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Banking Law Update

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REGULATORY DEVELOPMENTS

Financial Conduct Authority (FCA)

Advertising Standards

The FCA has called on consumer credit firms to raise advertising standards following a review of firms on payday loans. The FCA had examined over 500 advertisements from a range of consumer credit providers after it became responsible for consumer credit supervision on 1 April 2014. Failures included encouraging consumers to apply for a product before accessing important information, targeting young potential borrowers, claiming that products would help repair credit ratings and claiming that this could clear customers' debts rather than substitute one debt for another. 108 promotions were identified as failing to comply with the rules requiring that promotions were clear, fair and not misleading. 75 firms had responded and amended or withdrawn multiple promotions with the remaining firms considering their response. The FCA would continue to monitor promotions and work with firms to ensure relevant standards.

FCA, 16.5.2014

Banking Standards Review

The FCA has welcomed the publication of the *Banking Standards Review* (19 May 2014). Sir Richard Lambert had been asked to prepare a report on the promotion of high standards in banking in September 2013 with a consultation paper being published in February 2014. Sir Richard concluded that there was a strong case for collective effort to raise standards of behaviour and competence in the banking sector and that this could be achieved by the establishment of a new and independent body to take this process forward. Raising standards of behaviour within a large and complex industry would take time with work to start immediately to maintain and accelerate the current momentum. A Banking Standards Review Council (BSRC) would be set up to contribute to a continuous improvement in the behaviour and competence of banks and building societies in the UK. This would promote better banking standards and secure the interests of customers and wider stakeholders. Participating institutions would commit to a programme of continuous improvement with regard to culture, competence and customer outcomes and to report annually on performance. Relevant voluntary standards of good practice would be promoted to serve the public interest and work with practitioners and stakeholder groups including agreed procedures including on whistleblowing protocols, retail sales incentives, the handling of small businesses in distress and the management of high frequency trading. An annual report would be published on sector and individual institutional progress. The BRSC would meet with non-executive directors or risk or reputation committee chairs and the largest institutions to discuss peer progress and work with the industry and stakeholders to develop a single principles based code of practice in line with the high level principles being considered by the regulatory authority. It would identify and encourage good practice and learning, development and leadership with specific reference to behaviour and ethics. It would assist banks comply with their new regulatory obligations, including under revised Certified Persons regime, and work with professional bodies to increase reliance on professional qualifications. Sir Richard stressed that the BSRC would not act as a lobby group for banks and building societies, absolve leadership from their prime role in raising standards and not handle customer complaints. The report includes specific sections on the BSRC, credibility, scope, institutions and individuals, regulatory relationship, benchmarking, professional standards, training, relation with existing professional bodies, organisation and cost and next steps and the future. The framework set by the Parliamentary Commission on Banking Standards is included in Annex A with the FCA eleven Principles of Business and PRA nine Fundamental Rules in Appendix B, role of investors in Appendix C and list of respondents in Appendix D.

FCA, 19.5.2014

Client Assets Regime

The FCA has published a policy statement PS14/9 following its earlier consultation paper on *Review of the Client Assets Regime for Investment Business* (July 2013) CP13/5. This contains proposed changes to the rules in the Client Assets Sourcebook (CASS) on specific risks to ensure better consumer results and increased market confidence. Around 1,500 firms are subject to the client assets regime and collectively hold over £10 trillion in custody assets and £100 billion in client money. The paper includes specific proposed changes with regard to the client money distribution regime, multiple client money pools, client money rules, custody rules, mandate rules and new disclosure requirements with additional changes under the European Market Infrastructure Regulation (EMIR) and supporting Regulatory Technical Standards (RTS) on indirect client clearing. Additional provisions are included on the application of the Special Administration Regime (SAR) which was introduced in February 2011 following the Lehman Brothers International Europe (LBIE) case and was first used with MF Global Ltd and later Pritchard Stockbrokers Ltd and Worldspreads Ltd. PS14/9 includes specific amendments relating to the distribution rules (CASS 7A), custody rules (CASS 6), client money rules (CASS 7), mandates (CASS 8) and client reporting and information (CASS 9).

