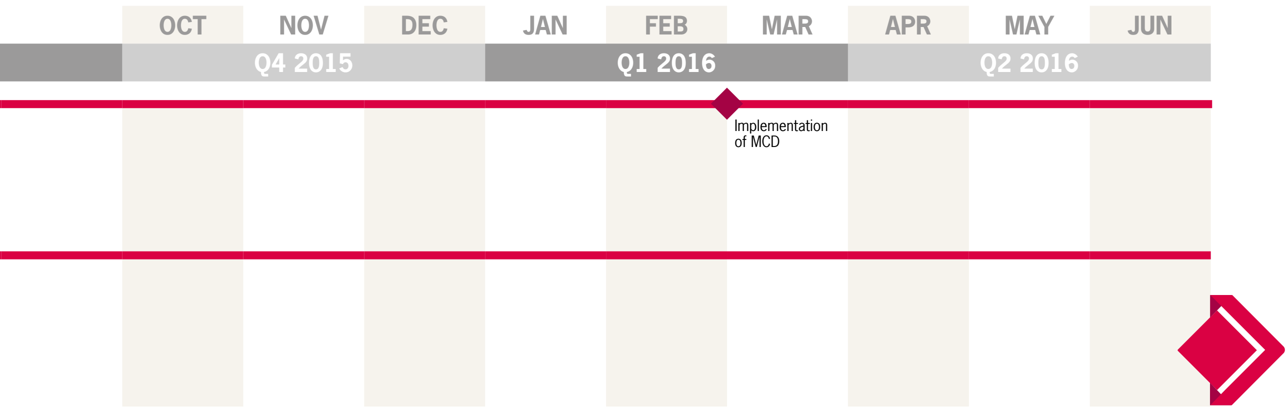
For dates beyond June 2016, please see individual timelines on the respective pages

OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Q4 2015			Q1 2016			Q2 2016		
		Deadline for Commission report regarding the use of extraordinary public support for a failing bank	Provisions on the bail-in tool must be applied					
			Banks identified as G-SIBs by the FSB in November 2011 must meet the Principles					
European Parliament to consider the Regulation during this plenary session			European Commission's preferred deadline for the adoption of delegated acts require under the Regulation					
		European Commission to determine whether to establish limits on banks' exposure to unregulated financial counterparties in EU legislation						

Regulatory timeline - Banking and Securities *contd*

	APR	MAY	JUN	JUL	AUG	SEP
	Q2 2015			Q3 2015		
Mortgage Credit Directive (MCD) Jurisdiction: EU Status: Enacted						
Payment Accounts Directive Jurisdiction: EU Status: Enacted		HM Treasury to publish a consultation paper on draft Regulations implementing the Directive				

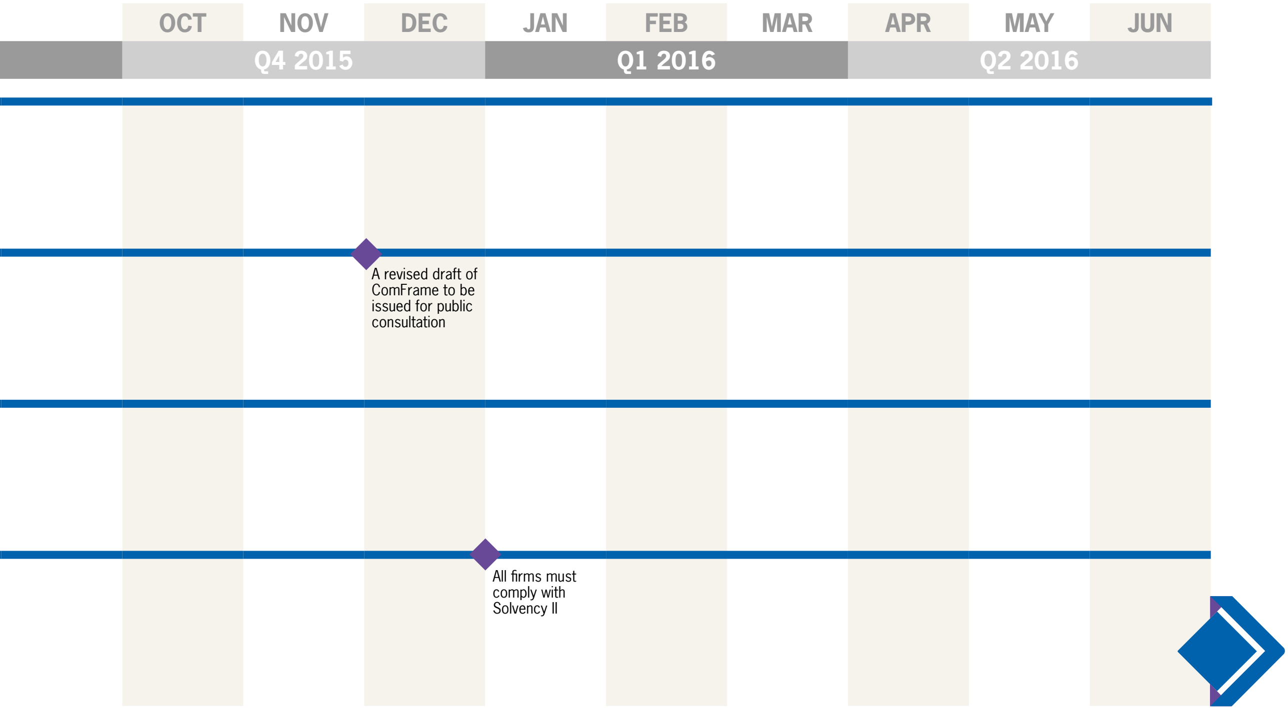
For dates beyond June 2016, please see individual timelines on the respective pages



Regulatory timeline - Insurance

	APR	MAY	JUN	JUL	AUG	SEP
	Q2 2015			Q3 2015		
CASS 5A Jurisdiction: UK Status: Proposed		FCA expected to issue a policy statement				
ComFrame Jurisdiction: Global Status: Drafted						
Insurance Distribution Directive (IDD) Jurisdiction: EU Status: Drafted				European Parliament and Council expected to adopt IDD		
Solvency II Jurisdiction: EU Status: Enacted	Firms can begin to formally submit applications to their national supervisors for approvals under Solvency II		EIOPA to submit Set 2 ITS to the Commission	EIOPA to publish Set 2 Guidelines in all of the official EU languages		

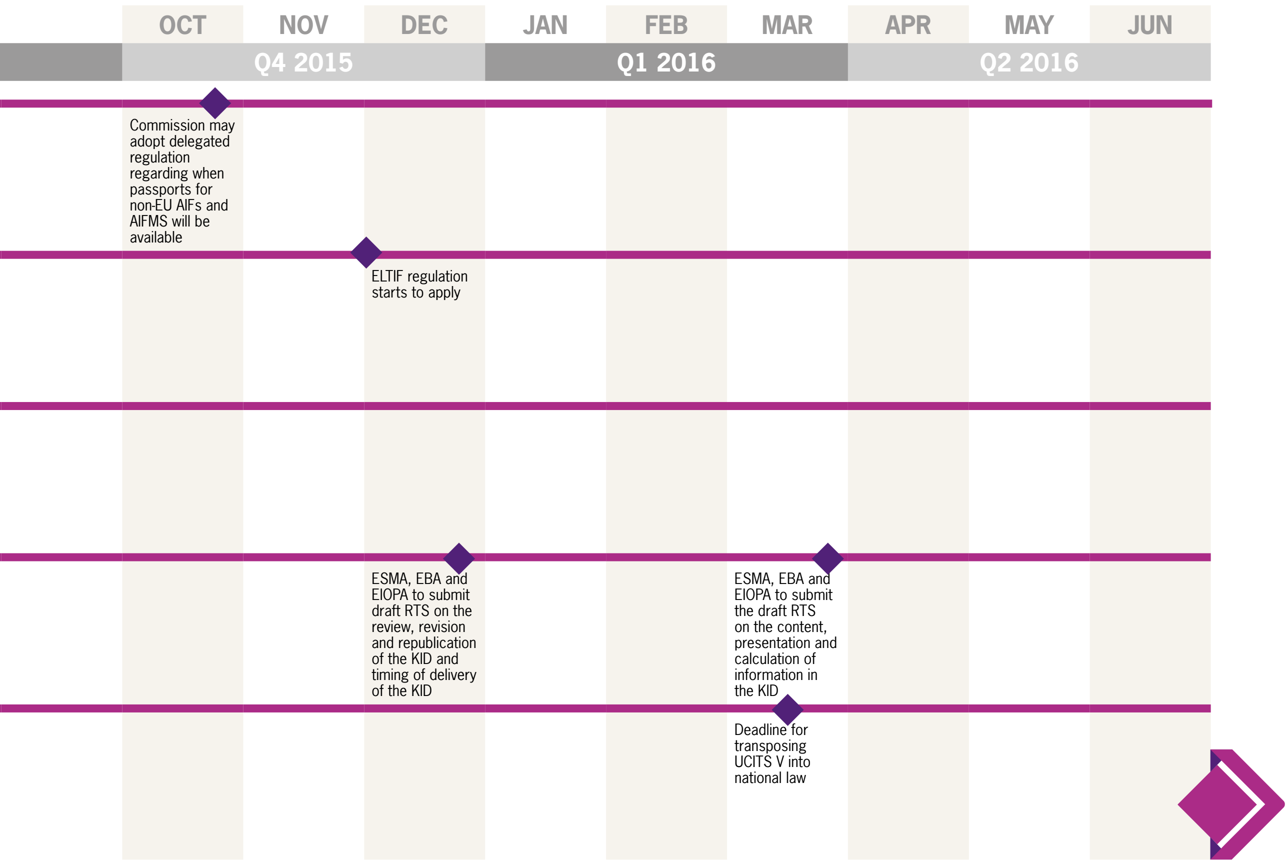
For dates beyond June 2016, please see individual timelines on the respective pages



Regulatory timeline - Investment Management

	APR	MAY	JUN	JUL	AUG	SEP
	Q2 2015			Q3 2015		
Alternative Investment Fund Managers Directive (AIFMD) Jurisdiction: EU Status: Enacted		ESMA to finalise guidelines on asset segregation		ESMA to provide an opinion on the functioning of a number of the changes included in the AIFMD		
European Long-Term Investment Funds Regulation (ELTIF) Jurisdiction: EU Status: Enacted						ESMA to submit draft RTS
Client Assets Review Jurisdiction: UK Status: Enacted			The remaining rules and guidance announced in PS14/9 come into force			
Regulation on Key Information Documents for PRIIPs Jurisdiction: EU Status: Drafted			EIOPA to deliver technical advice on delegated acts relating to temporary product intervention powers			ESMA, EBA and EIOPA to consult on draft RTS for the content, presentation and calculation of information in the KID
UCITS V Directive Jurisdiction: EU Status: Enacted						FCA expected to publish a consultation paper on UK transposition of UCITS V

For dates beyond June 2016, please see individual timelines on the respective pages



FCA Business Plan

The FCA's business plan sets out to parliament, to consumers and to the firms it regulates how it plans to pursue its objectives, what its priorities are and how it will measure its success.

This year's business plan was published ahead of some of the most fundamental changes to pension policy in a generation; in addition to the regulatory implementation of the Parliamentary Commission on Banking Standards recommendations on accountability. Consequently, the two themes underpin much of the discussion throughout the document.

In December 2014, the regulator changed its strategy, recognising that it needed a different approach to regulate such a large and diverse industry. The FCA now places more emphasis on sector and market-wide analysis to enable it to use the intelligence it has to focus on key priorities, while remaining flexible enough to respond to emerging issues.

The FCA's three operational objectives remain the same: 'to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system and to promote effective competition in the interests of consumers'.

Nevertheless, the regulator has identified the following priorities to ensure it achieves its objectives:

- A strategic markets-led approach to regulation
- Protecting consumers
- Individual accountability
- International issues

These priorities have been identified following a thorough and on-going assessment of the key risks to the financial services sector. In December 2014, the regulator made a commitment to take a more strategic approach to risk, as well as develop a common view of markets and key sectors.

In accordance with this, the FCA has identified seven forward-looking areas of focus. Four of these areas are retained from the 2014/15 business plan, which continue to be of significant interest to the Regulator:

- Technology may outstrip firms' investment, consumer capabilities and regulatory response
- Poor culture and control continue to threaten market integrity, including conflicts of interest
- Large back-books may lead firms to act against their existing customers' best interests
- Pensions, retirement income products and distribution methods may deliver poor consumer outcomes

Consumer credit and complex terms and conditions were highlighted as forward-looking areas of focus in 2014. While the Regulator considers that these issues remain a theme, they have been expressed slightly differently, in line with experience gained over the past 12 months in which the FCA took over consumer credit regulation; and the changing environment around terms and conditions:

- Poor culture and practice in consumer credit affordability assessments could result in unaffordable debt. This risk may increasingly affect younger people
- The range of issues that need to be considered in unfair contract terms is given sharper focus by developments over the last year in legislation and legal precedents

One new area of focus is:

- The importance of firms' systems and controls in preventing financial crime

FCA Business Plan

The regulator has identified some key social and environmental risks for the achievement of its objectives. Most of these risks are considered to be medium-term, but some have been identified as being longer-term and require further assessment before they can be fully understood. The list below details the key social and environmental factors:

Business conduct	Policy, legislation and regulation	Domestic policy	Social factors	Technological challenges
• Culture in firms • Consumer behaviours • Conflicts of interest, with a focus on wholesale markets • Financial crime • Unfair contract terms	• EU and International • Market infrastructure • Prudential • Shadow banking	• Pension reforms • Consumer credit	• Ageing population and older consumers • Younger consumers	• Innovation in online and web-based channels • Cyber-crime • Complex systems with intermediaries and/or gatekeepers • Market resilience

The regulator also included an analysis of the effect of key economic and market trends. In line with the FCA's identified risks and priorities, the key activities for the upcoming year include:

- Continuing to implement and review the consumer credit regime
- Monitoring developments in technology and how this affects firms and consumers
- Examining the mortgage market following the introduction of the MMR
- Continuing the work started in the wholesale markets
- Using its power to act against anti-competitive behaviour, concurrent with the Competition and Markets Authority

Key changes

Pensions reforms

In accordance with the substantial changes the market is going through, pensions will be a key area of focus for the FCA involving policy supervision, market studies and thematic work.

The reforms provide an opportunity for innovation in pensions products to meet changing consumer needs. Accordingly, the FCA will use the Innovation Hub as one of the key mechanisms to better understand these products in development.

The FCA has also identified a number of potential risks associated with the reforms. It states that, without appropriate information and guidance to empower consumers, greater choice and the offering of more complex products in the pensions market will reduce consumers' confidence and appetite to shop around and so weaken competitive pressure on providers to offer good value. Furthermore, the FCA considers that there may be an increased risk of scams at the point of liberalisation and onwards. Consequently, much of the work the FCA will undertake will focus on vulnerable consumer groups of pensionable age.

Some of the work the FCA will undertake over the year includes:

- Review the FCA's rules in the pension and retirement area, including the new retirement risk warnings
- Review the wake-up packs and introduce further measures to improve communication with pension savers, supporting choice and competition in the retirement income market
- Review rules around disclosure for consumers using drawdown products and how these relate to the new freedoms to take lump sum withdrawals directly from pensions
- Consult on new rules to ensure that all pension transfers advice will need to be carried out, or checked, by a Pensions Transfer Specialist
- Review how firms have implemented the pension reforms to ensure the retirement income market functions effectively and works in consumers' interests
- Continue to address the issues from its 2014 review of firms' annuities sales practices
- Work with the Treasury in light of their consultation on the creation of a secondary market in annuities

Key changes

Individual accountability

Individual accountability has been a key theme in the financial services industry since the financial crisis. The FCA wants to ensure that senior individuals in positions of responsibility are held personally accountable for how their firm operates, and for the consequences of misconduct. Accordingly, it will continue to implement recommendations made by the Parliamentary Commission on Banking Standards.

The FCA has proposed a new regime to strengthen accountability in banking to create a new framework for UK banks, building societies, credit unions and PRA-designated investment firms. The rules will make it easier for both firms and regulators to hold individuals to account. Increased individual accountability will improve behaviour, benefit consumers and markets, and can help restore public trust in the financial services industry. The FCA plans to publish final rules by the summer of 2015 and work with firms ahead of the changes, coming into effect by March 2016. It will also put in place a new accountability regime for incoming branches of foreign banks. Finally, the regulator will also reform the existing accountability regime for insurance firms. Key aspects of the proposed rules include:

- Chairmen and non-executive directors will be included as 'senior management functions' and will be held to account and deemed culpable for the ramifications of boardroom decisions
- 'Prescribed responsibilities' will be introduced and must be allocated to the most senior of those performing 'senior management functions'. Individual statements of responsibility must be drawn up detailing the most senior executives' roles
- Firms must draw up a 'management responsibilities map', documenting its management and governance arrangements, including how the statements of responsibility have been allocated
- The burden of proof will be reversed by a 'presumption of responsibility'; firms must show that 'reasonable steps' have been taken to prevent, stop or remedy breaches

- A 'group entity senior manager' will be introduced, covering individuals that are employed by a parent, holding or other group undertaking who exercise significant influence over activities in the UK into the scope of the regime

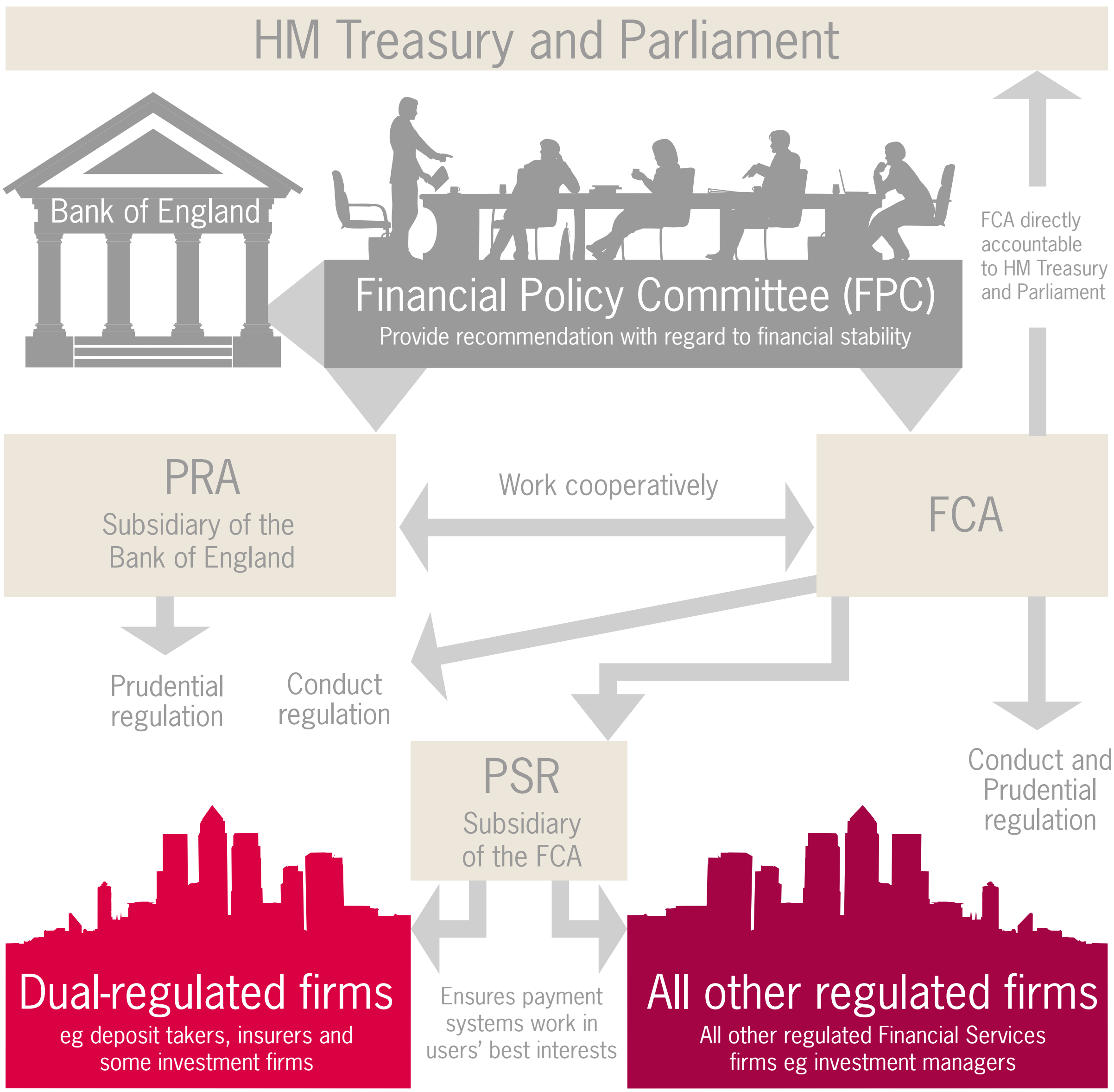
The FCA will also introduce a new certification regime to cover material risk-takers, those performing 'significant harm functions' and anyone supervising a certified person. Furthermore, a new framework of behavioural standards will be introduced, applicable to all individuals.

Ring-fencing

While the structural reform is not included in the FCA's business plan as it is under the PRA's remit, its effects will be felt throughout the banking industry in the upcoming year. The PRA is required under the Financial Services and Markets Act 2000 (as amended by the Financial Services (Banking Reform) Act 2013) to draft policy to implement the ring-fencing of core UK financial services and activities. The following proposals were included in its October 2014 consultation:

- **Legal structures of groups containing a ring-fenced body (RFB):** RFBs should not own entities which conduct excluded or prohibited activities as this would expose the RFB to risks unrelated to the provision of core services. The PRA also proposes that RFBs are not owned by such firms to ensure the RFB is able to make decisions independently
- **The governance of groups containing an RFB:** the PRA has proposed a number of rules in the areas of governance, risk management, internal audit, remuneration and human resources policy. Such functions underpin how RFBs make decisions and devise strategy which is critical; in particular, in enabling an RFB to take decisions independently of other group members
- **Continuity of services and facilities:** the FCA has proposed rules governing how RFBs can receive services and facilities from other intragroup entities or third parties outside their group. These are intended to mitigate risks to the ability of the RFB to perform its core services arising from the acts, omissions or the failure of other group entities

UK Regulatory Supervisors



Jurisdiction:	**UK**
Status:	**N/A**
Industry:	**Cross Financial Services**

In a nutshell:

The Financial Services Act 2012 enacted a number of reforms to the UK financial services regulatory framework. The Financial Services Authority (FSA) was replaced by the FCA and the PRA. The legislation also established an independent monitoring body that is a committee of the Bank of England, the Financial Policy Committee (FPC). Furthermore, one of the key proposals of the Financial Services (Banking Reform) Act 2013 was the establishment of a dedicated Payments Systems Regulator.

