

Regulatory Radar

Summary of the News

Scanning the regulatory horizon can be a time consuming exercise. Each month, we will set out an extract of regulatory updates from our European Regulatory Oversight & Screening (“EROS”) tool. There are a significant number of publications, as you would expect. The extract covers the month of September and has been arranged by taxonomy. The extracts in this section are limited to: FCA, PRA, ECB, EBA, ESMA, IOSCO, and FSB publications. This extract is not intended to be an exhaustive list or relied upon.



Key September highlights:

Data

The FCA announced in September that it has postponed its Call for Input to explore the access and use of data in wholesale markets, however the regulator remains committed to launching work in this area in the near future. Reports published by the Centre for Data Ethics and Innovation on ethical issues in AI are a perfect example of the importance of ethical data usage. Firms should be preparing now.

Financial Crime

Vicky Saporta, Executive Director at the PRA, wrote a ‘Dear CEO’ letter to draw attention on money laundering and terrorist financing risks, urging firms to:

- Ensure that managers have the right knowledge, skills, and experience to perform their duties
- Have robust governance arrangements
- Ensure that the FCA’s senior management responsibility for financial crime is allocated to individuals of sufficient seniority to perform their role effectively

Liquidity

There have been a number of publications on liquidity, especially regarding the asset management industry:

- The FCA issued new rules for open-ended funds investing in illiquid assets (e.g. property)
- ESMA released two publications on liquidity stress testing for investment funds

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Basel III



[The macroeconomic impact of changes in economic bank capital buffers](#)

This article from the ECB attempts to answer the following question: *How do changes in capital requirements affect bank lending, lending spreads and the broader macroeconomy?*



[Thinking beyond borders: how important are reciprocity arrangements for the use of sectoral capital buffers?](#)

This article from the ECB explores the relevance of sectoral cross-border credit and analyses the effects of the implementation of mandatory reciprocity arrangements.



[Clarification on the treatment of legacy instruments](#)

The EBA announced its intention to provide clarity on the appropriate treatment of 'legacy instruments' at the end of the grandfathering period (2021). The aim of the clarification is to preserve a consistent and high quality capital base for EU institutions under the CRR.



[Understanding sectoral countercyclical capital buffers](#)

This article from the EBA discusses the application of countercyclical capital buffers.

Brexit



[Updates to the FCA's directions under the Temporary Transitional Power \(draft\)](#)

The TTP gives the FCA flexibility in applying post-Brexit rules, allowing firms to transition to a new framework. It would only come into effect on exit day if the UK leaves the EU without an implementation period.



[FCA's survey on 400 companies on their preparations for EU withdrawal – 2019 Q3](#)

- Most companies think they are "as ready as can be" for a no-deal Brexit.
- Companies who are not ready for a no-deal Brexit are generally more pessimistic about the outlook.



[Andrew Bailey's speech on financial sector preparations for no deal Brexit](#)

While preparations for the financial sector have advanced over 2019, there are still a number of issues and improvements to be made.

Cyber & Op. Resilience



[Sector Simulation Exercise – SIMEX 2018 Report](#)

Outcomes and high level findings following the 2018 cyber simulation exercise for the financial sector from the BoE.

Data & Ethics



[Paper from the Centre for Data Ethics and Innovation on AI](#)

The CDEI has published its first series of snapshot papers on issues of public concern in AI ethics including deepfakes, AI and insurance and smart speakers.

Financial Crime



['Dear CEO' letter on money laundering & terrorist financing](#)

Letter from Vicky Saporta, Executive Director at the PRA, to support the EBA Opinion on money laundering and terrorist financing.

Governance & individual accountability



[Strengthening individual accountability](#)

Resolution assessments and reporting amendments from the PRA on strengthening individual accountability.



[Unit-linked funds' governance review: findings and next steps](#)

The FCA has reviewed firms' governance practices covering the value provided by unit-linked funds, and is considering whether it needs to change the rules.

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Liquidity

[Illiquid assets and open-ended funds – FCA feedback](#)

The FCA issued new rules applying to certain types of open-ended fund investing in inherently illiquid assets such as property.

[Liquidity risk management for insurers – PRA](#)

This supervisory statement states out the PRA's expectations concerning the liquidity risk management framework all UK Solvency II firms must have in place.

[Stress simulations framework for investment funds](#)

ESMA developed a framework to be used for stress simulations for the investment fund sector and published a case study applied to 6,000 UCITS bond funds.

[ESMA strengthens liquidity stress tests for investment funds](#)

ESMA published final guidance regarding liquidity stress tests of investment funds – applicable to both Alternative Investment Funds (AIFs) and Undertakings for the Collective Investment in Transferable Securities.

MiFID II

[Multi-firm review of research unbundling reforms](#)

FCA's findings of their review on how firms have implemented MiFID II rules since their introduction in January 2018.

[MiFID II Report Review – ESMA](#)

ESMA published responses to its consultation on cost of market data (pre- and post-trade data) and consolidated tape for equity instruments.

[Cost & charges disclosure](#)

ESMA published responses to its call for evidence on the impact of the inducements and costs and charges disclosure requirements under MiFID II.

Reporting

[Guidelines for completing regulatory reports – PRA](#)

PRA's expectations on how firms should submit supervisory reports under parts of the PRA Rulebook (Regulatory Reporting, Close Links, Change in Control).

[Updates on the AnaCredit Reporting Manual – ECB](#)

Main set of validation checks that will be performed in order to ensure that the quality of AnaCredit data is satisfactory.

Retail Conduct

[Changes to mortgage reporting requirements](#)

Policy statement from the FCA and the PRA.

[Core competencies framework on investors' financial literacy](#)

IOSCO publishes a framework to help members enhance investor education initiatives.

[Mis-selling of financial products](#)

IOSCO publishes a report on how members have implemented suitability standards aimed at preventing the mis-selling of complex financial products.

Solvency II

[Solvency II: Own Funds – PRA](#)

For firms assessing the quality of their existing own funds and/or intending to issue new own fund items under Solvency II.

Sustainable Finance & Climate Change

[Importance of a sustainable financial system](#)

Remarks by Mark Carney given during the UN Secretary General's Climate Action Summit 2019.