FCA, 10.6.2014

Dealing Commissions

A policy statement has been published on *Changes to the use of dealing commission rules* (May 2014) PS14/7 including feedback on CP13/17 and final rules. The final text will be included within COBS 11.6 Appendix 1 with other amendments being made to rules and guidance. The FCA reviewed dealing commissions following the Asset Management Conference in October 2013 to ensure that managers control costs past onto the customers in addition to investment returns. The FCA had also conducted separate thematic supervisory work with a Dear CEO letter being sent out on conflicts of interest in asset management in November 2012. Investment managers had inadequate controls and oversight when acquiring research goods and services from brokers or other third parties in return for client dealing commissions and were unable to demonstrate how research items complied with the exemption provided for under the rules and were in the best interests of customers. Managers could only received eligible goods and services in return for commissions and had to act in the best interests of customers in deciding whether to pass charges onto clients. Most respondents to the consultation agreed that investment managers had to apply equivalent levels of scrutiny to payments for goods and services using dealing commissions as using their own funds. Responses on the detailed changes proposed varied. Specific comments were made on corporate access, mixed-use assessments and scope and cost benefit analysis.

FCA, 8.5.2014

Fund Charges

The FCA has published a review of how fund charges are presented to retail investors. The review confirmed that firms had provided customers with a consistent, combined charge figure across all relevant documents and platforms although some firms still refer to different charge figures across multiple documents which made effect comparisons difficult. All firms were encouraged to respond to the FCA findings. The results were set out in TR14/7.

FCA, 13.5.2014

Gold Fixing Fine

Barclays Bank plc has been fined £26,033,500 for failing adequately to manage conflicts of interest between itself and its customer and for systems and controls failings with regard to the London Gold Fixing between 2004 and 2013. Former Barclays trader, Daniel James Plunkett, was separately fined £95,600 and banned from performing any regulated activity function having exploited weaknesses in Barclays' systems and controls to influence the Gold Fixing on 28 June 2012. This allowed Barclays to avoid making a payment of $3.9 million to a customer, which was later compensated, and for Plunkett to increase his trading book by US$1.75 million. Barclays had failed to identify and manage relevant risks especially following the LIBOR and EURIBOR action against Barclays. Barclays had contributed to the Gold Fixing since 7 June 2004 with Plunkett being a Director on the Precious Metals Desk and responsible for product pricing. Barclays had breached Principles 3 and 8 of PRIN. Plunkett had placed orders to increase the likelihood that the gold price would fix below the barrier set out in a digital exotic options contract.

FCA, 23.5.2014

High Frequency Trading

FCA CEO, Martin Wheatley, has spoken on "Regulating high frequency trading" at the Global Exchange and Brokerage Conference, New York, in

June 2014. The first high frequency trade was carried out on the London Stock Exchange on 19 June 1815 by Nathan Rothschild who used faster horses and co-location during the Battle of Waterloo to obtain market advantage which included short selling gilts to create a downward market (momentum ignition) before repurchasing them. The balance between the benefits and risks of modern high frequency trading were unclear including with regard to market efficiency, fairness, cleanliness and resilience. Separate reviews had been conducted in Sweden, Australia and with the UK Government's *Foresight Report* (2012). Licensing and fees had been imposed in Germany on excessive usage and R2 basis point tax in Italy where order-to-executed trade ratios exceed specified thresholds. Different market conditions nevertheless require different responses. High frequency trading had been examined by the European Securities and Markets Authority (ESMA) with specific measures to be implemented under MIFID II implementation within two years. This would be supported by strengthened supervision and market surveillance. The UK authorities would continue to monitor the area to achieve the correct balance between innovation and risk.

FCA, 4.6.2014

Household and Retail Travel Insurance

The FCA has published the results of its thematic review on *Insurers' management of claims – household and retail travel* (May 2014) TR14/8. This follows the earlier review conducted in 2006 by the Financial Services Authority (FSA) with regard to Insurance Conduct of Business (ICOB) requirements against various consumer outcomes. The most recent review examined results in successful and unsuccessful claims to asses consumer experience at the point of claim including satisfaction levels, consumer experience, firm aspirations and firm comparisons. The specific focus was on household (buildings and contents) and retail travel claims with ten insurers being involved. The project included investigative firm work, consumer and other research, stakeholder engagement, firm feedback and publication. Insurers handled many claims to the satisfaction of policyholders although insurers could enhance their claims service in specific areas if they wished to increase satisfaction levels further. Sixty four percent of claimants were either satisfied or very satisfied with 82% of policy holders making a claim being satisfied with the experience. Household satisfaction varied between 74–90% and travel insurance between 77–86%. Twenty eight percent of claimants considered complaining at some stage during the claims process with only 33–50% of those proceeding with a formal complaint.