Core components:

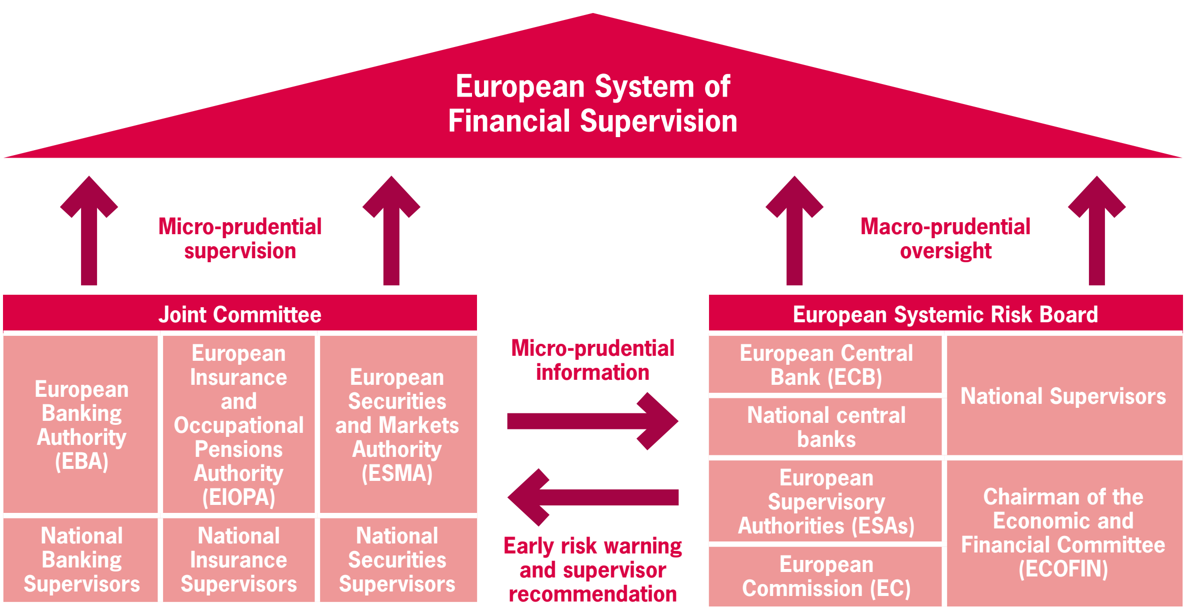
- **The Financial Conduct Authority (FCA)** is responsible for the regulation of the conduct of both retail and wholesale financial services firms. From 1 April 2015, the FCA has held new competition powers, allowing it to conduct market studies, investigations and enforce against breaches of the prohibitions on anti-competitive behaviour
- **The Prudential Regulatory Authority (PRA)** which is a subsidiary of the Bank of England, is responsible for the prudential regulation of financial firms that manage significant risks on their balance sheets. Its purpose is to improve the stability of the financial system through supervision and regulation
- **The Financial Policy Committee (FPC)** is an independent committee of the Bank of England, responsible for identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system
- **The Payment Systems Regulator (PSR)** is a subsidiary of the FCA which became operational in April 2015. Its primary aim is to ensure payment systems and the regulatory framework operate in the best interests of service-users and the wider UK economy

European System of Financial Supervision (ESFS) reform

In a nutshell:

The European System of Financial Supervision is the framework for financial services regulation in operation since 2011 across the European Union. The system was created as a response to the 2009 de Larosière Report aimed at strengthening European supervisory arrangements in order to better protect citizens and rebuild trust in the financial system. All financial services firms, markets, services, products and financial market infrastructures that fall within EU sectoral legislation are affected by the ESFS.

A key requirement of the reform is the obligation on the Parliament and the Council to assess whether the ESFS is functioning as originally envisaged. In November 2014, the Council of the EU, in accordance with the Commission, agreed that the component parts of the ESFS were functioning well and there was no need for any major amendments. Nevertheless, the Council supported the Commission's recommendations for short-term improvements to the ESAs and the ESRB but suggested that these should be done in line with monitoring the effects of the SSM, the SRM and the EBU. Further findings will be reported by the end of 2016, in line with the next ESFS review.



Jurisdiction:	**EU**
Status:	**N/A**
Industry:	**Cross Financial Services**

Core components:

- **The European Systemic Risk Board (ESRB)** – an independent body responsible for the macro-prudential oversight of the EU financial system. The ESRB's day-to-day business is entrusted to the European Central Bank (ECB)
- The following independent micro-prudential supervisors, known as the European Supervisory Authorities (ESAs):
  - **The European Banking Authority (EBA)**
  - **The European Securities and Markets Authority (ESMA)**
  - **The European Insurance and Occupational Pensions Authority (EIOPA)**
- **The Joint Committee of the ESAs,** which deals with cross-sectoral issues
- **The 28 EU Member States national supervisors,** which carry out the day-to-day supervision of financial institutions, with a limited number of exceptions
- **The European Banking Union (EBU):**
  - **The Single Supervisory Mechanism (SSM)** places the European Central Bank (ECB) as the central prudential supervisor of financial institutions in the euro area and any of the non-euro EU countries that choose to join the SSM. Colleges of supervision, permanent coordination structures that bring together regulatory authorities involved in the supervision of a banking group, will continue to play an important role for banks with a presence in non-SSM countries. When a bank operates only in SSM countries, it will be treated as 'domestic' and will, therefore, fall under the full responsibility of the SSM authorities
  - **The Single Resolution Mechanism (SRM)** will apply to all banks covered by the SSM. Its primary purpose is to ensure an orderly resolution of failing banks with minimal costs for taxpayers and to the real economy
  - **The Deposit Guarantee Scheme (DGS)** requires EU Member States to introduce at least one deposit guarantee scheme in their jurisdiction to protect depositors and reduce the risk of bank runs

US Regulatory Supervisors

Financial Stability Oversight Council (FSOC)

- Federal Reserve Board (FRB)
- Office of the Comptroller of the Currency (OCC)
- Federal Deposit Insurance Corporation (FDIC)
- Securities Exchange Commission (SEC)
- Commodities Futures Trading Commission (CFTC)
- Consumer Financial Protection Bureau (CFPB)
- National Credit Union Administration
- Federal Housing Finance Agency
- Non-voting members

In a nutshell:

Financial institutions in the United States of America are regulated at both state and federal levels. The federal system of regulation was restructured as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010. The primary federal agencies are listed overleaf; state banking, securities and insurance regulators also play a role in regulating financial institutions.

Jurisdiction:	**US**
Status:	**N/A**
Industry:	**Cross Financial Services**

Core components:

- **Financial Stability Oversight Council (FSOC)** – the FSOC was created to identify risks to US financial stability, promote market discipline and respond to emerging threats to the stability of the US financial system
- **Federal Reserve Board (FRB)** – the FRB supervises and regulates the Federal Reserve Banks, is responsible for the US's payment systems, administers most of the US laws regarding consumer credit protection and supervises banking institutions and activities
- **Securities and Exchange Commission (SEC)** – the SEC is independent of the government and is responsible for enforcing the federal securities laws. It regulates the majority of the securities industry, alongside investment advisers who are not covered by state regulators
- **Financial Industry Regulatory Authority (FINRA)** – the FINRA is an independent organisation dedicated to investor protection and market integrity through regulation of the securities industry
- **Commodity Futures Trading Commission (CFTC)** – the CFTC regulates the commodity futures and options markets in the US as well as securities futures
- **Federal Deposit Insurance Corporation (FDIC)** – the FDIC is an independent federal agency created to maintain stability and public confidence in the nation's financial system by insuring deposits at federal and state banks, examining and supervising insured depositary institutions and managing the receivership of failed or failing depositary institutions
- **Office of the Comptroller of the Currency (OCC)** – the OCC is an independent office of the Department of the Treasury that charters, regulates and supervises all national banks. It also supervises the federal branches and agencies of foreign banks
- **National Credit Union Administration (NCUA)** – the NCUA is an independent federal agency that regulates, charters and supervises federal credit unions
- **Consumer Financial Protection Bureau (CFPB)** – the CFPB was established to protect consumers by carrying out federal consumer financial law

Cross Financial Services

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Revised Wire Transfer Regulation (WTR) 52

Securities Financing Transactions (SFT) Regulation 54

Target2-Securities (T2S) 56

The Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR)

In a nutshell:

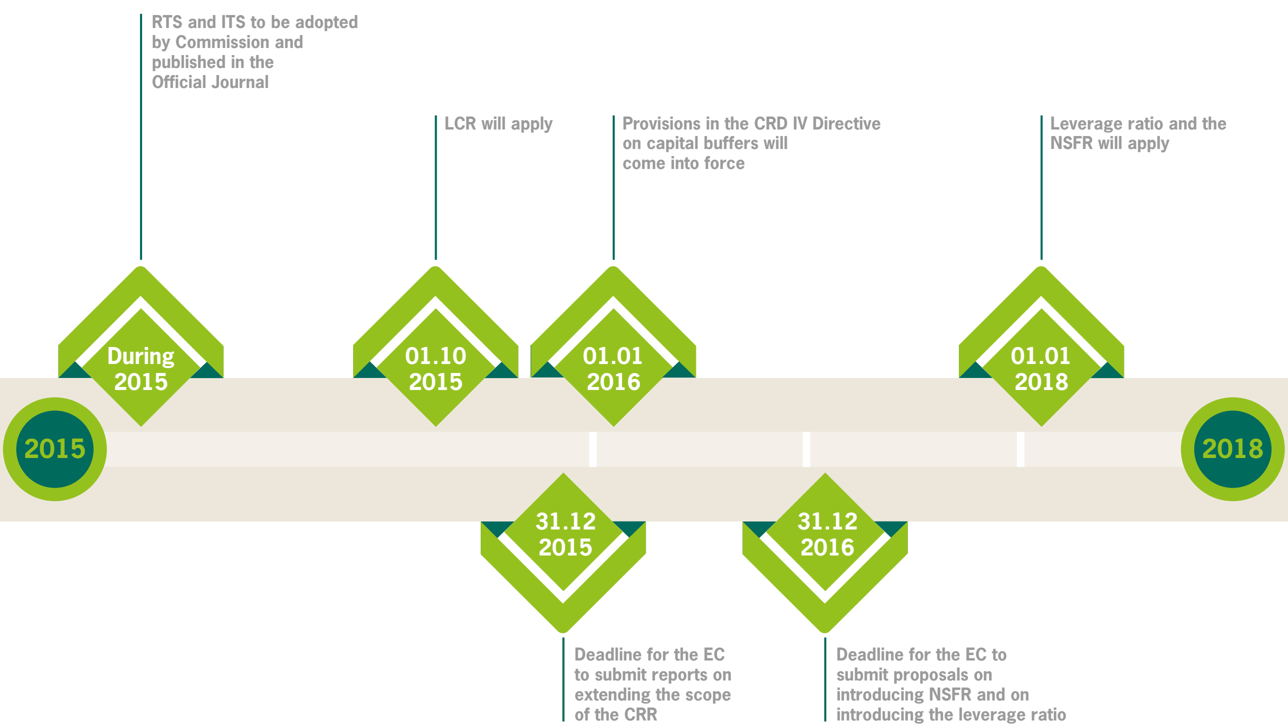
The CRD IV package is a major set of reforms to the EU's capital requirements regime for credit institutions and investment firms. It has recast and replaced the Capital Requirements Directive with a new directive and regulation; the CRD IV Directive and the Capital Requirements Regulation (CRR).

The primary aims of the reforms are to implement the Basel III requirements, as well as introduce EU-specific reforms, for example the cap on bankers' bonuses.

Core components:

CRR

The bulk of the reforms were included in the CRR, as a regulation, to prevent fragmented application by individual Member States. The CRR contains the Basel III reforms relating to: quality of capital, quantity of capital, counterparty credit risk, credit valuation adjustment risk and the leverage ratio.



Jurisdiction:	EU
Status:	Enacted
Industry:	Cross Financial Services

The EU-specific requirements include:

- **Single Rulebook** – a single set of harmonised prudential rules for banks and investment firms; most national discretions have been removed
- **Supervisory reporting requirements** – two supervisory reporting frameworks: Common Reporting (COREP) and Financial Reporting (FINREP)
- **Credit risk adjustments** – sets out how firms should treat general credit risk adjustments and specific credit risk adjustments
- **Pillar 3 disclosures** – firms must make a significantly higher number of public disclosures

CRD IV

CRD IV, which must be transposed by all Member States, contains less prescriptive provisions where harmonisation with national law is more important. The capital conservation buffer, countercyclical buffer and liquidity requirements of Basel III were implemented through CRD IV. EU-specific reforms include:

- **Corporate governance** – new requirements relating to management bodies and arrangements and increased Pillar 3 disclosures about such arrangements
- **Remuneration** – reforms relating to bonuses, 'golden hellos', website display of compliance with remuneration requirements and disclosure requirements
- **Reliance on external ratings** – measures intended to reduce the reliance by credit institutions on external credit ratings
- **Country-by-country reporting** – firms must report prescribed information for each financial year
- **Supervisory review and evaluation process (SREP)** – all CRD IV firms will be subject to the SREP at least every three years from 2016. Institutions will be scored on the following elements: business model analysis, assessment of internal governance and institution-wide control arrangements, assessment of risks to capital and adequacy of capital to cover these risks and assessment of risks to liquidity and adequacy of liquidity resources to cover these risks

Dodd-Frank Wall Street Reform and Consumer Protection Act

In a nutshell:

The Dodd-Frank Act was enacted to put in place a wide-ranging reform of the US financial regulatory system, affecting most aspects of the US financial services industry. Many of the provisions of the Act affect UK entities directly, particularly any that do business in the US or with US citizens.

The Dodd-Frank Act was enacted into law on 21 July 2010 but due to its wide-ranging nature and multiple compliance dates, no definitive timeline can be produced. As at the end of the fourth quarter of 2014, a total of 277 Dodd-Frank rulemaking requirement deadlines have passed. Of these 277 passed deadlines, 101 have been missed and 176 have been met with finalised rules.

Jurisdiction:	**US**
Status:	**Enacted**
Industry:	**Cross Financial Services**

Core components:

- **The Volcker Rule** – The Dodd-Frank Act implemented the Volcker Rule, which generally prohibits certain 'banking entities' (and their affiliates and subsidiaries) from engaging in proprietary trading and acquiring or retaining any ownership interest in, or sponsorship of, hedge funds or private equity funds
- **Regulatory structure** – includes provisions that overhaul the US financial regulatory system, including the creation of the Financial Stability Oversight Council, the elimination of the Office of Thrift Supervision and the overhaul of the Federal Reserve Bank, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Bureau of Consumer Financial Protection and other agencies
- **Swaps and derivatives** – addresses perceived shortcomings in the over-the-counter (OTC) derivatives markets. The primary goals are to minimise systemic risk of derivatives trading, create transparency in derivatives markets and provide credit protection for derivatives traders
- **Bank capital (Collins Amendment)** – minimum leverage capital and risk-based capital requirements for depositary institutions and holding companies
- **Credit rating agencies** – measures imposed on rating agencies relating to their internal controls, conflicts-of-interest, transparency and accountability
- **Securitisation** – seeks to address certain perceived flaws in securitisation market practices
- **Private equity and hedge funds** – imposes measures relating to hedge funds, private equity and venture capital funds and other private investment funds and the entities managing these funds
- **Regulation of systemically significant financial institutions** – supervises and regulates banks and other financial companies that could pose a threat to the stability of the US financial system
- **Corporate governance and executive compensation**
- **SEC Authority and Selected Securities Act and Exchange Act Provisions**
- **Resolution of failing financial institutions**

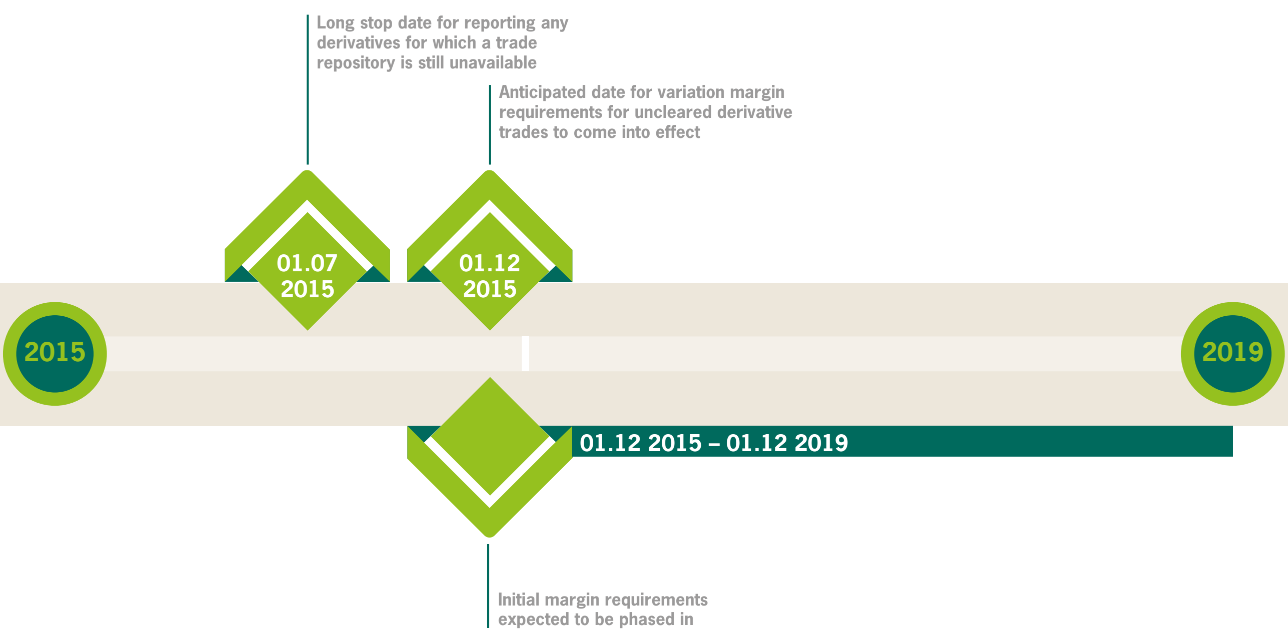
The European Market Infrastructure Regulation (EMIR)

In a nutshell:

The European Market Infrastructure Regulation (EMIR) is an EU regulation on Over The Counter (OTC) derivatives, Central Counterparties (CCPs) and Trade Repositories (TRs). It aims to improve the management of counterparty credit risk and increase trade transparency within the derivatives market. EMIR, the EU equivalent of similar provisions made within the US Dodd-Frank Act, has been brought into force in response to weaknesses exposed in the global financial system after the default of Lehman Brothers, near-collapse of Bear Stearns and events surrounding AIG in 2008. The interconnectedness of OTC derivative participants and the default, or fear of default, led to liquidity problems, compounded by a lack of transparency of positions and exposures to both regulators and market participants.

Key objectives of EMIR include:

- Reduce the interconnectedness between counterparties in the OTC derivatives markets, minimising systemic risk
- Provide the regulatory framework needed to improve counterparty risk management
- Create transparency for regulators and participants within the OTC derivatives market, minimising transparency risk



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Cross Financial Services**

Core components:

- **Imposing new clearing requirements for specified standardised OTC derivative trades** – mandating the clearing of eligible OTC derivatives through a CCP
- **Introducing risk mitigation requirements for trades that are not centrally cleared by a CCP** – trades not cleared through a CCP (Non-Cleared) will incur collateral requirements and/or higher capital charges
- **Setting reporting requirements for all derivatives trades (exchange traded and OTC)** – reporting of derivative transactions to Trade Repositories (TRs)
- **Introducing new obligations on Central Counterparties (CCPs)** – including an authorisation process, supervisory requirements and interoperability arrangements between CCPs
- **Imposing new obligations on Trade Repositories (TRs)** – including a registration process and requirements on operational reliability, transparency and protection and availability of trade data

FCA review of client assets regime for investment business

In a nutshell

In response to concerns that a number of firms were still failing to comply with fundamental requirements regarding recording the client assets they held and segregating them according to the FCA's Client Assets Sourcebook, the FCA conducted a wide review of its client assets regime for investment business.

The final proposals, published in June 2014, cover the entire operation of the client money and custody rules for investment firms that hold client money, custody assets, collateral and/or mandates in relation to investment business. The changes include a rewrite of client money rules for investment firms and substantial amendments to custody rules in the Client Assets Sourcebook.

The aims of the proposals were to:

- Address specific risks
- Clarify the requirements firms must comply with
- Enhance the client assets regime to achieve better results for consumers and increase confidence in financial markets

Jurisdiction:	**UK**
Status:	**Enacted**
Industry:	**Cross Financial Services**

Core components:

- **Speed proposal** – the FCA will not proceed with its proposals on client money distribution rules but will keep these under review in line with HMT's implementation of Special Administration Regime recommendations
- **Delivery versus Payment (DVP)** – the DVP window has been retained for settling transactions in collective investment schemes, but has been reduced to one day and firms must also obtain each client's consent to their assets or monies being held within the DVP window
- **Format and frequency of reconciliations** – the format of internal client money reconciliations is being clarified with the requirement to perform these daily and external reconciliations at least monthly
- **Unbreakable term deposits** – unbreakable fixed term deposits will be limited to a maximum of 30 days
- **Mandate rules** – the requirement for firms to retain the mandate records indefinitely has been removed and replaced with retention requirements of at least one year, or at least five years if the mandate was obtained in connection with MiFID business
- **Acknowledgement letters for client money bank accounts** – a new template for acknowledgement letters will be introduced alongside a requirement to re-paper existing acknowledgement letters and to have these letters in place before starting to use any new bank account which is opened to hold client money
- **Due diligence** – additional due diligence will be required for banks with whom client money is held
- **Immediate segregation** – firms following the normal approach will generally be required to receive all client money directly into a client bank account
- **Cleared funds** – the FCA is reiterating the principle that one client's money should not be used to fund another client's investment business

Financial Transaction Tax (FTT)

In a nutshell:

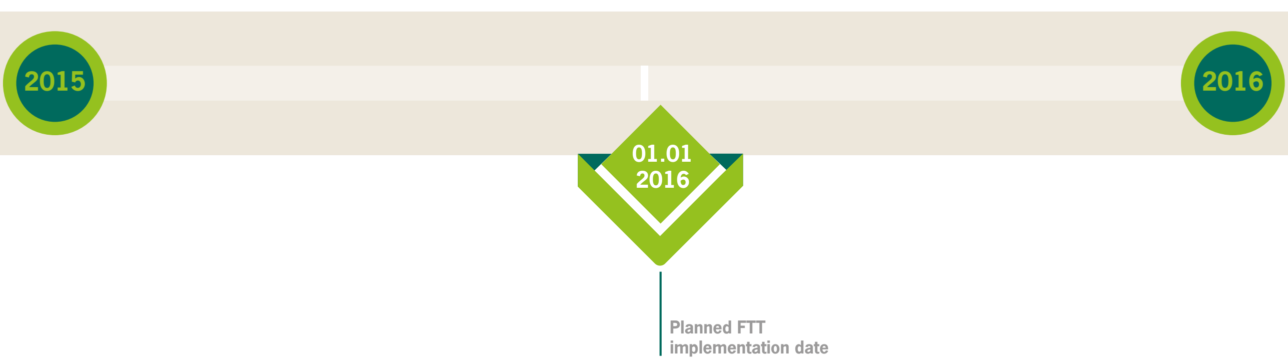
In September 2011, the European Commission proposed a harmonised Financial Transaction Tax for the EU. This was in part due to Member States expressing a desire to ensure the financial services sector was appropriately contributing to public finances. It was also intended to be the first step to introducing a global financial transaction tax. It is estimated that the FTT will generate an annual revenue of EUR31 billion.