FCA, 22.5.2014

Insurance Conflicts

The FCA has released the results of its thematic review into *Commercial insurance intermediaries – Conflicts of interest and intermediary remuneration* (May 2014). The FCA examined seven of the largest intermediaries servicing small business clients with some firms failing to maintain appropriate control frameworks and appropriate management information in line with their business models. An increased risk of conflicts of interest arose where firms carried out multiple roles in the distribution chain and acted as agent for customer and insurer in the same transaction. Intermediaries relied on disclosure rather than maintaining effective control frameworks to manage conflicts. Customer disclosure was generic and unlikely to meet information needs or enhance understanding. Specific conflicts were not effectively mitigated with regard to add-on insurance, premium finance or where the cost of insurance was borne by a third party. The FCA would continue to work with the industry and use regulatory tools where appropriate. The FCA published its results in TR14/9.

FCA, 27.5.2014

LIBOR Fine

Martin Brokers (UK) Ltd has been fined £630,000 for significant failings and misconduct relating to the London Interbank Offered Rate (LIBOR). The FCA had proposed an original fine of £3,600,000 which the firm was unable to pay. Martins was the second inter-dealer broker and sixth firm to be fined for LIBOR failures. Martins had colluded between January 2007 and December 2010 with a trader at UBS to manipulate the Japanese Yen (JPY) LIBOR rates by deliberately disseminating incorrect or misleading submission levels. Incorrect suggestions had been communicated to Panel Banks as to where the rate should be set for a particular day (referred to as the "run-throughs"), creating false (spoof) orders to influence the view of the Panel Banks on the cash market and requesting certain Panel Banks to make specific JPY LIBOR submissions. The UBS trader had made corrupt brokerage payments to reward Martins for its manipulation of the submissions through the use of fake "wash trades". Several brokers were involved at Martins over a number of years including two brokers and three others across two desks with three managers being involved. Martins received a 30% discount from the original proposed fine of £900,000 on early settlement. Martins separately agreed to pay $1.2 million to the US Commodity Futures Trading Commission (CFTC).

FCA, 15.5.2014

Listing Regime

The FCA has published a policy statement on final rules and responses received to its consultation paper 13/15 on *Enhancing the effectiveness of the Listing Regime* following the original consultation paper 12/25 in October 2012. This included concerns with regard to the governance of premium listed companies with a controlling stakeholder and the protection of minority shareholder interest. The final rules would place requirements on premium listed companies to enter into an agreement with controlling shareholders containing mandatory independence provisions, providing additional voting powers for minority shareholders in electing or re-electing independent directors, enhancing voting power where the company wishes to cancel or transfer its premium listing, clarifying voting arrangements to avoid circumvention of protections under the Listing Rules and providing improved information for shareholders about smaller related party transactions and the selection of independent directors to allow shareholders meaningfully to exercise enhanced rights. Other measures would be introduced with entry requirements and continuing obligations to ensure high standards of governance by premium listed companies under the Premium Listing Principles. Greater transparency would also be ensured with regard to free float provisions with the 25% requirement for a free float being unchanged.

FCA, 16.5.2014

Logbook Lenders

The FCA has published results of research carried out in relation to the conduct of logbook lenders providing logbook loans as well as other research on debt management and payday firms. Logbook lenders provide loans against the bill of sale on a car. The FCA uncovered evidence of poor firm behaviour, including little or no affordable checks, and with applicants being encouraged to manipulate details of income and pressured sales. Loan sizes ranged from £500 to £50,000 with an average £1,000 depending upon vehicle value and with loans being for 6–18 months and a typical 400% APR or higher. The debt management research also confirmed that consumers often had multiple debts that they could no longer manage with debt levels varying between £15–30,000 and with some up to £100,000. Consumers had limited market knowledge and placed trust in debt management providers without undertaking proper market research. There was evidence of poor firm behaviour and consumer confusion on debt management providers' actions after plans had been set up. Payday lenders often engage in unwanted marketing practices including emails, texts and phone calls with borrowers using payday loans due to limited alternative credit options. Consumers failed to shop around with lending being made available very easily. Borrowers were unclear about significant aspects of the loan agreement although rollovers or loan extensions were easy to obtain with communication often being minimal.

FCA, 5.6.2014

Promotions Fines

The Financial Conduct Authority (FCA) has fined Credit Suisse International £2, 398,100 and Yorkshire Building Society £1,429,000 for financial promotions failures. The fines related to a Cliquet Product designed by Credit Suisse to provide capital protection and guaranteed minimum investment returns. The probability of achieving the minimum return was 40–50% and the maximum return 0% with the marketing material highlighting the potential maximum benefit as a key promotional feature. The product was sold to unsophisticated investors with limited investment experience and knowledge through various distributors with 83,777 customers investing almost £800 million. Seventy five percent of this was sold through the Yorkshire Building Society. The FCA considered that the unbalanced nature of the promotional material used was unacceptable. Both firms agreed to settle at an early stage and received 30% settlement discount.

FCA, 16.6.2014

Supervision Review

Clive Adamson, Director of Supervision, has given an address on "Our supervision overview" before the General Insurance Conference, London June 2014. Martin Wheatley separately discussed "Good conduct and market integrity" and Chris Woolard "Competition and insurance". Clive Adamson stressed the need to ensure that the insurance industry operated to the highest standards of integrity built around customer interests that delivered products and services that the customer needed, were easy to understand and provided value for money. The industry had to deliver on its promises and operate within a competitive environment. Substantial changes had occurred in the shift to a new conduct agenda and FCA supervisory approach. Conduct regulation was necessary as markets did not work perfectly and consumers were not completely rational due to a number of factors including product complexity, limited understanding, behavioural biases, insufficient product differentiation and incomplete market competition. The FCA adopted a judgement based, pre-emptive and pro-competitive approach to regulation with an outcomes focused philosophy and strong response. The FCA would look at markets to see whether they were working in consumer interests using market studies to identify a lack of competition or the need for structural solutions. Thematic work was used to examine specific problems where the right outcomes were not being achieved with the FCA also looking at individual firm conduct to identify poor behaviour. Consumers and market integrity had to be placed at the centre of how firms ran their businesses. While many firms generally worked in the interests of their customers, retail consumer outcomes varied markedly. The industry had responded constructively when challenged although conflicts of interest remained a problem with market structures and practices also not operating properly in the consumers' interest. Future improvements were set out in the FCA *Business Plan 2014/15* published on 1 April 2014. On competition, Christopher Woolard stressed the need for market regulation and infrastructure to support competition, firms competing to provide the best consumer products and consumers having real choice and receiving products that met their needs at a competitive price.

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FCA, 2.6.2014

Transaction Reporting

The FCA has produced proposed guidance on the *Transaction Reporting User Pack* (TRUP) in SUP 17 of the FCA Handbook. The TRUP provides guidance to firms on understanding the transaction reporting obligations under MIFID 2004/39/EC with TRUP Version 3 being published in March 2012. The latest text clarifies the guidance provided with other minor errors being corrected and references updated. Transaction reports must accurately reflect changes in the position of the firm and its clients resulting from transaction, firms hitting their own order on a trading venue should transaction report the transaction, unit prices should be reported for different instruments, transaction venues should be reported with clarification of transaction reporting requirements within firms including compliance with relevant SYSC obligations.

FCA, 8.5.2014

UBS Trader Ban

Former UBS trader, John Christopher Hughes, has been banned from performing any function in relation to financial services following the unauthorised trading losses incurred by trader Kweku Mawuli Adoboli at UBS. Adoboli had been sentenced to seven years imprisonment in November 2012 having been found guilty on two counts of fraud by abuse of position. Adoboli had used an undeclared fund of profits, referred to as the "Umbrella" to manipulate the Exchange Traded Funds (ETF) desk which Hughes had been aware of. Hughes had enquired with regard to the funds' size and its funding and use and was aware that it had not been authorised. Hughes was the most senior member of staff on the ETF desk and had failed to report the fund and allowed the desk's profit and loss to be misstated over an extended period. UBS had been fined £29.7 million in November 2012.