The primary objectives of the proposal were:

- To encourage harmonisation across the Single Market and therefore avoid the fragmentation associated with separate legislations for each jurisdiction
- To ensure that the financial sector was contributing to public finances and repaying part of what it received from taxpayers during the financial crisis
- To discourage inefficient financial transactions

Not all Member States of the EU agreed to go ahead with the proposal so the European Commission allowed a subgroup of Member States to engage in discussions (under the EU's Enhanced Co-operation procedures) about introducing a harmonised Financial Transaction Tax. This subgroup, the 'EU11', comprises: Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain.

Whilst France and Italy introduced local FTT regulations in 2012 and 2013, respectively, it was widely believed that plans for the EU-wide FTT had been shelved. Nevertheless, in January 2015 10 Member States (the EU11 minus Greece) issued a joint statement renewing their commitment to reaching an agreement for the FTT ready for implementation on 1 January 2016.



Jurisdiction:	**EU**
Status:	**Proposed**
Industry:	**Cross Financial Services**

Core components:

- **A levy of at least 0.1 per cent on stock and bond trades based on transaction value**
- **A levy of at least 0.01 per cent on the notional value of derivative transactions between financial institutions**

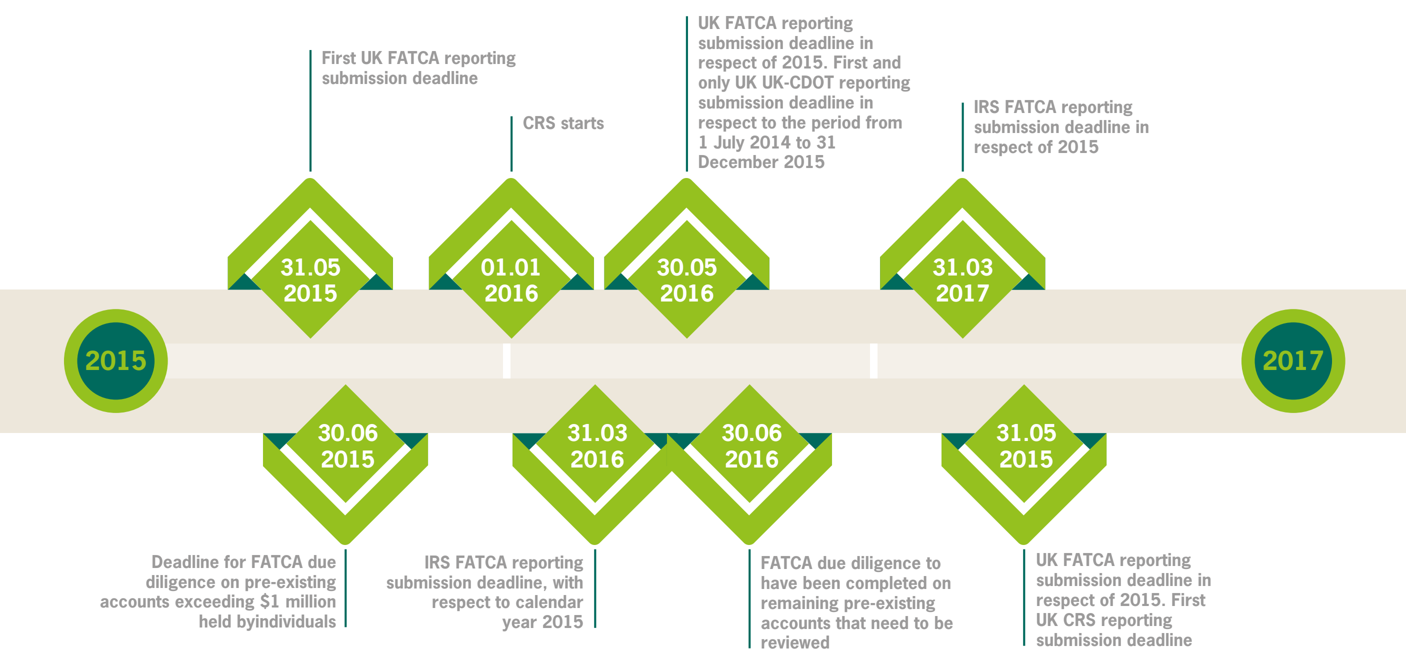
The FTT is intended to apply on the basis of the residence principle. Thus, the tax will apply if at least one institution is located in the territory of a participating Member State. However, to further minimise the risk of relocation of transactions, this will be supplemented by elements of the issuance principle. Therefore, for transactions in certain financial instruments, the persons involved should be considered established in the participating Member State in which the instrument has been issued.

The legality of the EU Financial Transaction Tax legislation has frequently come under debate. This includes a challenge lodged by the UK at the European Court of Justice in April 2013 regarding the appropriateness of using the Enhanced Co-operation process in the light of the extra-territorial aspects of the Commission's proposal. The Commission and several participating Member States rebutted the claims that the harmonised FTT framework would contain provisions with inappropriate extraterritorial effects or not respect the rights of non-participating Member States. Once agreed upon at European level, participating Member States will have to transpose the Directive into national legislation.

The Foreign Account Tax Compliance Act (FATCA)

In a nutshell:

The Foreign Account Tax Compliance Act (FATCA) is a set of requirements that was introduced to identify US taxpayers using foreign accounts to avoid tax by obligating Foreign Financial Institutions (FFIs) to report information relating to these account holders. The purpose of FATCA is to ensure the Internal Revenue Service (IRS) can identify and collect the appropriate tax from any US taxpayer holding financial assets outside of the US. FATCA applies to any financial institution, including banks, investment managers, funds and insurers, and introduces ever higher levels of client identification and compliance to avoid the threat of a 30% withholding tax being applied to many types of US sourced funds. Additionally, many jurisdictions have signed up to Intergovernmental Agreements (IGAs) with the US whereby FATCA provisions are adopted into domestic legislation which also includes the threat of domestic penalties being charged to local FFIs who are non-compliant.



Jurisdiction:	**Global**
Status:	**Enacted**
Industry:	**Cross Financial Services**

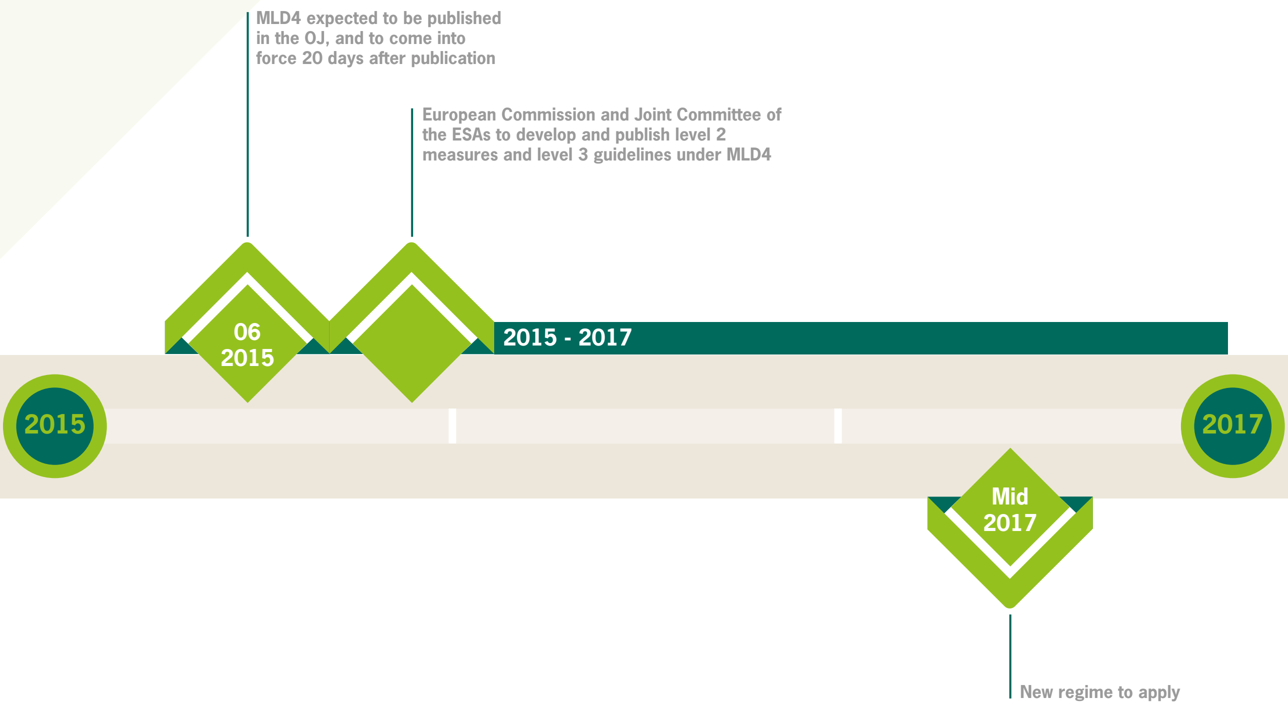
Core components:

- **FFIs** – to avoid being withheld or reported on, FFIs must register with the IRS and agree to report certain information about their US accounts, including accounts of certain foreign entities with substantial US owners, to the IRS or their domestic tax authority. In certain circumstances FFIs may be required to withhold 30% on certain payments to FATCA non-compliant foreign payees. Categories of FFIs that are exempt from FATCA include: governmental entities and not for profit organisations. Unless otherwise exempt, FFIs that do not register and agree to report can face a 30% withholding tax on certain US-source payments made to them
- **Non-Financial Foreign Entity (NFFE)** – if not an FFI, an entity will be considered an NFFE which will be further classified as Active or Passive, depending on the type of income derived. If Passive, the NFFE will be required to disclose further information on its owners to its financial counterparties
- **IGAs** – the US has collaborated with other governments to develop two models of IGAs to implement FATCA. These demand that governments bring in domestic legislation that will require all FFIs to identify US accounts and report information about these and any non-compliant persons/entities to the IRS or the local tax authority
- **Impact** – the requirements of FATCA mark a seismic shift in the exchange of information worldwide. Almost all companies will be affected, requiring an analysis of their classification under FATCA, the possible consequential registration, due diligence, changes to client onboarding, detailed reporting and, where not in a Model I IGA jurisdiction, 30% withholding on US income and gross proceeds (from sale of assets that produced interest or dividends) for the non-compliant
- **Expanding obligations** – the future compliance burden arising from two similar information exchange regimes (the intergovernmental agreements between the UK and Crown Dependencies (UK-CD/OT) and the OECD's Common Reporting Standards (CRS)) means that this new level of information exchange will abide. The OECD's Common Reporting Standard is due to commence in early adopter countries on 1 January 2016 with first reporting in 2017. Under CRS much more information must be reported to local tax authorities resulting in FFIs having a much larger compliance burden

The Fourth Money Laundering Directive (MLD4)

In a nutshell:

The Fourth Money Laundering Directive is a European minimum harmonising directive designed to further strengthen the EU's defences against money laundering and terrorist financing. The directive will amend and replace the Third Money Laundering Directive, introduce a more risk-based regime and align the EU framework with the FATF standards.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Cross Financial Services**

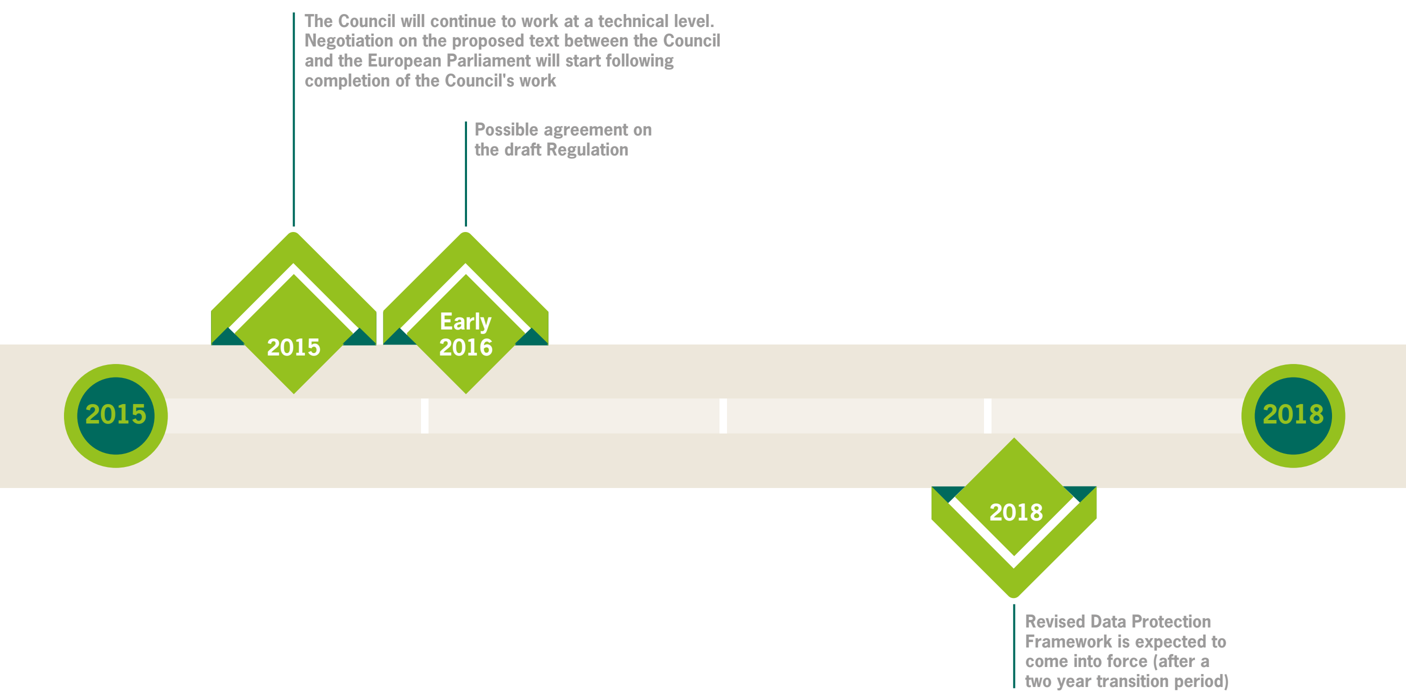
Core components:

- **Extending scope** – all persons dealing in goods for cash payments of EUR10,000 or more will now be within its scope, as will the gambling sector. Tax crimes will be added as a predicate offence
- **Politically Exposed Persons (PEPs)** – the proposals extend the definition to include domestic as well as foreign PEPs, and those within international organisations
- **Beneficial owner information** – the clarity and accessibility of beneficial owner information will be enhanced. Member States will need to ensure that beneficial ownership information is stored in a central register
- **Customer Due Diligence (CDD)** – equivalency will no longer apply, there will no longer be automatic exemptions for the CDD requirements. Institutions will need to conduct their own risk assessment to decide whether simplified or enhanced due diligence measures can be applied
- **Risk-based approach** – the MLD4 will introduce the concept of a national risk assessment, which must be made available to regulated firms and other Member States on request. The MLD4 will continue the move away from a more rules based approach to a risk based approach
- **Reinforcement of sanctioning powers** – the MLD4 introduces minimum sanctions for firms which breach certain key provisions of the Directive. Member States must implement sanctions which are effective, proportionate and dissuasive
- **Home and host supervisory responsibilities** – the MLD4 clarifies home and host country responsibilities, where a group operates in more than one Member State
- **Financial intelligence units** – the MLD4 will extend the powers of Financial Intelligence Units and strengthen their co-operation across jurisdictions
- **Data protection** – MLD4 will improve the balance of AML and CTF requirements with data protection requirements, and clarify the interaction between the two

General Data Protection Regulation (GDPR)

In a nutshell:

In January 2012, the European Commission published a proposal for reform of the EU data protection law. The Commission proposed to replace the existing regime with a General Data Protection Regulation (GDPR) and a supplementing directive. The GDPR updates and modernises the principles of the original directive with the aim of ensuring a more effective control for consumers over their personal data. The EC has also stated that it should make it easier for businesses to operate and innovate in the EU's Single Market. The legislative package was voted in at its first reading at the European Parliament in March 2014; it is due to be reviewed by the Council of Ministers of the European Union later in 2015. The GDPR could be adopted in late 2015 if the Parliament and the Council reach a rapid common position; if not, the adoption of the text will have to wait until the end of 2016 or even 2017.



Jurisdiction:	**EU**
Status:	**Proposed**
Industry:	**Cross Financial Services**

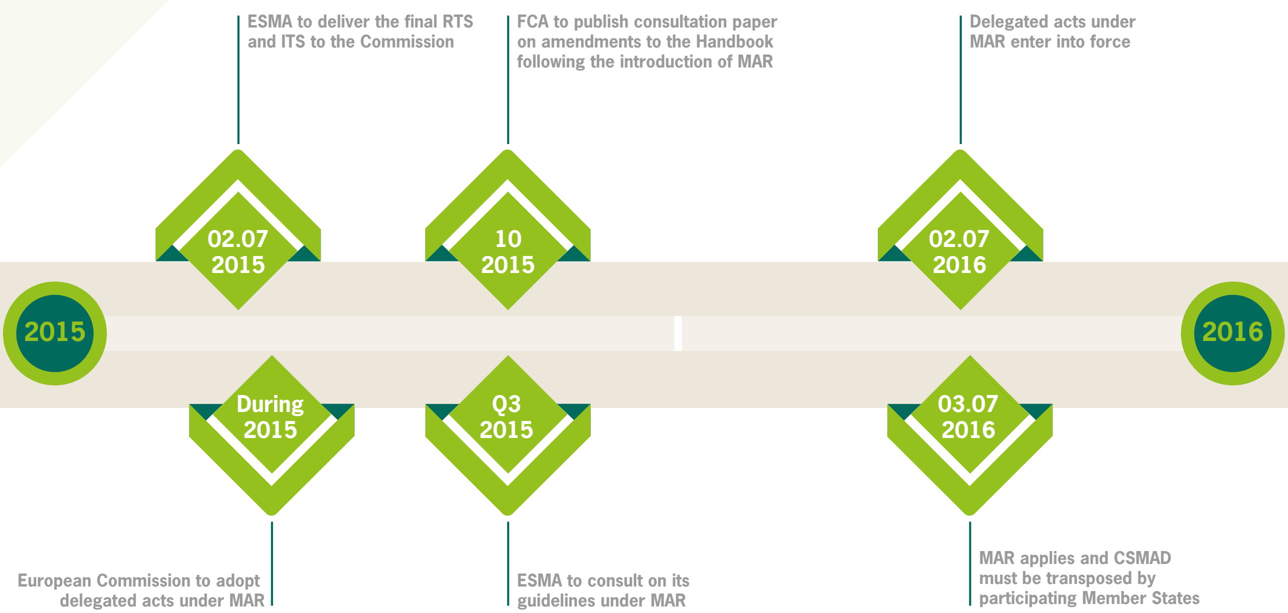
Core components:

- **Scope** – the Regulation will apply if the organisation or data subject is based in the EU. The Regulation will also apply to organisations based outside the European Union if they process personal data of EU residents
- **Single set of rules** – there will be a single set of rules applicable to all EU Member States and one single Data Protection Authority (DPA) responsible for each company depending on where the company is based or which DPA it chooses
- **Sanctions** – DPAs will be equipped with strong enforcement powers. They will be able to fine firms up to EUR100 million or up to 5% of the annual worldwide turnover; a written warning may be issued in cases of a first and non-intentional breach of the rules
- **Data breaches** – firms must notify their DPA of serious data breaches as soon as possible; additionally, consumers must be informed of a data breach 'without undue delay' where their rights and freedoms could be severely affected by the breach
- **Impact assessments** – data processing impact assessments must be carried out to understand and address any privacy issues that might arise when developing new products and services or undertaking new business activities
- **Consent** – firms must ensure that they have valid consent for any data collected and document the purposes for which the data is used; consent must be explicit and cannot be assumed
- **Right to be forgotten** – personal data has to be deleted if an individual withdraws consent or when the data is no longer necessary and there are no reasons for it to be kept
- **Data portability** – a user must be able to request a copy of any personal data that is being processed and be able to transmit it electronically to, for example, another service provider

Market Abuse Directive Legislative Package (MAD II)

In a nutshell:

The MAD II legislative package is a set of reforms to the EU's current market abuse regime. The currently applicable Market Abuse Directive (MAD) was adopted in 2003 and established an EU-wide framework for tackling both insider dealing and market manipulation. MAD II comprises the Market Abuse Regulation (MAR) and the Directive on Criminal Sanctions for Market Abuse (CSMAD). MAR will repeal and replace the existing Market Abuse Directive and, together with CSMAD, will introduce a wide range of tougher sanctions for market abuse. The UK has not opted into CSMAD and therefore it is not under the obligation to transpose its provisions into national law.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Cross Financial Services**

Core components:

MAR

- **Scope change** – extending the scope of MAD to incorporate and monitor more financial instruments, such as commodity derivatives traded on European multilateral trading facilities (MTF) and organised trading facilities (OTF). The scope of MAD was also extended into more financial markets, namely commodity markets, and the manipulation of benchmarks
- **Widening of insider dealing and market manipulation definitions** – requiring firms to disclose inside information in a simple market-specific format
- **Exemption for buy-back programmes and stabilisation** – under certain conditions, MAR provides for exemptions for buy-back programmes and stabilisation measures
- **Exemption for monetary and public debt management activities and climate policy activities**
- **Disclosure requirements** – inside information must be disclosed in a modified and simplified market-specific way. The proposal also clarifies managers' transactions reporting requirements
- **Administrative sanctions** – MAR introduces minimum rules for administrative measures, sanctions and fines. Measures are introduced requiring Member States to encourage reporting of breaches of MAR

CSMAD

- **Market abuse offences** – under CSMAD serious cases of insider dealing, market manipulation and unlawful disclosure of inside information will constitute criminal offences when committed with intent
- **Criminalising market abuse** – Member States must criminalise behaviours amounting to inciting, aiding and abetting market abuse or attempting to commit any market abuse offences as previously defined. Member States must also ensure that these are punishable by criminal sanctions

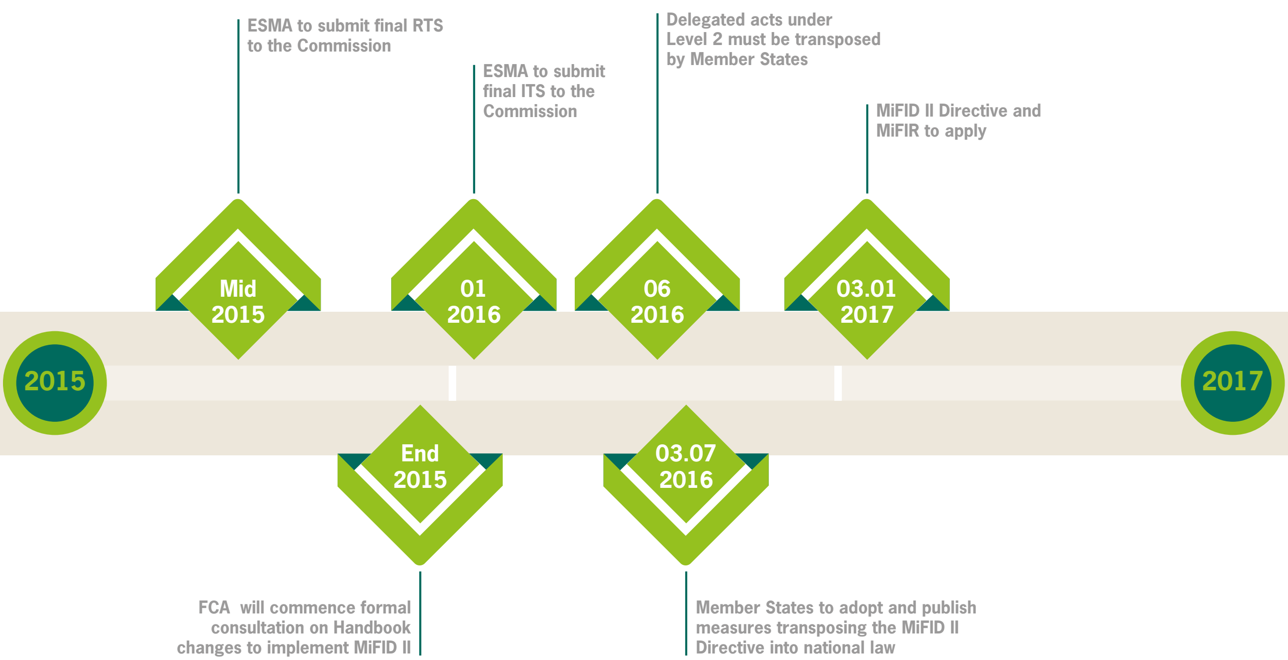
Markets in Financial Instruments Regulation and Directive (MiFID) II

In a nutshell:

The MiFID II legislative proposals, comprising the MiFID II Directive and the Markets in Financial Instruments Regulation will repeal and recast the Markets in Financial Instruments Directive. The Markets in Financial Instruments Directive (MiFID) was originally introduced to promote competition in the EU trading landscape. The new legislation will form the legal framework that governs the requirements for investment firms, trading venues, data reporting service providers and third-country firms providing investment services or activities in the EU.