FCA, 1.5.2014

Prudential Regulation Authority (PRA)

PRA Approach to Banking Supervision

The PRA has published a revised document on *The Prudential Regulation Authority's approach to banking supervision* (June 2014) which replaces its earlier supervisory statement in April 2013. The objective is to provide a revised statement of approach following legislative amendments and other supervisory changes including, for example, the conferment of the secondary objective to promote effective competition in the market for services and the creation of a new Senior Persons Regime following the recommendations of the Parliamentary Commission on Banking Standards. The document explains the PRA's approach to advancing its general objective of promoting the safety and soundness of regulated firms focusing on the adverse effects that they have on the stability of the UK financial system, the identification of risks to safety and soundness (including potential impact, external context and business risk), safeguarding safety and soundness (including management and governance, risk management and controls, capital, liquidity and resolvability), supervisory activity (assessing risk, the Proactive Intervention Framework (PIF), mitigating risk, supervisory and enforcement powers) and the PRA's policy to support its general approaches. The document confirms that the PRA will not ensure that no firm fails. The PRA expects all firms to comply with and continue to meet the Threshold Conditions set out in the FSMA. PRA firms are expected to give effect to the new Fundamental Rules with boards and senior management understanding these provisions and establishing within firms a culture that supports adherence to the spirit and letter of the requirement. The PRA's approach is based on judgement with the PRA supervising firms to assess whether they are safe and sound and meet and continue to meet the Threshold Conditions. The PRA's approach is forward looking with firms being assessed on the basis of current risks and future risk. The PRA prioritises its supervisory activity and focuses on issues and firms that create the greatest threat to the stability of the UK financial system. Its regulatory decision making is stated to be rigorous and well documented and consistent with public law. The PRA will combine firm specific supervision with work to protect and enhance their resilience of the financial system as a whole working closely with the rest of the Bank of England, including the Financial Policy Committee (FPC) and the FCA and other European and international counterparts. A PRA organisational structure is provided in figure A on page 40. The PRA is divided into Prudential Policy (including Financial Policy and cross-cutting Policy), Supervisory Risk Specialists and Regulatory Operations, Insurance Supervision (General Insurance and Life Insurance), International Banks Supervision and UK Deposit-Taker Supervision (Major UK Deposit-Takers and Banks, Building Societies and Credit Unions). The principal changes to the earlier April 2013 document include explanation of the PRA's new secondary objective (page 5), reference to the new Fundamental Rules (page 5 with a new box 2 on page 11), amendments to the Liquidity Asset Section (page 26), resolution (page 28), culture (page 36) and staff information and the new organisational structure.

PRA, 19.6.2014

Failings in Firm Culture

The PRA has issued a separate policy statement on *The use of PRA powers to address serious failings in the culture of firms* (June 2014) which explains how the PRA will use its formal powers to deal with serious failings in firm culture. This follows the recommendation by the Parliamentary Commission on Banking Standards that regulators have power to identify and deal with serious failings and standards and cultures within banks with the PRA and FCA considering cases where such powers could be used. The PRA expects firms to have a culture that supports their prudent management. While no specific culture is prescribed, the PRA will consider whether boards and management clearly understand the circumstances in which the firm's viability would be threatened and whether action can be taken to address risks on a timely basis. Risk management and control functions must operate effectively within firms. Individuals should take responsibility for acting in a manner consistent with their firm's safety and soundness whenever they're status, remuneration and incentive structure should reward careful and prudent management, firms and individuals should deal with the PRA in an open and cooperative manner and boards must take responsibility for establishing, embedding and maintaining a firm's culture. The PRA will identify serious failings in culture through its ongoing supervisory activity including ongoing contact with firm representatives, review of their prudence of valuation methods, assessment of independence and professionalism of risk management, board effectiveness reviews and examination of remuneration policies. Examples of possible cultural failing are identified including failing to act in a safe and sound manner, poorly functioning boards, weak control areas, board or senior management behaviour weakness or other failings identified under the PRA's supervisory approach. Failings may arise with regard to governance, incentives, risk awareness and ability to challenge senior management. The PRA will act pre-emptively to deal with concerns identified with action being taken using supervisory powers, skilled persons appointment under s 166 FSMA, the new requirements power under s 55m Part 4a FSMA, own initiative variation of permission (OIVOP) under s 55j, other powers including under the new Certification Regime for senior managers to replace the earlier Approved Persons Regime and power to require parent holding companies to act under s 192c FSMA. The PRA will also work with the FCA. The PRA contributed to the Financial Stability Board's *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture* (7 April 2014).