The key objectives of the updated regulation include:

- Strengthening investor protection
- The introduction of a more stringent framework for commodity derivatives markets
- Making financial markets more efficient and resilient to changes such as those seen during the financial crisis
- Increased transparency of the markets
- Reinforcement of supervisory powers
- Adapting for developments in technology since MiFID was originally implemented



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Cross Financial Services**

Core components:

MiFIR

- **Venues** – MiFIR has created a new type of trading venue that will be monitored within the regulatory framework: Organised Trading Facilities (OTFs). OTFs are not currently monitored. OTFs will be under the same transparency rules as other trading venues all of which are now required to publish data on execution quality. The requirements for Multilateral Trading Facilities (MTFs) have been aligned with those of regulated markets (RMs)
- **Transparency** – OTFs will be subject to the same transparency rules as other trading venues in order to improve transparency in equity markets. A new transparency regime will be introduced for non-equity markets
- **Transaction reporting** – extension of the scope of the transaction reporting requirements to all financial instruments. Investment firms will be required to submit post-trade data to Authorised Reporting Mechanisms (ARMs), who will report the details of transactions to regulators
- **Commodity derivatives markets** – a reporting obligation will be introduced which will vary dependent on the category of trader. Regulators will also be able to monitor and intervene when necessary at any stage of trading

MiFID II

- **Extension of scope** – MiFID II will apply to financial products, services and entities not currently covered. Emissions allowances trading is brought within the MiFID framework. A wider definition of systematic internalisers is also included
- **Investor protection** – MiFID II seeks to enhance the levels of protection granted to different categories of clients. This includes prohibiting firms providing independent advice or portfolio management from receiving and retaining payments from third parties, narrowing the list of execution-only products and an obligation on brokers to provide additional information in relation to best execution
- **High frequency algorithmic trading** – safeguards for high frequency algorithmic trading activities
- **Corporate governance** – rules on corporate governance and managers' responsibility
- **Third country firms** – introduction of harmonised rules for authorisation and conduct of business of EU branches of third-country firms

Network and Information Security Directive (NISD)

In a nutshell

The European Commission has proposed a Directive including measures to ensure a high common level of network and information security (NIS) across the Union. The Commission states that ensuring NIS is vital to boost trust and to ensure the smooth functioning of the EU internal market. Regulatory obligations are required to create a level playing field and close existing legislative loopholes.

In April 2015, the draft legislation was put forward before the trialogue (representatives of the European Parliament, the Council and the Commission). However, the output of this meeting has yet to progress or be published. The date of implementation of the directive remains unclear.

Jurisdiction:	EU
Status:	Proposed
Industry:	Cross Financial Services

Core components:

- **National strategy** – Member States will be required to adopt a national strategy for network and information security
- **National competent authority** – Member States will be required to designate a national competent authority to prevent, handle and respond to network information security risks and incidents; this includes the establishment of a computer emergency response team
- **Compliance measures** – operators of critical infrastructure (e.g. banking, stock exchange), key internet enablers (e.g. e-commerce platforms) and public administrations will be required to assess the risks they face and adopt appropriate and proportionate measures to ensure NIS
- **Reporting** – affected entities (as above) will be required to report any incidents with a significant impact on core services to the competent authorities

Revised Wire Transfer Regulation (WTR)

In a nutshell:

The European Commission has proposed a Regulation to amend and replace the Wire Transfer Regulation (WTR). The WTR forms part of the EU action plan to combat money laundering and terrorist financing. As part of the original WTR, the EC was required to review the regime and include proposals for modification or repeal in its report, if appropriate. The revised WTR is designed to improve the effectiveness of the existing WTR regime, while also ensuring that the EU framework is aligned with the FATF standards.

Jurisdiction:	**EU**
Status:	**Drafted**
Industry:	**Cross Financial Services**

Core components:

- **Information on the payee** – introduction of a new requirement on the payment service provider (PSP) of the payer to ensure that transfers of funds are accompanied by specific information on the payee
- **Verifying the identity of the payee** – the revised WTR will impose a new requirement on the PSP of the payee to verify the identity of the payee where there are transfers of funds of more than EUR1,000 or where the PSP of the payer is established outside the EU
- **Clarification of scope** – credit and debit cards, mobile telephones and other digital or information technology devices will become subject to the provisions of the WTR regime if they are used to transfer funds person-to-person
- **Establishment of risk-based procedures** – both the PSP of the payee and the intermediary PSPs will be obliged to establish effective risk-based procedures for determining when to execute, reject or suspend a transfer of funds that lacks the required payer and payee information
- **Whistleblowing** – Member States will be required to establish effective mechanisms to encourage the reporting of WTR breaches to national supervisors
- **Data protection** – the proposals align the FATF standards relating to record keeping with the new data protection regime envisaged in the EC's proposals for reforming the regime under the Data Protection Directive. On the expiry of the five year data retention period, PSPs will have to delete personal data, unless otherwise provided for in national law

Securities Financing Transactions (SFT) Regulation

In a nutshell:

The proposed regulation on reporting and transparency of securities financing transactions was published in January 2014 with the primary aim of improving regulation in the shadow-banking sector. The proposal contained a set of measures aiming to enhance regulators' and investors' understanding of securities financing transactions (SFTs). SFTs are defined as any transaction that uses assets belonging to one counterparty to generate financing. SFTs have been a source of contagion, leverage and pro-cyclicality during the financial crisis and were identified in the Commission's Communication on Shadow Banking as needing better monitoring. The SFT Regulation has a broad scope of application within the EU, with some extraterritorial effects; it would also apply to those SFTs conducted by EU branches of non-EU firms, and any SFT where the securities used are issued by an EU issuer or by an EU branch of a firm.

2015

April 2015 — Trialogue discussions expected to commence

06.10 2015 — European Parliament to consider SFT Regulation in plenary session

2016

Jurisdiction:	**EU**
Status:	**Proposed**
Industry:	**Cross Financial Services**

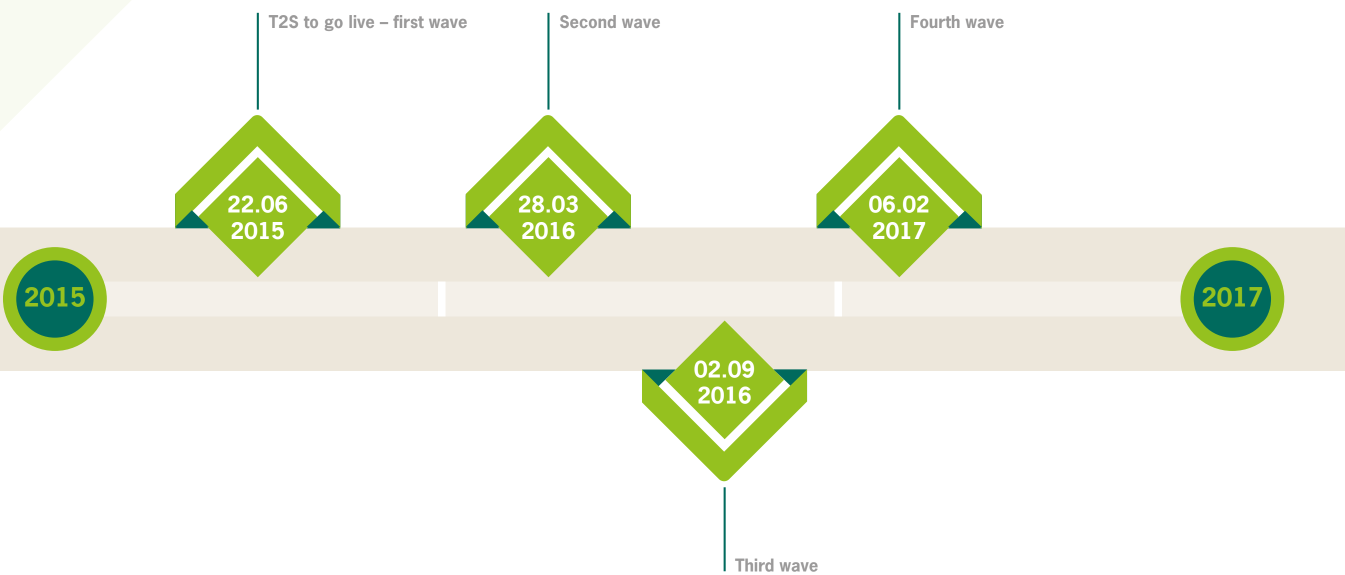
Core components:

- **Transparency of SFTs** – a framework will be created under which counterparties of an SFT have to report details of the transaction to trade repositories; the corresponding information will be centrally stored and will be directly accessible to relevant authorities for the purpose of identification and monitoring of financial stability risks entailed by shadow banking activities
- **Investor transparency** – fund managers will be required to provide pre-investment and periodical information to investors on SFTs
- **Rehypothecation** – a number of conditions will have to be met before a counterparty has the right to rehypothecation. This includes providing the counterparty pledging the asset (collateral) with a written outline of the risks involved and consequently obtaining express consent
- **Valuations** – the proposal also aims to introduce minimum standards for collateral valuation, to ensure proper accounting practice, and eliminate the possibility of SFTs being used to obscure weaknesses in financial institutions' balance sheets
- **Sanctions** – Member States will be required to implement appropriate administrative sanctions and measures that are to be applied in the breach of the proposed regulation; this includes withdrawal of authorisation, public warnings, dismissal of management, fines etc

TARGET2-Securities (T2S)

In a nutshell:

Target2-Securities (T2S) is a large infrastructure project that was launched by the Eurosystem in 2007 to stimulate cross-border settlement harmonisation. It will provide a single pan-European platform for securities settlement in central bank money. The current cross-border securities settlement method has been deemed by the EU to be expensive and complex, with a high level of risk. The project aims to 'increase efficiency, provide significant liquidity savings and eliminate counterparty risk.'



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Cross Financial Services**

Core components:

- T2S will be a centralised delivery-versus-payment (DvP) settlement system, offering settlement in the central bank money of those central banks which participate. Presently, these are the European Central Bank (euros) and the Danish National Bank (Danish krone). T2S will be operated by the Eurosystem
- T2S will employ the 'integrated model' method; both securities accounts and cash accounts will be integrated on a single IT platform, so that only one interface will be necessary between the Central Securities Depositaries (CSDs) and the T2S platform. Clearing houses have entered into contractual agreements with the ECB in order to pass their transactions into T2S
- Transaction transparency and data aggregation should be significantly improved for those transactions involved, and the system will assist the mechanism of the EU's banking and capital markets union
- A harmonised set of rules, standards and tariffs will be applied to all transactions through T2S. As a government owned enterprise, cross-border fees are intended to be reduced for T2S participants, in part due to state subsidies
- Non-euro Member States may be able to open T2S accounts with Eurozone banks, if certain conditions are met

Banking and Securities

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Banking Union 64

BCBS239 – Principles for Effective Risk Data Aggregation and Risk Reporting 66

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Bank Levy

In a nutshell:

The Bank Levy is a tax applicable to the balance sheets of the UK's largest banks. The tax has been effective since the beginning of 2011. The legislation was designed to encourage banks to reduce their chargeable liabilities by switching to more equity capital or long term funding over short term debt; primarily by accepting more retail deposits and/or by holding more high quality government securities.

The stated objectives for the levy were:

- For banks to make a full and fair contribution in respect of the potential risks they pose to the wider economy
- To encourage banks to reduce their dependence on short term funding
- To raise £2.5 billion in revenue across the industry. This target was gradually increased to £2.9 billion up to 2015. A rate rise to 0.21%, announced at budget 2015, means that the revenue raised will increase to £3.8 billion

The design of the tax deliberately aligns with a number of regulatory concepts and objectives, in particular:

- Tier 1 capital (including Additional Tier 1) is excluded
- Government protected deposits (FSCS and similar) are excluded
- Deduction available for assets qualifying for liquidity buffers
- Relief is available for the netting of assets and liabilities, aligned with regulatory netting concepts for RWA/large exposure

Jurisdiction:	**UK**
Status:	**Enacted**
Industry:	**Banking and Securities**

Core components:

- **A levy of 0.21 per cent on 'chargeable equity and liabilities' as at year end balance sheet date. This rate is halved for long-term liabilities**
- **The rate has continually increased from the original 0.075 per cent, as the government has recalibrated in order to achieve the target revenue yield**
- **The bank levy applies to the largest banks operating in the UK; it is only charged on chargeable balance sheets greater than £20 billion – the 20-30 largest taxable balance sheets**
- **For UK parented banks the charge is on the entire global balance sheet. For foreign banks, it is on the UK balance sheet**

The government carried out a review of the Bank Levy rules during 2013 and 2014, which led to some changes on specific points of detail, although a move to charge the levy in discrete bands was rejected. However, following the 2015 general election, the political and policy debate about the role of the bank levy in the government's banking sector tax and regulatory policy remains live.

The government is also considering whether it is necessary to change the structure of the levy to enable it to meet the UK's obligations under the Recovery and Resolution and Deposit Guarantee Scheme directives.

Other countries also enacted similar bank levies as a response to the financial crisis – notably Germany, France and the Netherlands, and legislation is in place aimed at preventing the charging of the same balance sheet in more than one country.

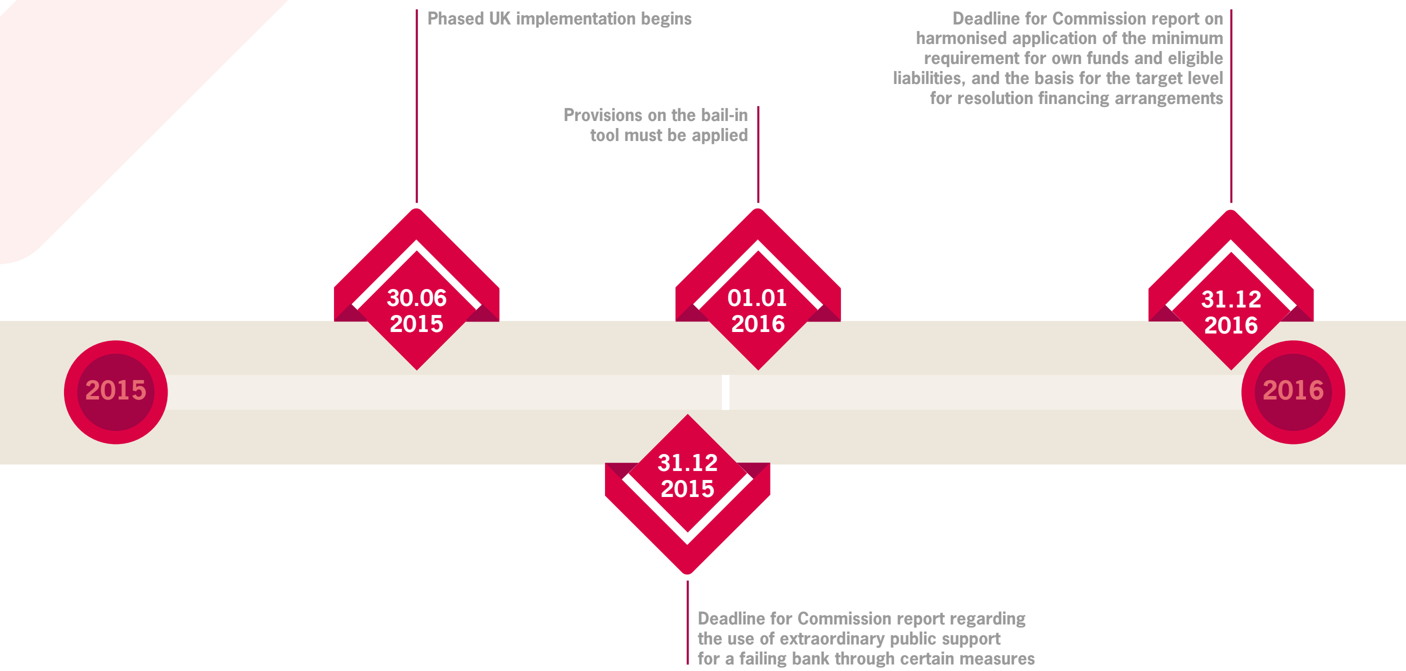
Bank Recovery and Resolution Directive (BRRD)

In a nutshell:

The BRRD established a harmonised EU framework for the recovery and resolution of EU credit institutions and investment firms. The European Commission proposed the directive to address the 'too big to fail' issue, which during the financial crisis, resulted in a number of banks requiring a bail out with public funds. The Directive provides national authorities with harmonised tools and powers to tackle bank/credit crises before they become of detriment to the financial system and taxpayers.

The rules will apply to:

- Credit institutions and larger investment firms which are required to hold initial capital of EUR730,000 under CRD IV
- EU-based parent and intermediate: financial holding companies, mixed financial holding companies and mixed activity financial holding companies
- Financial institutions that are subsidiaries of an EU credit institution or of an investment firm or of the financial holding companies aforementioned



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Banking and Securities**

Core components:

- **Recovery plans** – each firm will be required to produce and maintain recovery plans, setting out the arrangements that it has in place to ensure its long-term viability, in the case that there was material deterioration of its financial situation. The plans require annual revision and must be submitted to competent authorities for assessment. Firms will have to provide and stress test the range of scenarios as part of severe financial stress. From here they are required to demonstrate that resolution plans are able to preserve function in case of failure. The BRRD includes a minimum set of qualitative and quantitative indicators that institutions should include in their recovery plans, namely in relation to capital, liquidity, profitability and asset quality. The EBA has also identified market-based and macroeconomic indicators that institutions should include if relevant to their legal structure, risk profile, size and complexity
- **Resolution plans** – resolution authorities will be required to prepare resolutions plans to set out how a firm would be resolved, and essential functions preserved, in the event of its failure. These will be updated at least annually and firms are expected to provide the necessary information to the authorities to enable them to prepare these plans
- **Early supervisory intervention** – the directive gives powers to the authorities to take early action in addressing the possible failure of a firm. These include, but are not limited to, dismissing the management and appointing a temporary administrator, as well as convening a meeting of shareholders to adopt urgent reforms and requiring the bank to draw up a plan for the restructuring of debt with its creditors
- **Cooperation and coordination** – the BRRD also provides a framework to improve cooperation between national authorities. This will enable national authorities to better coordinate resolution measures in the case that a cross-border banking group fails
- **Resolution tools** – the main resolution tools in the directive include: the sale of business tool, the bridge institution tool, the asset separation tool and the bail-in tool. The bail-in tool is the process of internal recapitalisation triggered when a firm reaches the point of non-viability and its aim is to ensure that the costs of resolution are borne by firms' shareholders, rather than by the public sector. The BRRD also establishes national resolution funds that can be drawn on to cover the costs of using resolution powers and tools

Banking Union

In a nutshell:

The EU established a banking union, intended to address the increased supervisory demands resulting from the financial integration of the Eurozone. The aim of the banking union is to remove the close ties between banks and the risks of individual sovereign Member States and instead to link the risk of individual banks to the wider banking union. The banking union applies automatically to all Eurozone Member States. EU Member States that are not in the Eurozone may choose to participate in the banking union, provided certain conditions are met. The UK has chosen not to participate in the European banking union but the union will affect UK banks operating in the participating Member States.

Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Banking and Securities**

Core components:

- **Single Supervisory Mechanism (SSM)** – the SSM entrusts supervisory responsibilities to a single regulatory body (the ECB) operating at a European level which coordinates with supervisors in Member States. The ECB has-taken over many of the supervisory roles and powers previously held by national competent authorities (NCAs) in EU banking legislation
- **Single Resolution Mechanism (SRM)** – the SRM is a single resolution process for all banks in Member States participating in the SSM, co-ordinated by a Single Resolution Board (SRB). A single bank resolution fund (SBRF) has been established to provide medium-term funding support for the resolution of banks

BCBS 239 – Principles for effective risk data aggregation and risk reporting

In a nutshell:

Following the financial crisis, it was identified that banks' information technology (IT) and data architectures were inadequate to support the broad management of financial risks. Many banks lacked the ability to aggregate risk exposures and identify concentrations quickly and accurately at the bank group level, across business lines and between legal entities. Some banks were unable to manage their risks properly because of weak risk data aggregation capabilities and risk reporting practices. Consequently, the Financial Stability Board (FSB) developed a set of supervisory expectations to move firms', particularly SIFIs, data aggregation capabilities to a level where supervisors, firms and other users of the data are confident that the management information systems (MIS) reports accurately capture the risks. These principles are initially addressed to SIBs and apply at both the banking group and on a solo basis. Nevertheless, national supervisors may choose to apply the principles to a wider range of banks, in a way that is proportionate to the size, nature and complexity of these banks' operations.

Jurisdiction:	Global
Status:	Enacted
Industry:	Banking and Securities

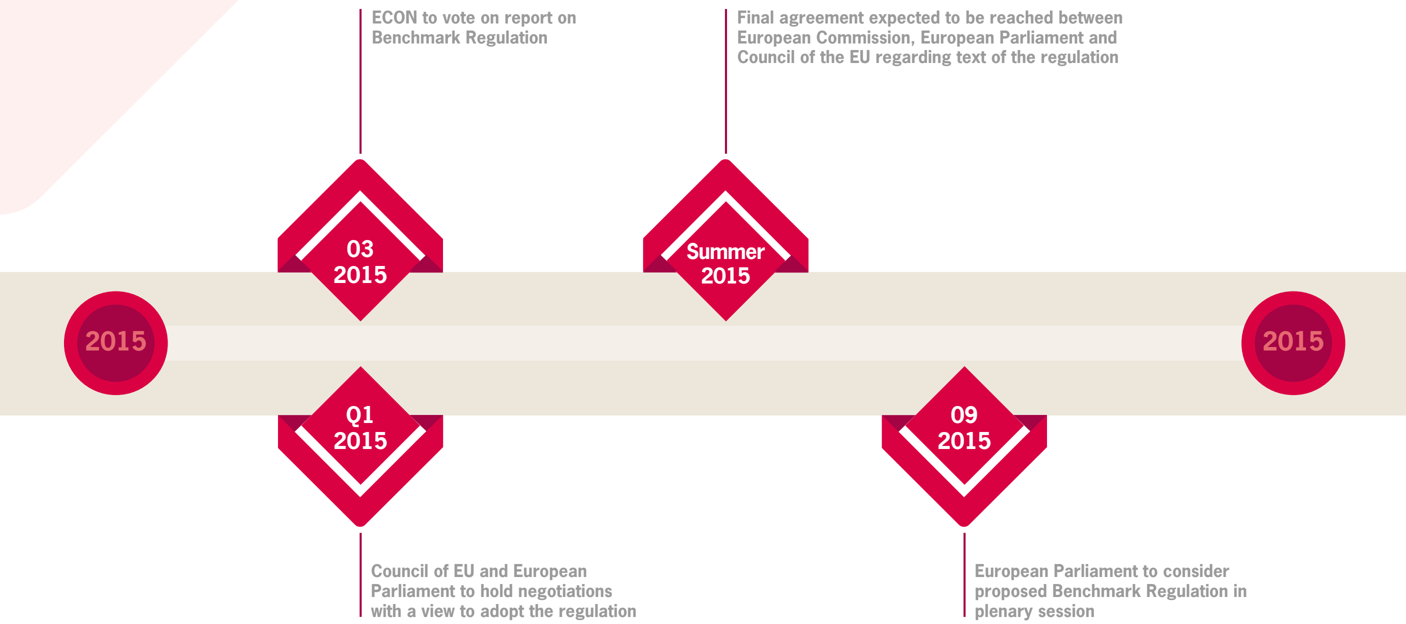
Core components:

- **Overarching governance and infrastructure**
  - **Governance**: a bank's risk data aggregation capabilities and risk reporting practices should be subject to strong governance arrangements
  - **Data architecture and IT infrastructure**: a bank should design, build and maintain data architecture and infrastructure which fully supports its risk data aggregation capabilities and risk reporting practices in both normal times and in times of stress
- **Risk data aggregation capabilities**
  - **Accuracy and integrity**: a bank should be able to generate accurate and reliable risk data to meet normal and stress reporting accuracy requirements (data should be aggregated on a largely automated basis)
  - **Completeness**: a bank should be able to capture and aggregate all material risk data across the banking group
  - **Timeliness**: a bank should be able to generate aggregate and up-to-date risk data in a timely manner, while simultaneously meeting all other principles
  - **Adaptability**: a bank should be able to generate adequate risk data to meet a broad range of on-demand, ad hoc risk management reporting requests
- **Risk reporting practices**
  - **Accuracy**: risk management reports should accurately and precisely convey aggregated risk data and reflect risk in an exact manner
  - **Comprehensiveness**: risk management reports should cover all material risk areas within the organisation
  - **Clarity and usefulness:** risk management reports should communicate information in a clear and concise manner
  - **Frequency**: the board and senior management should set the frequency of risk management report production and distribution, in line with the needs of the recipients, the nature of the risks reported etc
  - **Distribution**: risk management reports should be distributed to the relevant parties while ensuring confidentiality is maintained
- **Supervisory review, tools and cooperation** – the principles also include a number of guidelines for the roles and responsibilities of the supervisors

Benchmark Regulation

In a nutshell:

Following investigations and enforcement action into the manipulation of LIBOR and EURIBOR, the European Commission proposed a regulation on indices used as benchmarks in financial instruments and financial contracts. The primary aim of the regulation is to restore confidence in the accuracy and integrity of benchmarks. The EC believes that the legislation will help to enhance the single market by creating a common framework across Member States.



Jurisdiction:	EU
Status:	Drafted
Industry:	Banking and Securities

Core components:

- **Benchmark administrators** – administrators will be subject to various requirements including, but not limited to: applying for authorisation to provide a benchmark, establishing and maintaining robust governance arrangements and oversight functions, having control and accountability frameworks and adopting a code of conduct for each benchmark. The regulation also prescribes that administrators must monitor the input data and contributors and notify the relevant competent authority of any suspicious behaviour
- **Benchmark contributors** – the regulation includes provisions that apply to all contributors, such as complying with the code of conduct that has been adopted by the benchmark administrator. Furthermore, additional requirements apply to supervised contributors, including: governance and control requirements and mandatory contribution requirements
- **Benchmark users** – supervised entities may only use a benchmark if it is provided by an authorised administrator or one that has satisfied the equivalence requirements. Supervised entities must also produce 'robust written plans' that set out the actions they would take should the benchmark materially change or cease to be produced as well as carrying out a suitability assessment when it intends to enter into a financial contract with a consumer
- **Powers of competent authorities** – competent authorities are given powers to ensure administrators' compliance with, and effective enforcement of, the regulation's requirements

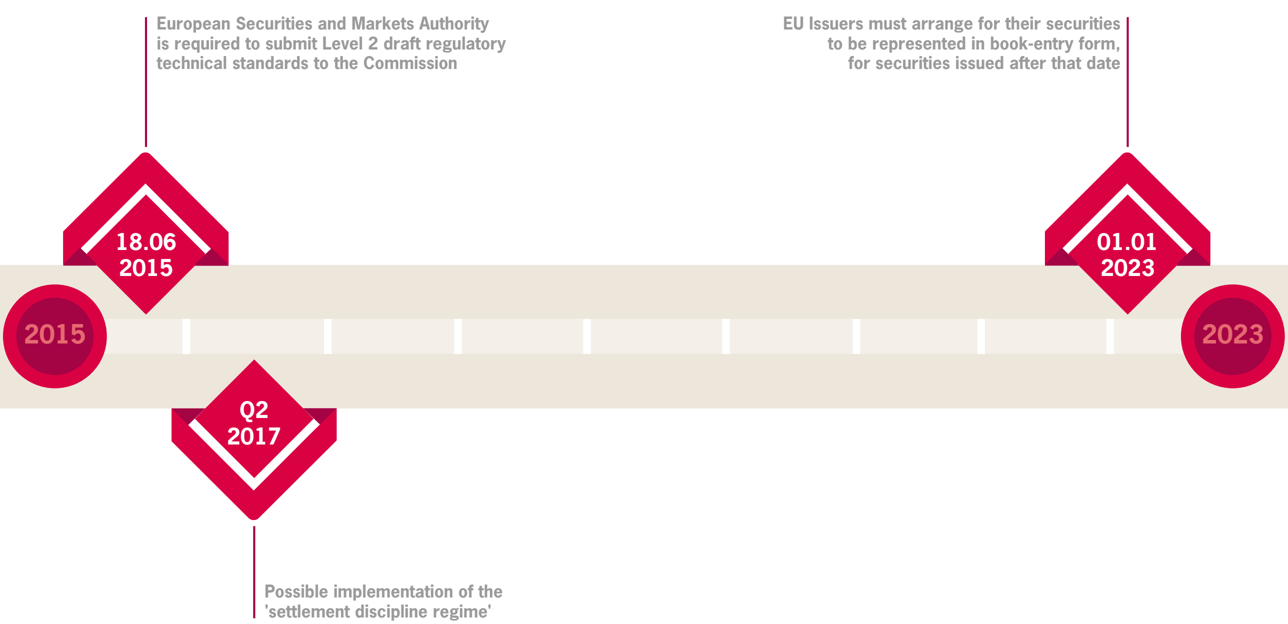
Central Securities Depository Regulation (CSDR)

In a nutshell:

In response to the systemic importance of CSDs and their strategic position at the end of the post-trading process, the EU Commission enacted a regulation centred on improving securities settlement. Furthermore, the diversity in settlement practices across the EU had been perceived as hindering the development of a truly integrated European post-trade market. The CSDR applies to all CSDs, with exemptions allowed for members of the European System of Central Banks and other national or public bodies performing similar services.

The main objectives of the proposal are to:

- **Increase the safety of settlements:** by ensuring that buyers and sellers receive their securities and money on time and without risks
- **Increase the efficiency of settlements:** by introducing a true internal market for the operations of national CSDs
- **Increase the safety of CSDs:** by applying high prudential requirements in line with international standards



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Banking and Securities**

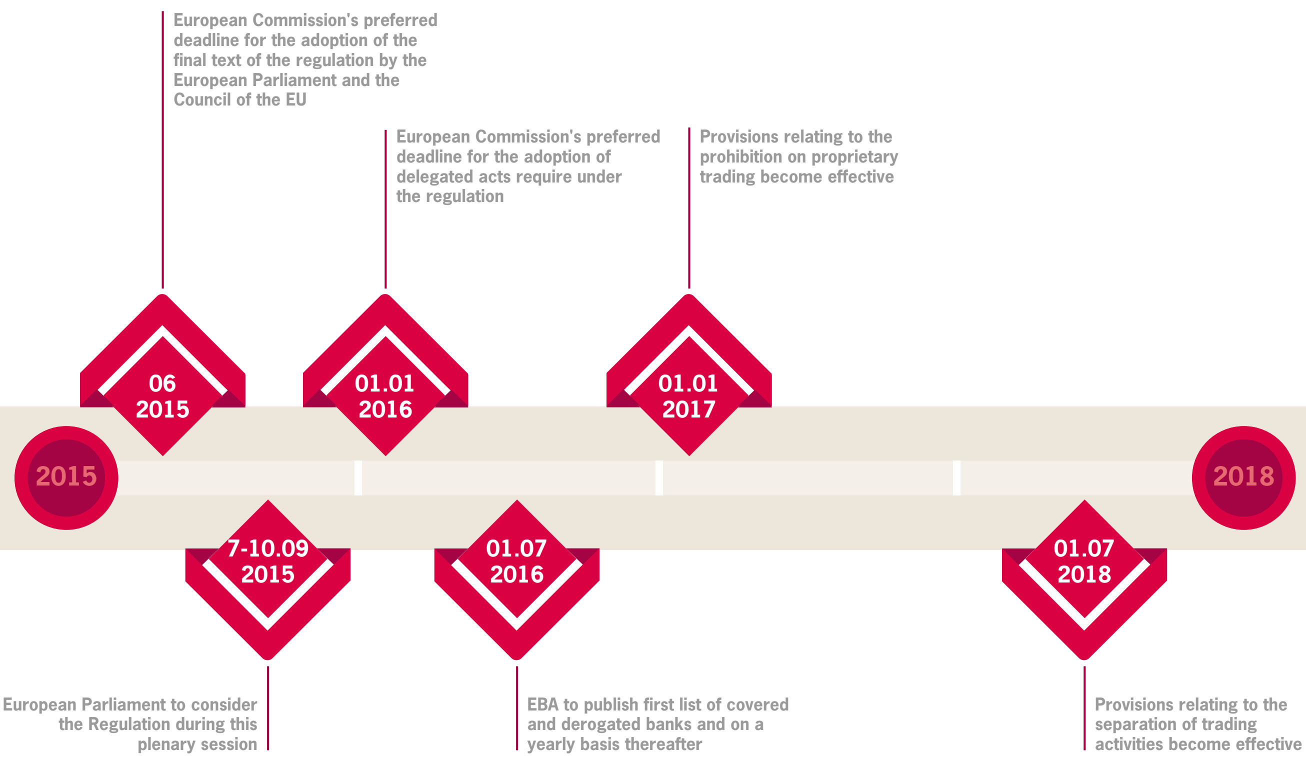
Core components:

- **Securities settlement**
  - Securities must be recorded in electronic book-entry form through a CSD
  - Settlement for transactions executed on recognised investment exchanges (RIEs), multilateral trading facilities (MTFs) and organised trading facilities (OTFs) must be no later than the second business day after the trade takes place
  - CSDs must prevent the failure of settlement through monitoring and facilitating transactions and CSDs and market participants must act to address settlement fails through a number of methods
- **The establishment of a common regulatory framework for CSDs** – this includes, but is not limited to, common definitions of CSD services, common rules regarding authorisation and on-going supervision of CSDs, high prudential standards for CSDs and rules on access and interoperability
- **The removal of barriers to cross-border post trading services** – barriers currently exist between issuers and CSDs, between CSDs themselves and between CSDs and other market infrastructures, such as CCPs (Central Counterparty Clearing House) or trading venues
- **Restriction on services provided by a CSD** – CSDs can only carry out the services listed in the regulation and are not permitted to undertake any banking type services ancillary to the settlement services
- **Capital requirements** – a CSD's capital must be sufficient to protect the CSD against operational, legal, custody, investment and business risks so that it can continue providing services on a going concern basis. An additional risk-based capital surcharge should be applied to CSDs offering banking-type of ancillary services

EU Banking Structural Reforms

In a nutshell:

The European Commission has adopted a legislative proposal for a regulation on a structural reform of the EU banking sector. The reforms introduced are intended to address the concern that some EU credit institutions are too complex to supervise and 'too big to fail'. The proposal was introduced following recommendations of the high-level expert group on reforming the structure of the EU banking sector, chaired by Erikk Liikanen. The Commission believed that an EU-wide initiative on structural reforms was necessary as a number of Member States had begun to undertake different structural reforms in their respective jurisdictions.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Banking and Securities**

Core components:

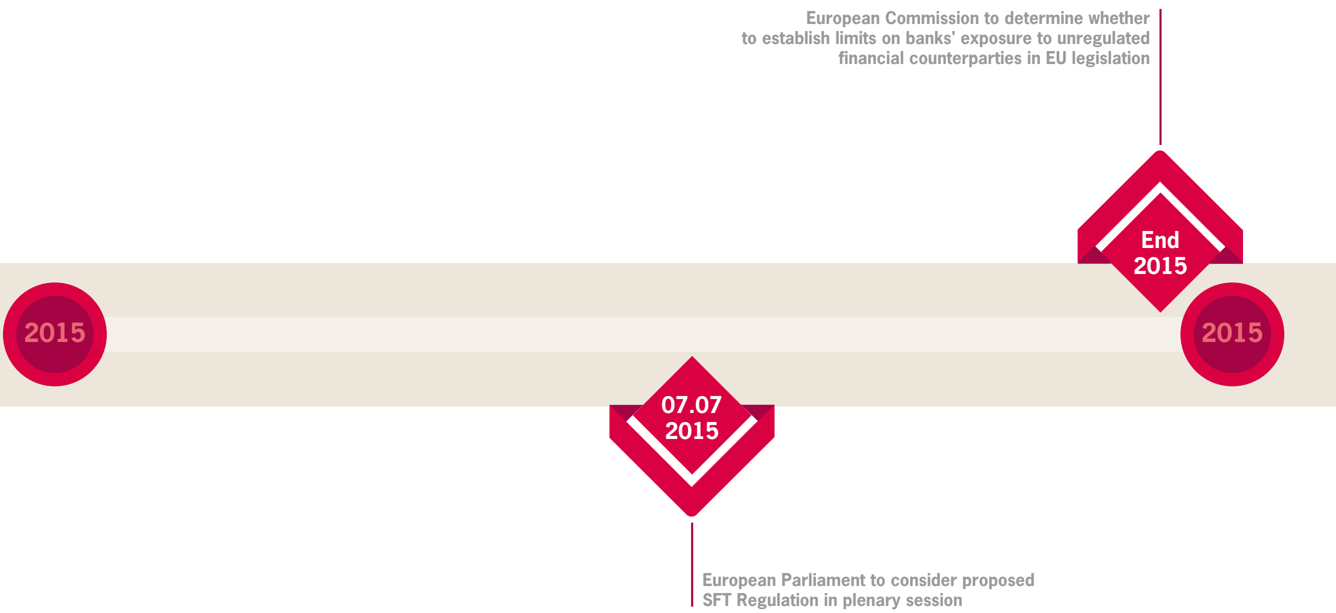
- **Prohibition on proprietary trading** – financial institutions within the scope of the regulation are prohibited from engaging in proprietary trading; this excludes trading in EU Member States' government bonds and operating dedicated structures for buying and selling money market instruments for the purposes of cash management. Investing in or holding shares in hedge funds, or entities that engage in proprietary trading or sponsor hedge funds is also prohibited
- **Separation of certain trading activities** – while trading and investment banking activities are allowed, if an institution's activities are deemed to pose a threat to financial stability, the competent authority may prohibit the credit institution from performing these activities. These activities are permitted providing that they are performed by another entity in the same banking group as the credit institution; the trading entity must be legally, operationally and economically separate from the credit institution (a ring-fence is enacted)
- **Supervision and role of the EBA** – competent authorities are required to review the trading activities within the scope of the regulation and, in particular, those listed in Article 9(1), which includes: taking deposits, lending, financial leasing, payment services, money broking, credit reference services, safe custody services and issuing electronic money. Competent authorities will assess whether these activities pose a threat to financial stability and if they do, are permitted to start the process for separating out certain activities. Competent authorities must consult the EBA when taking such decisions; the EBA is required to assess the potential impact of such decisions on the financial stability of the EU and the functioning of the internal market

European Commission Communication on shadow banking

In a nutshell:

Following a consultation on the risks presented by the shadow banking sector, the European Commission published a communication, setting out the initiatives it planned to undertake. The aim of the work is to limit the emergence of risks in the unregulated sectors, particularly those of a systemic nature which could be damaging due to their interconnectedness with the regulated financial system. The Commission also stated that there was a need to reduce opportunities for regulatory arbitrage between the regulated sectors and other market segments where similar activities could be performed without facing the same level of regulation. The EC will continue to assess whether supplementary measures are necessary to establish a suitable framework for shadow banking.

The EBA has defined shadow banking entities as entities that carry out credit intermediation activities and are not within the scope of prudential consolidation nor subject to solo prudential requirements under specified EU legislation (or equivalent third country legal frameworks).



Jurisdiction:	EU
Status:	Drafted
Industry:	Banking and Securities

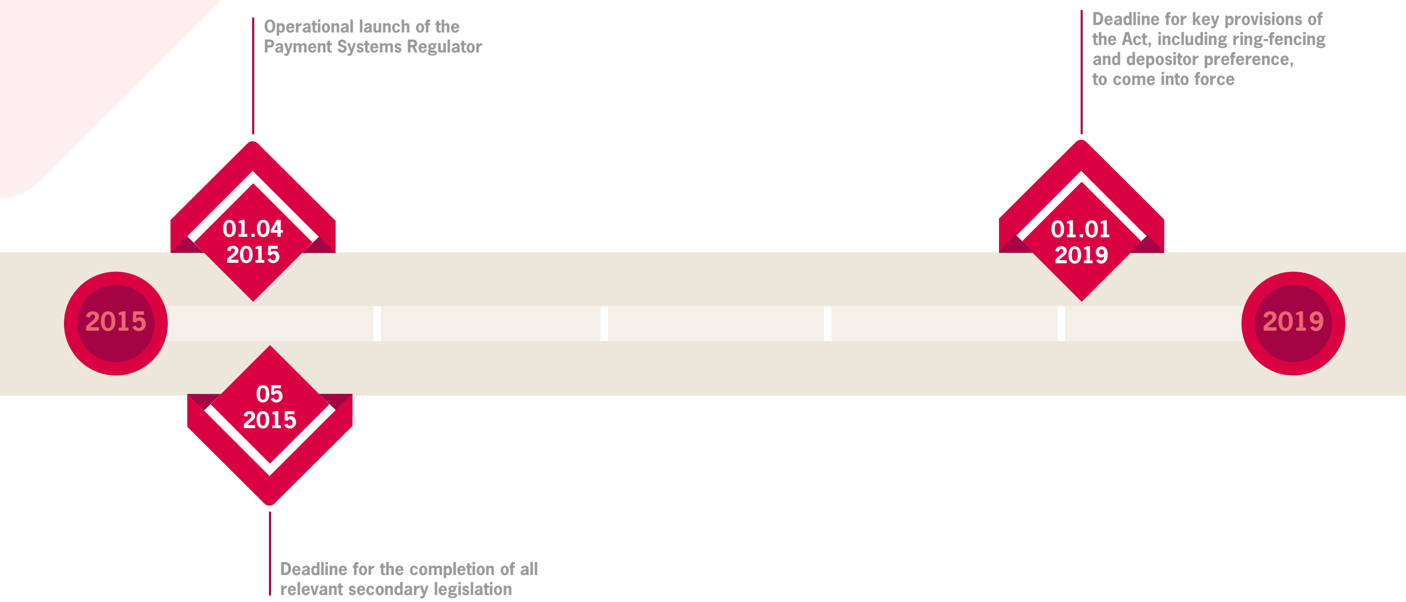
Core components:

- **Increased Transparency**
  - Supplementing existing initiatives regarding the collection and exchange of data
  - Developing central repositories for derivatives within the framework of EMIR and the revision of MiFID
  - Implementing the Legal Entity Identifier (LEI)
  - Increasing transparency of securities financing transactions (SFTs)
- **An enhanced framework for certain investment funds**
  - Proposed legislative measures to provide a strengthened framework for MMFs
  - Strengthening the UCITS framework
- **Reducing the risks associated with securities financing transactions (SFTs)**
  - Proposed Regulation on reporting and transparency of SFTs
  - Possible Securities Law Regulation
- **Limits on exposures to shadow banking entities**
  - A consultation paper published in March 2015 set out guidelines for institutions regarding the development internal policies for monitoring and setting limits to exposures to the shadow banking sector. Institutions should set their own limits, both individual and aggregate, for exposures to shadow banking entities. These must take into account factors such as the financial situation and regulatory status of the shadow banking entity, and whether the entity is vulnerable to certain types of volatility. Where this approach is not viable, institutions must use the 'fallback' option, which currently has two potential variants:
    - Option 1 would require an aggregate exposure limit to all shadow banking sector entities of 25% of capital
    - Option 2 would use the fallback approach only for those exposures which cannot be risk-assessed appropriately
- **Greater supervision of the shadow banking sector at both the national and EU level**

The Financial Services (Banking Reform) Act 2013

In a nutshell:

The Financial Services Banking Reform Act 2013-14 enacted a number of reforms to the UK's banking sector. The Act gave HM Treasury and the regulators, primarily the PRA, powers to implement some of the recommendations made by the Independent Commission on Banking (ICB).