PRA, 19.6.2014

Financial Stability Information Power

The PRA has issued a statement of policy on *The Financial Stability Information Power* (June 2014) which explains how it will exercise its power under FSMA 2000, s 165a as required under FSMA 2000, s 165b(6). The PRA may exercise the power to require certain persons to provide specified information, or information of a specified description, or specified documents, or documents of a specified description, that it considers are, or might be, relevant to the stability of one or more aspects of the UK financial system. The PRA is required under Banking Act 2009, s 250 to collect information that it thinks is or may be relevant to the stability of individual financial institutions or to one or more aspects of the UK financial system with this information being available through regular PRA reports from UK or international authorities or under the PRA's information gathering powers under FSMA 2000, s 165 or Banking Act 2009, s 250(2). The financial stability information power under FSMA 2000, s165a may be used in other cases. The power applies with regard to any person who has a legal or beneficial interest in any assets of a relevant investment fund, person responsible for management of a fund, service providers, other persons prescribed by order of HM Treasury and any connected parties. The PRA will consider whether it is necessary to review the material concerned, consider any representations received and take into account the nature and extent of the risk to financial stability, whether in the information is more readily available from another source and whether the information may assist the PRA in fulfilling its functions. The PRA will provide prior notice in most cases although an information requirement may be imposed without notice where the PRA is satisfied that the information or documents are required without delay. A person will be able to make representations before imposing an information requirement where notice has been given. No specific time periods are specified with the PRA acting within reasonable periods. The PRA may require the information to be provided in a particular form or verified or authenticated.

PRA, 19.6.2014

PRA Rulebook

The PRA has issued a policy statement on *The PRA Rulebook* (June 2014) PS5/14 following its earlier consultation paper CP2/14 in January 2014. This contains a number of amendments to the PRA Handbook intended to create a dedicated set of rules for PRA supervised firms. PS5/14 contains the revised Fundamental Rules that the PRA will apply in place of the earlier principles for Businesses (PRIN) introduced by the Financial Services Authority (FSA) and continued by the FCA and in the Combined FCA and PRA Handbooks. The Fundamental Rules set out the high level rules expected of PRA regulated firms to secure its objectives of promoting the safety and soundness of regulated firms and the protection of policyholders. The Fundamental Rules consist of nine FRs which partly reflect the earlier PRIN with certain additional provisions including the recommendation by the Parliamentary Commission on Banking Standards (PCBS) that banks be required to operate in accordance with the safety and soundness of the firm with directors' responsibilities to shareholders being understood in terms of this. A PRA firm is to conduct its business with integrity (FR1), due skill, care and diligence (FR2), act in a prudent manner (FR3), maintain adequate financial resources at all times (FR4), have effective risk strategies and risk management systems (FR5), organise and control its affairs responsibly and effectively (FR6), deal with the PRA in an open and cooperative manner and disclose anything that the PRA would reasonably expect notice of (FR7), prepare for resolution to allow it to be resolved in an orderly manner with minimum disruption to critical services (FR8) and not knowingly or recklessly provide the PRA with information that is false or misleading in a material particular (FR9). FR1 and 2 copy PRIN 1 and 2 with FR3 being a new provision unchanged from the consultation. FR4 follows PRIN 4 with the addition of at all times to give effect to Capital Requirements Directive IV and Solvency II and is unchanged from the consultation. FR5 follows PRIN 3 and FR6 PRIN 3 with FR7 extending PRIN 11. FR5 and 6 are intended to ensure effective internal governance. FR8 remains unchanged from the consultation with the PRA removing FR9 which is considered to be already given effect to under s398 FSMA and FR5, 6 and 7. The fundamental rules will come into effect from 19 June 2014 and will not be applied retrospectively although PRIN will be applied in respect of breaches before that date. PS5/14 also contains a number of other PR Rulebook Instruments in addition to the Fundamental Rules Instrument covering Information Gathering, Auditors, Lloyd's (Auditors and Actuaries), Permissions and Waivers, Use of Skilled Persons and Notifications with other Consequential amendments.