Jurisdiction:	**UK**
Status:	**Enacted**
Industry:	**Banking and Securities**

Core components:

- **Ring-fencing** – introduction of a ring-fence around retail deposits held by UK banks to separate certain core banking services from wholesale and investment banking services
- **Bail-in stabilisation option** – the bail-in tool will give the BoE the ability to impose losses on a failing bank's shareholders and certain creditors and reduce the need to resort to public money
- **Primary loss-absorbing capacity requirements** – systemically important UK banks and building societies will be required to hold loss-absorbing capacity in addition to capital held to satisfy their capital requirements
- **Regulation of personnel** – introduction of a new framework for individuals within banking, consisting of: a Senior Managers Regime, a certification regime and banking conduct rules. The Act also introduces a new criminal offence of reckless misconduct in the management of a bank
- **Powers over holding companies** – the Act reforms current legislation to allow the appropriate regulator (FCA/PRA) to: impose rules on qualifying parent undertaking for the purposes of requiring arrangements to facilitate the exercise of resolution powers and make rules applying to parent undertakings to support the objectives of ring-fencing
- **Payment Systems Regulator** – the Act establishes a new Payment Systems Regulator
- **Payday loans** – a duty is imposed on the FCA to cap the cost of high-cost, short-term credit agreements (payday loans)
- **Depositor preference** – depositors who are protected under the Financial Services Compensation Scheme will be given preference if a bank becomes insolvent

International Financial Reporting Standards (IFRS 9)

In a nutshell:

International Financial Reporting Standards (IFRS 9) are an accounting standard, offering guidance on the appropriate measurement of liabilities and recognition of financial instruments. They seek to harmonise the classification and measurement of financial instruments and improve financial reporting standards. IFRS 9 replaced International Accounting Standard (IAS) 39, which dealt with the recognition of financial assets, and is mandatory for companies reporting using IFRS. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Banking and Securities**

Core components:

- **Classification and measurement** – IFRS 9 introduces a single principle-based approach whereby the classification and measurement of financial instruments is based on the nature of the cash flows and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments
- **Impairment** – a new, expected loss impairment model has been introduced that requires more timely recognition of expected credit losses. The new standard requires entities to account for expected credit losses for when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses
- **Hedge accounting** – IFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements
- **Treatment of own credit gains and losses** – gains caused by the deterioration of an entity's own credit risk on liabilities elected to be measured at fair value are no longer recognised in profit or loss but in other comprehensive income

Mortgage Credit Directive (MCD)

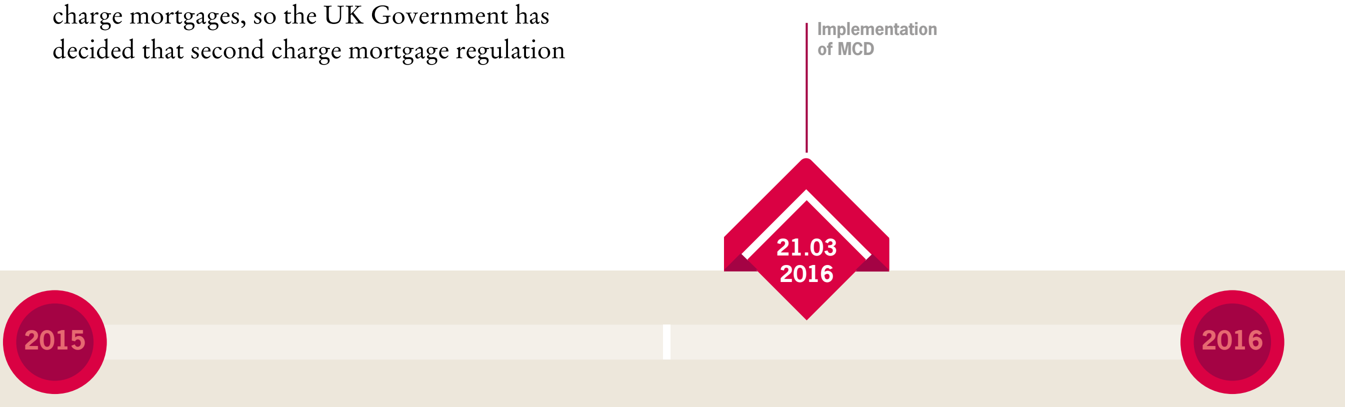
In a nutshell:

Following a review of the EU residential mortgage market, the European Commission considered that harmonised EU standards were required. Consequently, the Mortgage Credit Directive was proposed to promote financial stability and a competitive single market for residential mortgages.

The UK's residential mortgage market regulation was recently strengthened through the implementation of the Mortgage Market Review in 2014. Consequently, much of the UK mortgage legislation matches or goes beyond that set out in the EU's MCD. Nevertheless, in order to effectively transpose the Directive, a number of further changes must be implemented.

The MCD applies equally to first and second charge mortgages, so the UK Government has decided that second charge mortgage regulation should move from the FCA's consumer credit regime into the FCA's mortgage regime. This means that, to carry on second charge mortgage business after 21 March 2016, lenders, administrators and brokers have to be authorised and hold the correct mortgage permissions.

Furthermore, two areas, product disclosure and annual percentage rate of change, require full harmonisation with the new European rules. A number of other changes will also be implemented including new knowledge and competency requirements, obligations for firms dealing in foreign currency mortgages and new levels of professional indemnity insurance.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Banking and Securities**

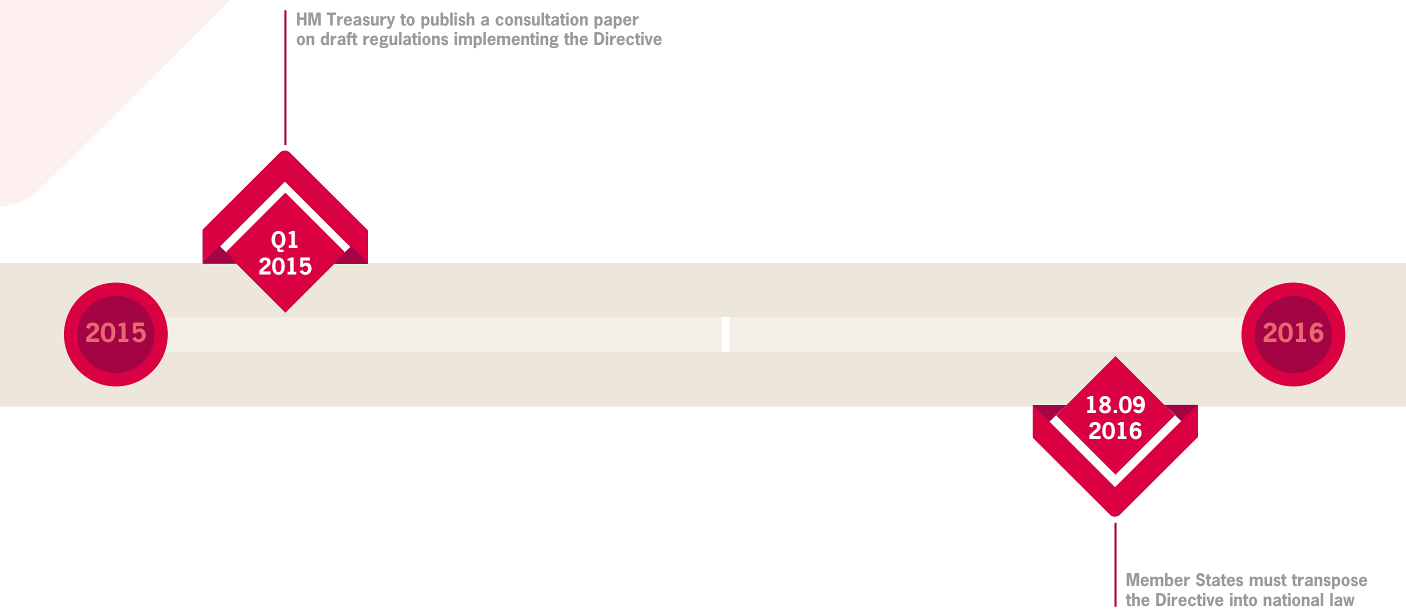
Core components:

- **Advertising and marketing** – an introduction of general principles for marketing and advertising communications
- **Pre-contractual information** – creditors and credit intermediaries will be required to make certain information available to consumers at the pre-contractual stage, including: general information on the range of credit products available; personalised information to the consumer on the basis of a European Standardised Information Sheet (ESIS), explanations on the proposed credit agreement and details of the Calculation of the Annual Percentage Rate of Charge (APRC)
- **Creditworthiness and suitability assessments** – creditors will be required to assess the consumer's ability to repay the credit. This must take into account the consumer's personal circumstances and must be based on appropriate information that has been verified
- **Advice** – the creditor or the credit intermediary must make clear to the borrower whether or not advice is being provided
- **Early repayment** – the directive allows consumers the right to repay their credit before the expiry of the credit agreement; the conditions on this right will be set by individual Member States
- **Rate changes** – creditors must inform consumers of any changes to the borrowing rates on a durable medium before the changes take effect
- **Arrears and foreclosure** – creditors should exercise reasonable forbearance before foreclosure proceedings are initiated
- **Regulation of credit intermediaries** – the directive will establish principles for the authorisation, registration and supervision of credit intermediaries and for the establishment of a passport regime
- **Regulation of non-credit institutions providing mortgage credit** – Member States will have to ensure that non-credit institutions are subject to adequate authorisation, registration and supervision

Payment Accounts Directive

In a nutshell:

Following a number of problems identified in the EU payment account market, the EC adopted a legislative proposal for a Directive on payment accounts. The directive aims to make it easier for consumers to compare the fees charged on payment accounts, establish a simple and quick procedure for switching from one payment account to another and allow all EU consumers, irrespective of their country of residence in the EU or financial situation, to open a payment account that allows them to perform essential operations.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Banking and Securities**

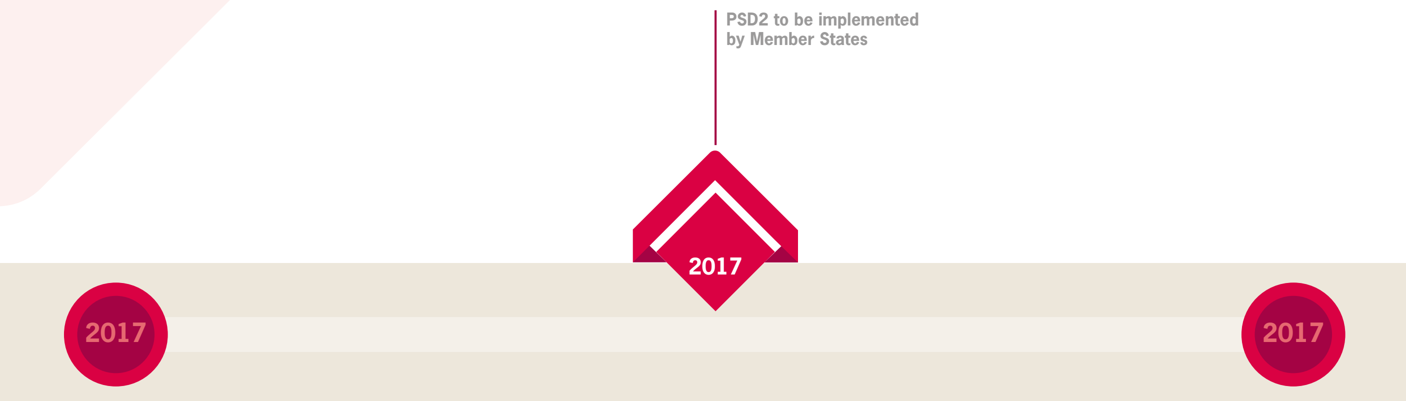
Core components:

- **Comparability of fees connected with payment accounts**
  - National regulatory authorities must compile a list of the most representative payment services subject to a fee at national level
  - Before entering into a contract, payment service providers must provide the consumer with a fee information document containing the standardised terms in the final list of the most representatives services and the corresponding fees for each service
  - When a payment account is offered together with another service or product as part of a package, the payment service provider must inform the consumer whether it is possible to buy the payment account separately and provide information about the costs and fees associated with the products included
  - Providers must provide consumers, at least annually and free of charge, with a statement of all fees incurred as well as, where applicable, information about the overdraft and credit interest rates for services linked to a payment account
- **Payment account switching** – payment service providers must provide a switching service to any consumer who holds a payment account with an EU payment service provider. Consumers must be able to access, free of charge, information about their accounts and the switching service. There is a restriction on the fees that can be charged for information provision and termination of accounts
- **Access to payment accounts** – Member States must ensure that EU residents are not discriminated against by reason of their nationality, have access to at least one payment service and are not refused an application apart from in specific prescribed circumstances. Members States are required to ensure that payment service providers offer a payment account with basic features either free of charge or for a reasonable fee and must also comply with termination rules

Payment Services Directive (PSD2)

In a nutshell:

The European Commission has adopted a legislative package regarding the EU payments framework. This package comprises a revised Payments Services Directive (PSD2) and a Regulation on Multilateral Interchange Fees (MIFs). The proposals are designed to extend the scope of the regime to previously unregulated payment services providers, improve integration and efficiency in the European payments market, increase consumer rights and payment security, encourage a reduction in the prices for payments and help to establish harmonised technical standards.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Banking and Securities**

Core components:

- **Scope** – the scope will be extended so that transparency and information requirements will apply to 'one leg' transactions. This will now apply to all currencies
- **Exemptions** – the limited network exemption will be amended so it is only capable of being used in respect of specific payment instruments. The independent Automated Teller Machine (ATM) operator exemption is being removed. The commercial agent exemption is being amended to only exempt agents which act on behalf of either the payer or the payee, not both. The digital download exemption is being amended so that it only applies to telecoms operators
- **Payment institutions** – third party providers of initiation services and account information platforms will need to be authorised as payment institutions. The threshold for being a small payment institution will be reduced from having average monthly payment transaction turnover of less than three million euros to less than one million euros
- **Conduct** – the proposals introduce security requirements for payment instruments, reduce customer liability for unauthorised transactions to EUR50 instead of EUR150 and provide customers with the right to an unconditional refund for a disputed payment transaction, unless the good or service has already been consumed
- **Surcharge prohibition and interchange fees** – there will be prohibition on surcharging and an introduction of a cap on interchange fees of 0.2% for debit cards and 0.3% for credit cards within 'four-party schemes'
- **Unique electronic access** – the EBA must establish a unique electronic access point enabling interconnection at EU level of national public registers

Insurance

CASS 5A 88

The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) 90

Insurance Distribution Directive 92

Solvency II 94

CASS 5A

In a nutshell:

CASS 5 is chapter 5 of the FCA's Client Assets Sourcebook. This chapter sets out the client money rules for insurance intermediaries. The rules require firms to arrange adequate protection for clients' money when they are responsible for it. The FCA is concerned that the current rules are not well understood, which could result in client money not being adequately protected. Therefore, on 28 August 2012 the FSA (the FCA's predecessor) issued a consultation paper (CP12/20) in which it proposed significant changes to the client money rules. It also proposed to delete the existing CASS 5 rulebook and replace it with the new, clearer and easier to apply CASS 5A. CASS 5A comprises new rules designed to enhance the protection of client money and clarify certain existing rules. The proposed new rules will require firms to adapt or implement new processes and designate further resources to CASS compliance.

The FCA is expected to issue a Policy Statement on changes to the client money rules for insurance intermediaries in 2015.

Jurisdiction:	UK
Status:	Proposed
Industry:	Insurance

Core components:

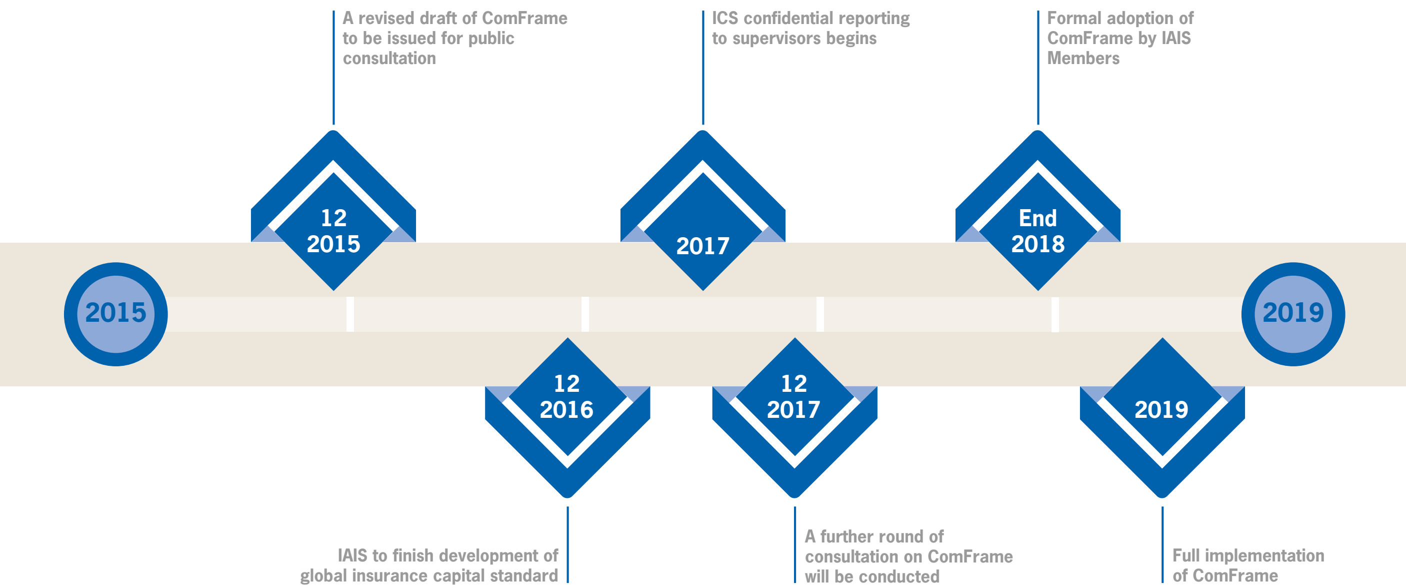
- Increasing the frequency of the client money calculation from monthly to weekly calculations
- Restricting the length of time that credit can be advanced to clients and insurers under a non-statutory trust
- Prohibiting conditional risk transfer
- Allowing credit-write backs to be made for a limited period of time, after which new unclaimed money rules will come into effect

The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)

In a nutshell:

The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) is a set of international supervisory requirements focusing on the effective group-wide supervision of internationally active insurance groups (IAIGs). ComFrame is built and expands upon the high-level requirements and guidance currently set out in the IAIS' insurance core principles (ICPs). These core principles generally apply on both a legal entity and group-wide basis.

While the ICPs are globally accepted requirements for insurance supervision, IAIGs need tailored and more coordinated supervision; primarily due to their complexity and international activity. As a result, the IAIS proposed a specific framework to assist supervisors in collectively addressing group-wide activities and risks, identifying and avoiding regulatory gaps and coordinating supervisory activities under the aegis of a group-wide supervisor.



Jurisdiction:	**Global**
Status:	**Drafted**
Industry:	**Insurance**

Core components:

- **Module 1: Scope of ComFrame** – to be identified as an IAIG, insurers must meet the following criteria: premiums are written in three or more jurisdictions and percentage of gross premiums written outside the home jurisdiction is at least 10% of the group's total gross written premium and, based on a rolling three-year average, total assets are at least USD 50 billion or gross written premiums are at least USD 10 billion. Module 1 also addresses the process for the identification of IAIGs by supervisors, the breadth of supervision of IAIGs and the identification of the group-wide supervisor
- **Module 2: The IAIG** – this module contains the standards with which the IAIG will have to comply. This covers the IAIG's legal and management structures, the group governance framework and expected roles of the Governing Body and Senior Management of the Head of the IAIG, the requirements for Enterprise Risk Management (ERM), group-wide ERM policies that an IAIG should develop and implement, the process the IAIG follows to assess its capital adequacy and reporting and disclosure requirements
- **Module 3: The Supervisors** – this describes the processes whereby supervisors assess whether IAIGs meet the requirements in Module 2. This includes the group-wide supervisory process, measures for addressing crisis management and resolution and the need for cooperation and interaction between involved supervisors and the requirement for supervisory colleges

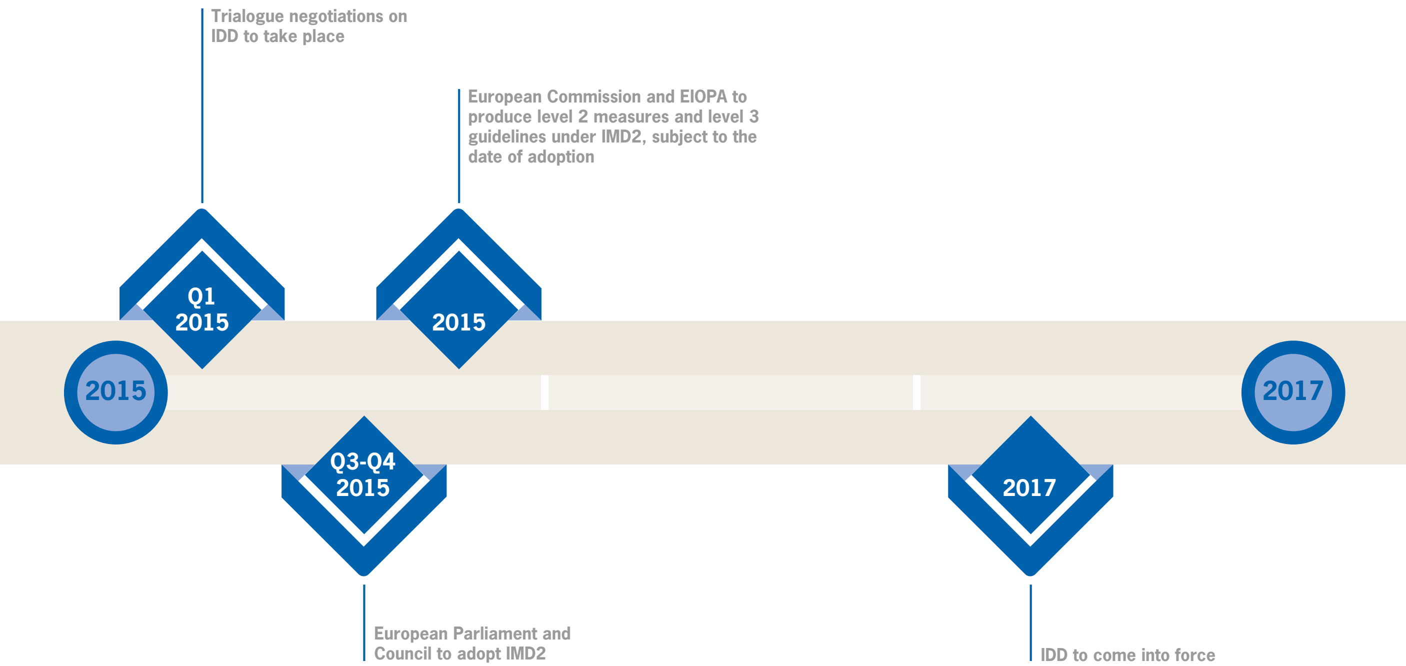
Insurance Distribution Directive (IDD)

In a nutshell:

The Insurance Distribution Directive (IDD) is designed to improve regulation in the retail insurance market and aims to: ensure efficient competition for all participants involved in the sale of insurance products, make it easier for firms to trade cross-border, and strengthen policyholder protection.

The European Commission proposed a Directive to amend the Insurance Mediation Directive (IMD) after it considered that a full review was needed to address the issues arising from differences in Member State transposition; key issues included: scope, conflicts of interest, advice, professional qualifications, cross-border trade and administrative sanctions.

Although the IDD will be a minimum harmonising Directive the Commission considers that it will significantly raise the minimum standards of the IMD. Furthermore, the regulation will be aligned to requirements in MiFID II and Solvency II.



Jurisdiction:	**EU**
Status:	**Drafted**
Industry:	**Insurance**

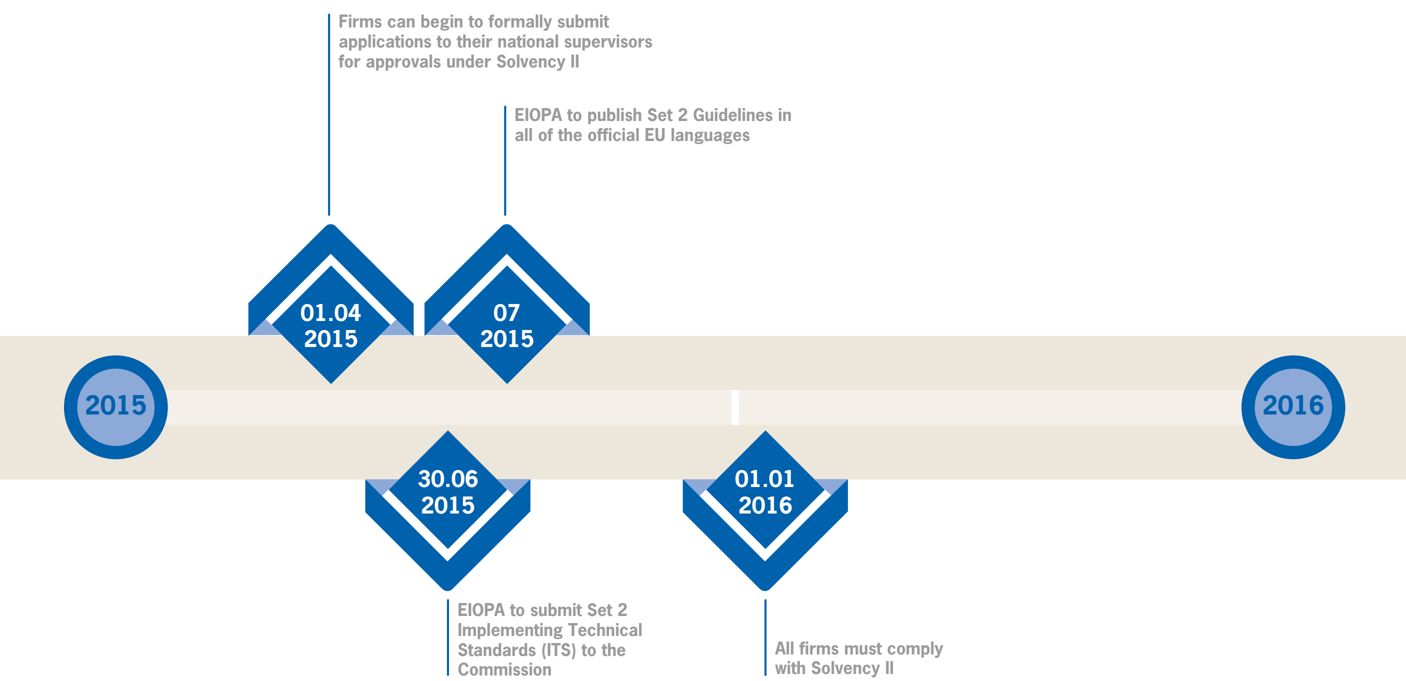
Core components:

- **Scope** – it will extend the scope of the IMD to all sellers of insurance products, including insurance companies that sell directly to customers
- **Declaration procedures** – intermediaries are required to be registered with a competent authority in their home Member State. Where a distributor is responsible for the activities of an intermediary, they must ensure the intermediary meets the conditions for registration and is registered accordingly
- **Disputes** – requirements for the out-of-court settlement of disputes will be strengthened
- **Conflicts of interest** – there will be more effective management and mitigation of conflicts of interest. New rules will be introduced to address the risk of conflicts of interest between the seller of insurance and potential consumers more effectively
- **Bundled products** – special disclosure requirements will apply where suppliers bundle products together. Customers must be informed that it is possible to buy the bundled products separately
- **Insurance PRIPs** – stricter selling practices will be introduced for firms selling insurance PRIPs; the new rules include those relating to sales standards, conflicts of interest and a ban on commission for independent advice
- **Professional qualifications** – there will be mutual recognition of professional knowledge and ability, as evidenced by registration and proof of professional qualifications acquired in Member States
- **Online selling and aggregators** – the IDD recognises the use of websites in distribution and includes aggregator sites within scope
- **Cross-border trade** – the procedure for cross-border entry to insurance markets across the EU will be simplified in number of ways, including by establishment of a single EU registry for insurance intermediaries who want to provide cross-border services

Solvency II

In a nutshell:

Solvency II is a European driven initiative, proposed by the European Insurance and Occupational Pensions Authority (EIOPA), designed to create a consistent risk based approach to calculating capital requirements for insurers and reinsurers. In addition, it seeks to embed rigorous governance and risk management frameworks, establish a comprehensive reporting and disclosure system and introduce a more thorough supervisory regime. The intention is that this will make it easier for insurers and reinsurers, within the EU, to operate across borders. The overarching intention is to increase the level of policyholder protection, reduce the probability of customer loss, and minimise disruptions to the insurance market.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Insurance**

Core components:

- **Pillar 1: Capital requirements** – quantitative requirements, such that insurers and reinsurers are mandated to have adequate financial resources to meet their solvency needs. The Solvency Capital Requirement (SCR) is the capital required to ensure that the insurance company will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. In addition to the SCR, a Minimum Capital Requirement (MCR) must be calculated. The SCR represents the threshold below which the national supervisor (regulator) would intervene whereas the MCR represents the threshold below which it would withdraw the insurer's authorisation to trade if the position cannot be rectified within a short period. The MCR is intended to correspond to an 85% probability of adequacy over a one year period and is bounded between 25% and 45% of the SCR
- **Pillar 2: Systems of governance** – qualitative requirements, requiring an embedded risk management system which promotes prudent governance and the ability to manage, measure and identify material risks. Effective systems of governance must also be established around certain key functions, including: risk management, compliance, internal audit and actuarial. A key new element of Solvency II is the Own Risk and Solvency Assessment (ORSA). As a forward looking tool, the ORSA seeks to enable an insurer to gain a good understanding of its risk profile and to align that risk profile with features such as risk appetite, business plans and capital requirements
- **Pillar 3: Reporting and disclosure** – in attempting to engrain market discipline and a consistent approach to disseminating information to the market and other stakeholders, firms are required to establish robust systems and controls to meet reporting and disclosure requirements. Key reports firms will need to provide include the Solvency and Financial Condition Report (SFCR), the Regular Supervisory Report (RSR) and the annual and quarterly Quantitative Reporting Templates (QRTs)

Investment Management

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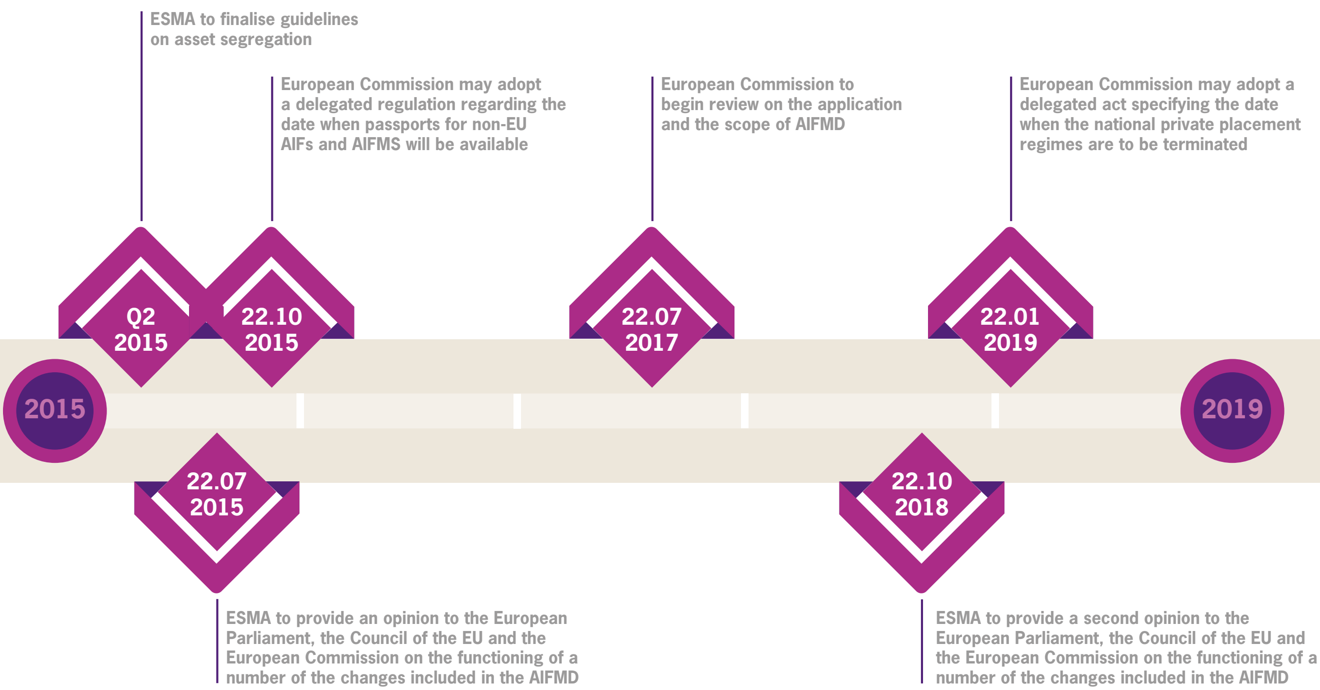
Alternative Investment Fund Managers Directive (AIFMD)

In a nutshell:

The Alternative Investment Fund Managers Directive (AIFMD) is an EU directive that aims to create a harmonised regulatory framework for firms managing or marketing alternative investment funds (AIFs) in Europe.

Issues identified within the market that contributed to the creation of the directive included the financial crisis and a lack of consistent legislation within the investment fund market. Issues with short selling and market volatility also contributed. The chief objectives of the directive include:

- Harmonised regulatory and supervisory framework
- Appropriate authorisation and registration requirements
- Increased transparency of AIFM to investors, stakeholders and regulators to help them identify systematic risks within the industry



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Investment Management**

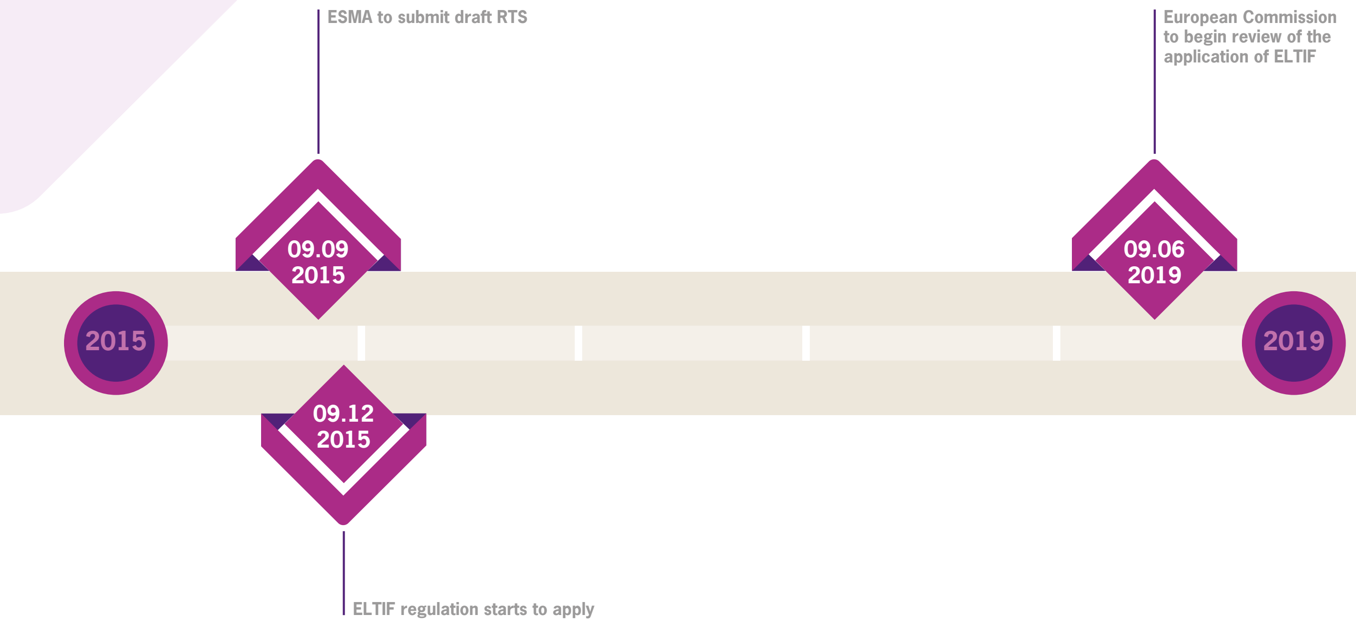
Core components:

- **Requiring AIFMs to be authorised and subject to supervision by the regulator in their home Member State**
- **Capital requirements** – the directive imposes initial capital requirements of at least EUR125,000 on AIFMs. Further requirements exist to cover professional negligence risks
- **Delegation rules** – requirements and restrictions are imposed when an AIFM seeks to delegate any of the AIFM functions; rules also apply when a depositary wishes to delegate its functions
- **Depositary rules** – the directive sets out certain rules such as when a depositary must be appointed, who can be a depositary, where it must be established and its functions and duties. Depositaries have a restitution liability for losses of any 'financial instruments held in custody'
- **Remuneration rules** – require AIFMs to have remuneration policies and practices in place. The directive also includes a set of principles that an AIFM must comply with when establishing and applying its remuneration policies
- **Valuation rules** – valuation policies must be transparent, comprehensive and consistent
- **Risk management rules** – require AIFMs to functionally and hierarchically separate the risk and portfolio management functions
- **Liquidity rules** – require appropriate limits to be set and stress tests to be performed
- **Disclosure and transparency rules** – set out information that must be provided to investors and regulators pre investment, on a periodic basis and in the annual report of the AIF
- **Passport** – the directive introduces a European 'passport' under which AIFMs can managed and market EU AIFs to professional investors across the EU

European Long-Term Investment Funds Regulation (ELTIF)

In a nutshell:

The European Long-Term Investment Funds Regulation creates a new brand of fund available for retail and professional investors. An ELTIF is a type of fund that allows investors to invest into companies and projects that need long-term capital. This regulation was enacted as a result of the regulatory fragmentation that challenged investors wishing to gain exposure to long-term assets. Potential investors in long-term assets did not have an appropriate investment vehicle and the EC considered that the inefficient market for pooled investments impeded access to finance. The Regulation came into force on 8 June 2015 and will apply from 9 December 2015.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Investment Management**

Core components:

- **The ELTIF description** – the regulation sets out the rules that the ELTIF must comply with for it to be authorised and marketed as an ELTIF
- **Authorisation process** – an ELTIF must apply for authorisation to the home Member State regulator of the fund. An application includes, but is not limited to: the fund rules or instruments of incorporation, information on the identity of the manager, information on the identity of the depositary, a description of the information to be made available to investors. An AIFM must also apply to the home Member State regulator for approval to manage the ELTIF; prescribed information must be submitted
- **Investment policies and diversification requirements** – an ELTIF must invest at least 70% of its capital in eligible investment assets as prescribed by the regulation and is required to diversify the remaining 30% of investments
- **Investment restrictions** – an ELTIF is restricted from: engaging in short selling, direct or indirect exposure to commodities, entering into securities lending agreements, securities borrowing agreements, repurchase agreements and using financial derivative instruments
- **Redemption, trading and distribution of income** – investors are not allowed to redeem their units or shares before the 'end of life' of an ELTIF and there are provisions for the trading of units or shares of an ELTIF on regulated markets, as well as the free transfer to third parties
- **Transparency requirements** – a prospectus that complies with the requirements contained in the Prospectus Directive must be published as well as a KID, when marketing to retail investors
- **Passporting regime** – the manager of an ELTIF can market a fund into host Member States if it has followed the notification process in Article 32 of the AIFMD

EuSEF and EuVECA Regulation

In a nutshell:

The European Venture Capital Funds (EuVECA) Regulation and the European Social Entrepreneurship Funds (EuSEF) Regulation provide for a common EU framework for the managers of EuVECA and EuSEF that are registered with the competent authorities, so that they can benefit from the EU passport in order to manage and market funds in the Union with the specific EuSEF and EuVECA labels.

The EuSEF Regulation applies to managers of alternative investment funds (AIFs) that meet all of the following conditions:

- Their assets under management in total do not exceed EUR500 million
- They are established in the EU
- They are subject to registration in their home member state in accordance with the AIFMD
- They manage portfolios of qualifying EuSEFs

The EuVECA Regulation applies to managers of AIFs that meet all of the following conditions:

- Their assets under management in total do not exceed EUR500 million
- They are established in the EU
- They are subject to registration in their home member state in accordance with the AIFMD
- They manage portfolios of qualifying VCFs

Jurisdiction:	EU
Status:	Enacted
Industry:	Investment Management

Core components:

- **Fund managers that wish to use a designation of EuSEF or a EuVECA when marketing a qualifying EuSEF or VCF in the EU must comply with the following requirements:**
  - Assets other than qualifying investments can be acquired up to a maximum threshold of 30% of aggregate capital contributions and uncalled capital investments
  - EuSEFs and VCFs can only be marketed to professional clients; other investors can only invest if they commit a minimum of EUR100,000 and have stated in writing that they are aware of the risks associated with the investment
  - Certain conduct rules, including the avoidance of conflicts of interest
  - Managers must have sufficient own funds and appropriate resources to effectively manage the funds
  - Asset value must be calculated at least once a year using a sound and transparent valuation process
  - An annual report must be submitted for each EuSEF to the home regulator within six months of the financial year-end
  - A manager must provide prescribed information to investors before they make an investment decision

- **EuSEF measurement procedures** - managers must have procedures in place to measure the extent to which the undertakings a EuSEF invests in achieve the positive social impact to which they are intended to

Money Market Funds Regulation (MMF)

In a nutshell:

The European Commission has proposed a Regulation on Money Market Funds (MMFs) following an investigation into shadow banking and investment funds where the European Commission identified a number of concerns. The EC considers MMFs to be systemically relevant and subject to inherent market risks and investor runs. In addition, MMFs are systemically interconnected with the banking sector and money markets. The proposed Regulation is designed to ensure that MMFs can better withstand redemption pressure in stressed market conditions, by enhancing their liquidity profile and stability. The proposed MMF Regulation will apply to all MMFs that invest in money market instruments.

European Parliament, European Commission and Council of the EU to engage in trialogue discussions

May 2015

2015

2015

Jurisdiction:	**EU**
Status:	**Drafted**
Industry:	**Investment Management**

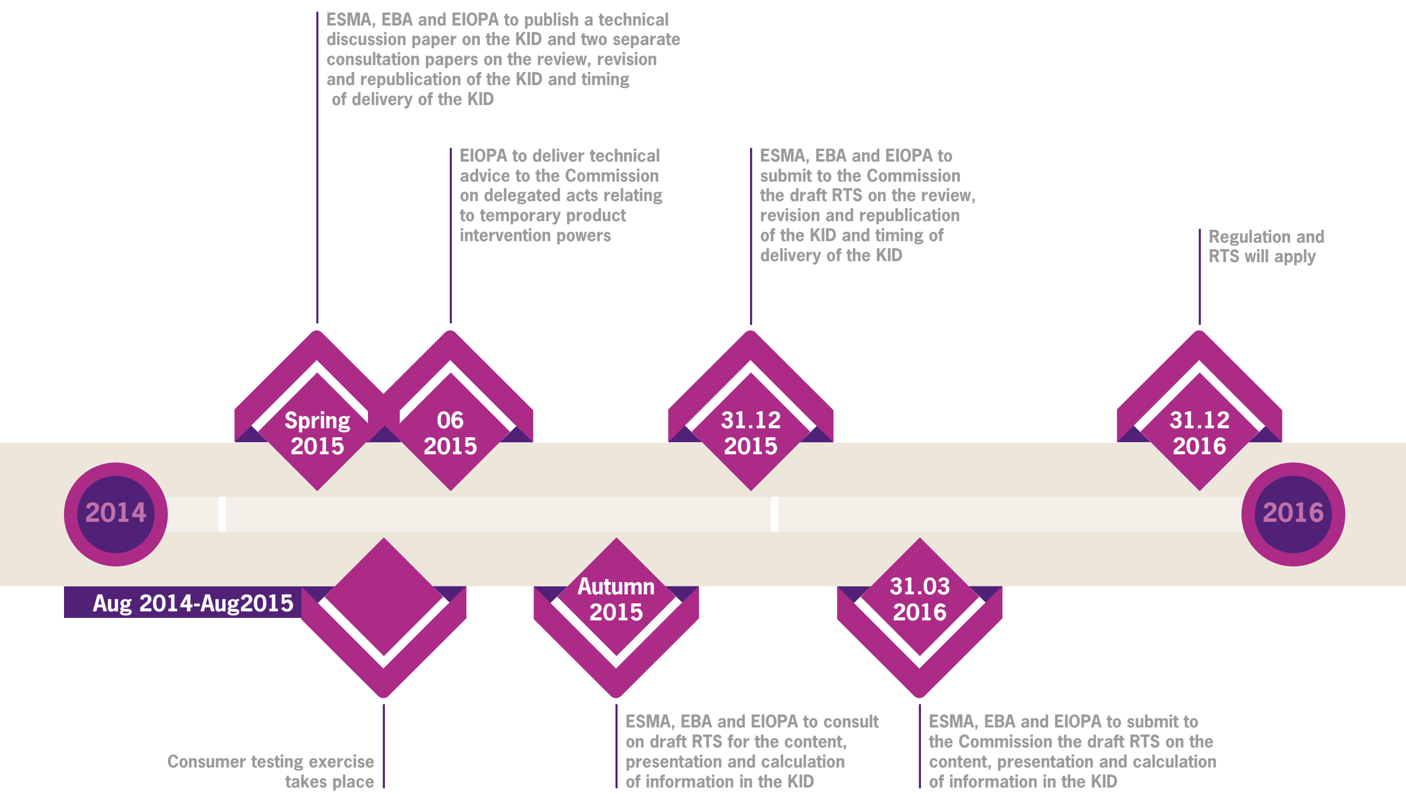
Core components:

- **The MMF description** – when a UCITS or AIF has been authorised under the MMF Regulation, it can use the designation 'money market fund' or 'MMF' to describe itself or the units it issues
- **Authorisation process** – only funds authorised as a UCITS under the UCITS IV Directive, or AIFs under the AIFMD, can be authorised as an MMF. The authorisation process depends on this categorisation
- **Investment policies** – an MMF can only invest in: money market instruments, deposits with credit institutions, financial derivative instruments or reverse repurchase agreements; it is also subject to restrictions within these categories. An MMF cannot: short-sell money market instruments, take direct or indirect exposure to equity or commodities, enter into securities lending agreements and securities borrowing agreements or borrow and lend cash
- **Diversification** – the regulation contains detailed rules on the diversification of eligible investment assets that each MMF has to follow
- **Concentration** – there are provisions that address the maximum limits that an MMF can hold in a single issue
- **Credit quality of money market instruments** – there are detailed rules on the internal assessment of the credit quality of MMF investment instruments
- **Risk management** – the regulation contains portfolio rules for short-term MMFs and standard MMFs. MMFs are prevented from soliciting or financing an external credit rating. Article 24 requires a manager of an MMF to establish, implement and apply a know your customer (KYC) policy. Article 25 sets out the stress testing processes that a manager of an MMF should have in place
- **Valuation** – there are requirements relating to how an MMF has to value its individual investment assets, calculate the NAV per unit of the MMF, as well as the frequency of valuations
- **Transparency** – there are provisions regarding the specific information that MMFs are required to include in marketing material. Article 38 establishes reporting requirements for MMFs that apply in addition to the requirements contained in the UCITS IV Directive and the AIFMD

Regulation on key information documents for PRIIPs

In a nutshell:

The European Commission has introduced a regulation to implement a new pan-European pre-contractual product disclosure document, also known as Key Information Document (KID), for Packaged Retail and Insurance-based Investment Products (PRIIPs). Investment funds, retail structured products and certain types of insurance contracts used for investment purposes are often referred to as PRIIPs. The primary aim of the regulation is to aid retail investors understand information about different investment products and more easily compare these. Furthermore, the regulation of pre-contractual product disclosures is currently highly fragmented across the EU. The Regulation will form a part of the EC's other proposal on the regulation of PRIIPs and will complement measures set out in MiFID 2 and IDD.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Investment Management**

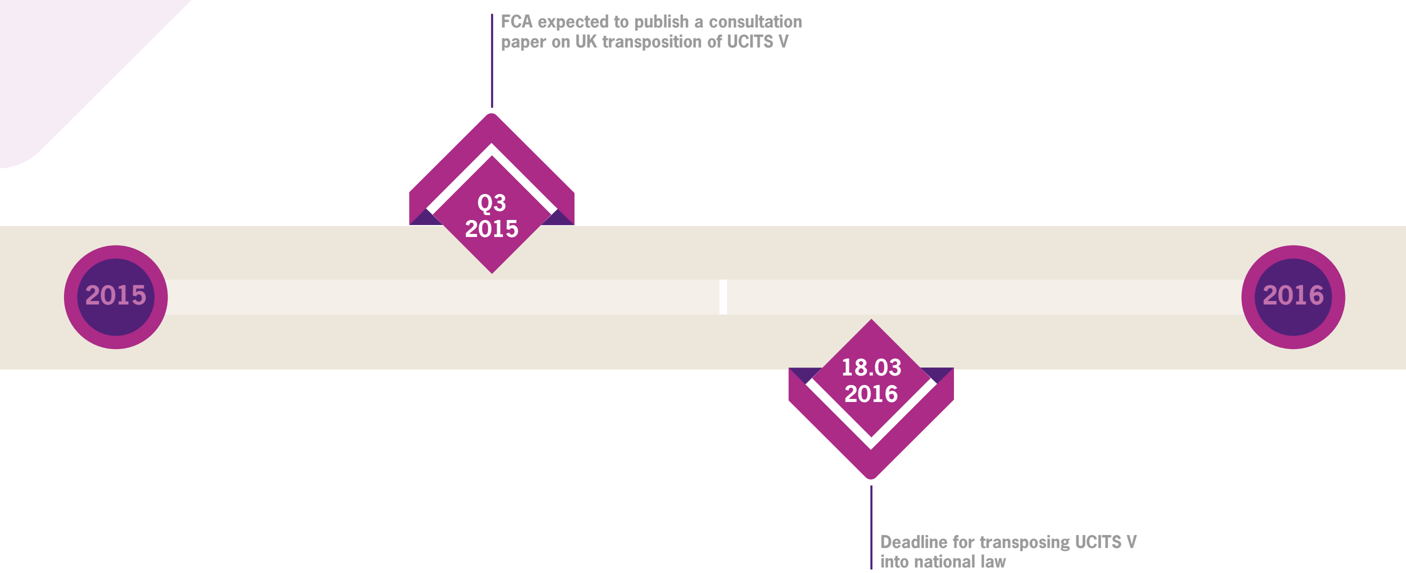
Core components:

- **Responsibility for producing the KID** – the PRIIP manufacturer will be responsible for preparing the KID. This includes both the person who manufactures the product and anyone who makes changes to significantly alter an existing product. PRIIP manufacturers must also publish KIDs on their website
- **Form and content of the KID** – the proposal applies the principles of the UCITS key investor information document regime across all other retail investment products. Amongst other things, the KID must be a stand-alone document that is accurate, fair, clear and not misleading and must be clearly separate from marketing materials. The proposal also outlines what information should be contained in the KID and measures for keeping the KID up to date
- **Responsibility and timing for the provision of the KID to investors** – any person selling the investment product to retail investors must provide the KID to the potential investor in good time before a sale is transacted; it must be provided before an investment decision is taken. There are also requirements on the medium that can be used for providing the KID to retail investors
- **Complaints and redress** – the PRIIP manufacturer and any person advising or selling the PRIIP must establish procedures to ensure that complaints can be submitted, that these complaints can be effectively addressed and that redress procedures are available in the event of cross-border disputes
- **Treatment of UCITS funds** – to allow the recently introduced KID for UCITS to be implemented, the Commission has proposed that UCITS management companies and investment companies will be exempt from the obligations under the Regulation for five years after its entry into force

UCITS V Directive

In a nutshell:
Undertakings for Collective Investment in Transferable Securities (UCITS) are investment funds that have been established under UCITS legislation that allow funds registered in one EU country, to be freely marketed across the whole of the EU.

UCITS V is a set of reforms which seeks to begin to align how Member States regulate these funds and to bring UCITS legislation in line with that of AIFMD. UCITS V will require funds to appoint a depositary function, sets out new requirements with regard to manager remuneration and seeks to address previous inconsistencies across Member States on sanctions.



Jurisdiction:	**EU**
Status:	**Enacted**
Industry:	**Investment Management**

Core components:

- **Depositary eligibility** – the appointment of a depositary will need to be supported by a written contract charging the depositary with the safekeeping, oversight and cash flow monitoring duties. Only the following institutions are eligible to act as depositaries: EU authorised credit institutions, MiFID investment firms that provide safekeeping and administration ancillary services and are subject to capital standards
- **Delegation of duties** – cash monitoring and oversight duties cannot be delegated. If delegating safekeeping duties, the depositary must have an 'objective reason' for the delegation and exercise due diligence in the selection and appointment of the third party. Assets relating to the UCITS funds must be ring-fenced so in the event of default by the depositary or its delegate, UCITS funds are not available for distribution to creditors
- **Depositary liability** – in respect of its safekeeping duties, a depositary has restitution liability for losses of any 'financial instruments held in custody'. Therefore, if found liable, the depositary is required to replace the assets lost without undue delay. UCITS V does not allow depositaries to discharge their liability onto their safekeeping delegates
- **Re-use of assets** – assets held in custody can only be re-used under the instruction of the fund manager and as long as the re-use is for the investor's benefit. Any re-use that involves the transfer of title (eg stock lending or rehypothecation) requires high quality liquid collateral (which has been subject to an appropriate haircut) to be posted in return
- **Remuneration** – fund managers must establish remuneration policies and practices that are consistent with sound risk management and discourage disproportionate risk-taking. The implementation of the policy must be overseen by non-executive members of the fund's management body; the policy must also be easily accessed by, and disclosed to, investors and regulators
- **Sanctions regime** – UCITS V contains an exhaustive list of breaches that will be sanctioned by competent authorities. Member States can apply criminal sanctions or administrative sanctions to a maximum of EUR5 million or 10% of the annual turnover for corporations and up to EUR5 million for individuals

UCITS VI Directive

In a nutshell:

In July 2012, the European Commission held a consultation on potential areas of reform of the UCITS regime. It is a comprehensive review of the operational function of UCITS funds and is therefore very wide ranging. It followed on from international work on shadow banking, coordinated by the FSB, which identified certain areas of investment funds that require closer scrutiny. The Commission's consultation did not contain any indication of a possible timetable for the presentation of a legislative proposal on UCITS VI. However, in mid-2013, the Commission indicated in its programme of legislative and non-legislative proposals expected to be adopted by 31 December 2013 that the UCITS VI legislative proposal would be published in December 2013. By November 2013, the programme had been amended and references to UCITS VI have been deleted. It is now unclear when a UCITS VI legislative proposal will be published.

Jurisdiction:	**EU**
Status:	**Proposed**
Industry:	**Investment Management**

Core components:

- **Eligible assets and the use of derivatives** – evaluation of the current practices in UCITS portfolio management and assessment of specific fund investment policies
- **Efficient portfolio management techniques** – assessment of the current rules regarding certain types of transactions and the quality and reinvestment of collateral
- **Over-the-counter derivatives** – assessment of the treatment of OTC derivatives that are cleared through central counterparties as well as an assessment of the current framework regarding operational risk and conflicts of interests and the frequency of the calculation of counterparty risk exposure
- **Liquidity management rules** – an assessment to determine whether there is a need for a harmonised framework when dealing with liquidity issues
- **Depositary passport** – determining whether there is a requirement for a cross border passport for the depositary functions (similar to the passporting requirements in AIFMD). Currently UCITS can only use services of depositaries that are located in the same Member State as the UCITS itself
- **Money Market Funds (MMFs)** – determining whether there is a need for an EU harmonised regulatory framework for the MMF market in order to prevent investor runs and systemic risks
- **Long term investments** – the commission question whether promotion of long-term investments is the key to improving the internal market and whether this would be achieved through modification of UCITS regime or a standalone initiative
- **Improvements to UCITS 4** – an assessment of various measures that were introduced as a part of UCITS IV but have not been functioning as predicted and may require improvements

Further Information

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FCA thematic review timeline

Cross Sector

- Visibility of IT resilience and risks at Board Level
- Performance management of staff
- Culture review

General insurance and protection

- Technology, use of Big Data and access to market study
- Commercial claims by SME customers
- Distribution chains (end TBC)
- Role of Appointed Representatives - (start and end date TBC)

Pensions and retirement income

- Annuities sales practices
- Retirement sales practices (start and end date TBC)
- Fair treatment of long standing customers in life insurance
- Retirement outcomes – consumer outcomes from advised and nonadvised sales – End date TBC

Retail investments

- Due diligence for financial advisers – End date TBC
- Risks at client take-on in contracts for differences providers – end date TBC
- Emerging distribution models (non-advised sales) market study
- Inducements and conflicts of interest

Retail lending

- Mortgages – post MMR/responsible lending and market study – end date TBC
- Credit cards market study
- Quality of debt management advice – mitigation phase
- Collection of unsecured debts
- Staff remuneration and incentives in consumer credit

Retail banking

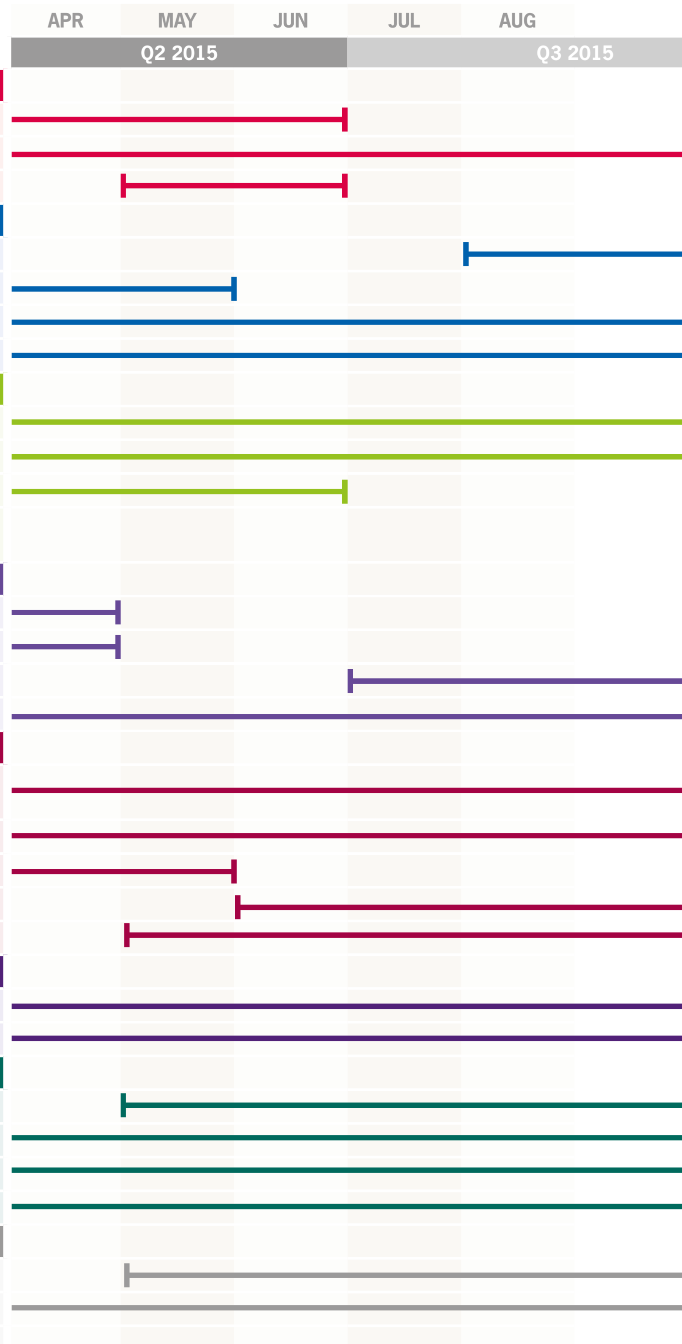
- Unauthorised transactions
- Packaged bank accounts

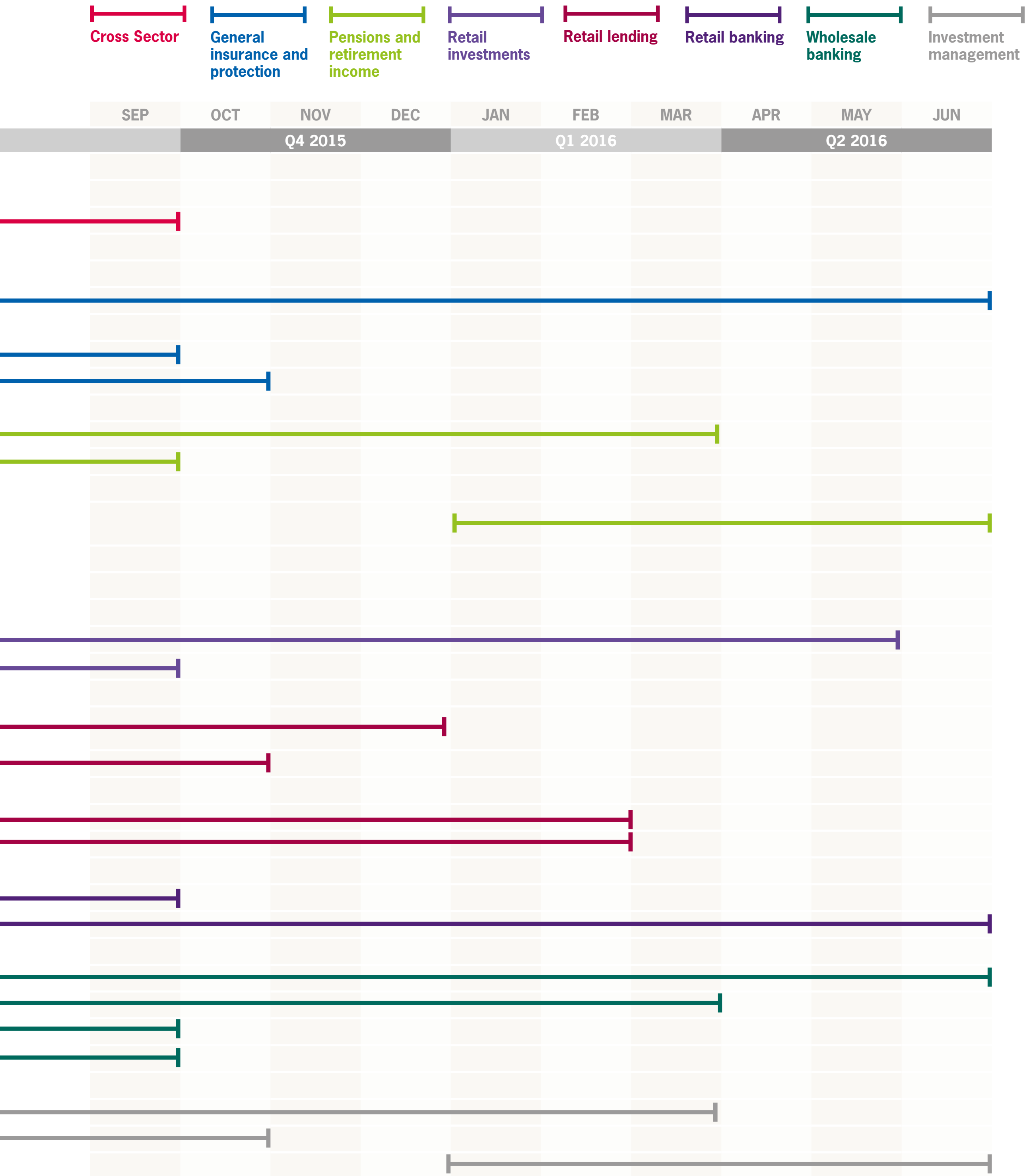
Wholesale banking

- Investment and Corporate Banking
- Conflicts of Interest in dark pools
- Controls over flows of information in investment banks
- Trader controls around benchmarks

Investment management

- Post authorisation review of funds
- Wealth management review (suitability of client portfolios)
- Asset management market study – end date TBC




Cross Sector
General insurance and protection
Pensions and retirement income
Retail investments
Retail lending
Retail banking
Wholesale banking
Investment management
SEP
OCT
NOV
DEC
JAN
FEB
MAR
APR
MAY
JUN
Q4 2015
Q1 2016
Q2 2016

Glossary

AIF	Alternative Investment Fund
AML	Anti-money Laundering
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
CCPs	Central Counterparty
COREP	Common Reporting
CSD	Central Securities Depositary
CTF	Counter Terrorist Financing
DGS	Deposit Guarantee Scheme
DPA	Data Protection Authority
DvP	Delivery-versus-Payment
EBA	European Banking Authority
EBU	European Banking Union
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIF	European Long-Term Investment Fund
ERM	Enterprise Risk Management
ES	Expected Shortfall
ESA	European Supervisory Authority
ESFS	European System of Financial Supervision
ESIS	European Standardised Information Sheet
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
FATF	Financial Action Taskforce
FCA	Financial Conduct Authority
FFI	Foreign Financial Institution
FINREP	Financial Reporting
FPC	Financial Policy Committee
FSA	Financial Services Authority
IAIG	Internationally Active Insurance Group
IGA	Intergovernmental Agreement
ITS	Implementing Technical Standard
KID	Key Information Document
LCR	Liquidity Coverage Ratio
LEI	Legal Entity Identifier
MCR	Minimum Capital Requirement
MIF	Multilateral Interchange Fee
MMF	Money Market Fund
MTF	Multilateral Trading Facility
NIS	Network and Information Security
NSFR	Net Stable Funding Ratio
ORSA	Own Risk and Solvency Assessment
OTC	Over-the-counter
OTF	Organised Trading Facility
PEP	Politically Exposed Person
PRA	Prudential Regulatory Authority
PRIIP	Packaged Retail Investment and Insurance-based Investment Product
PRIP	Packaged Retail Investment Product
PSR	Payment Systems Regulator
QRT	Quantitative Reporting Templates
RIE	Recognised Investment Exchange
RSR	Regular Supervisory Report
RTS	Regulatory Technical Standard
SA	Standardised Approach
SCR	Solvency Capital Requirement
SDD	Simplified Due Diligence
SFCR	Solvency and Financial Condition Report
SFT	Securities Financing Transaction
SIB	Systemically Important Bank
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TR	Trade Repository
VaR	Value-at-Risk
VCF	Venture Capital Fund

Notes

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