PRA, 19.6.2014

Policy Statement

The Prudential Regulation Authority (PRA) has published a policy statement on *Responses to CP5/14* (May 2014) PS4/14 following *Occasional Consultation Paper* (March 2014) CP5/14. This sets out final amendments to the PRA rules and guidance on financial conglomerates capital adequacy, proposed amendment to SS5/13 (the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)), eligible liquid assets for Shari'ah compliant firms and risk management of asset encumbrance. The first two sets of provisions apply to all firms and the second to banks, building societies and designated investments firms. The PRA had received no responses on its proposals on financial conglomerates and SS5/13 with comments generally supporting the other proposals. The first, third and fourth sets of measures are implemented through amendment instruments attached to the policy statement with a separate supervisory statement 5/13 on ICAAP and SREP.

PRA, 27.5.2014

Bank for International Settlements (BIS)

Central Bank Responsibilities

BIS General Manager, Jaime Caruana, has given an address on "Redesigning the central bank for financial stability responsibilities" before the 135 Anniversary Conference of the Bulgarian National Bank, Sofia, 6 June 2014. Central banking has continued to evolve, in particular, following the global financial crisis with central banks being at the centre of adaptation in examining the regulation of financial activity following the crisis. Central bank functions have had to be reconsidered and redesigned having regard to their financial stability responsibilities with over 60 central bank laws having been amended within the last five years. Specific institutional challenges arise in integrating financial stability and monetary policy. Independence is necessary to avoid a build-up of financial imbalances with central banks having to avoid a bias towards inaction. Price stability and financial stability are highlighted as forming part of the same public good. Short term interest rate tools cannot simply be assigned to monetary stability and prudential tools to financial stability. Financial cycles, including a build-up of leverage and risk taking, last longer than standard business cycles with financial stability having to be integrated into monetary policy management. The crisis revealed that financial stability included a significant macroprudential or systemic dimension that had to be addressed. While only two thirds of central banks had an express financial stability mandate before the crisis, this had risen to four fifths with 30 new inter-agency councils being set up for macroprudential policy purposes. Various law reform and parliamentary solutions had been considered. This was necessary with financial regulation often being shared by a number of separate agencies, regulation being politically sensitive, financial stability having serious fiscal consequences and the concern in a number of countries to avoid concentrating power within the central bank.

BIS, 6.6.2014

Financial Market Infrastructures

The Committee on Payment and Settlement Systems (CPSS) and the International Organisation of Securities Commissions (IOSCO) have issued a report on *Implementation monitoring of PFMIs: First Update to Level 1 assessment report* (May 2014). This follows the standards on payment, clearing and settlement systems and trade repositories published in April 2012 which are intended to ensure that financial market infrastructures operated in a robust manner and are able to absorb financial shocks. The report includes self-assessments on legislative progress and other policy initiatives in the jurisdictions covered with a summary table and specific country tables (Annexes A and B). Significant progress had been achieved by the 28 participating jurisdictions since the initial Level 1 report in August 2013 although progress varied according to the type of FMI involved. Progress has specifically been achieved in connection with central counterparties, trade repositories and payment systems with less advance in connection with central securities depositories and securities settlement systems.

BIS, 28.5.2014

Financial Regulation

Jaime Caruana has spoken on "Financial regulation, complexity and innovation" as part of the Promontory Annual Lecture, London 4 June 2014. A number of regulatory and supervisory responses had been adopted following the financial crisis with attention shifting towards implementation. Imperfect knowledge nevertheless left regulatory design permanently following market change. Authorities had to adopt a multidisciplinary and proactive approach as the system continued to evolve and new types of financial risks emerged especially outside the banking system. This included using a combination of stronger buffers, revised incentives and more intrusive supervision. This was specifically necessary in dealing with increased challenges in the area of shadow banking and in capital markets.

BIS, 4.6.2014

Global Liquidity Regulation

Chairman of the Basel Committee, Stefan Ingves, has spoken on "Global liquidity regulation, supervision and risk management" before an DNB seminar on "Liquidity risk management – the LCR and beyond", Amsterdam, 15 May 2014. Banks were inherently vulnerable to liquidity risk in light of their maturity transformation role with banks and regulators being complacent in managing liquidity risks in the pre-crisis period during which liquidity was abundant. Many banks had failed to implement a number of basic principles of liquidity risk management and had specifically underestimated the probability of severe and prolonged liquidity shocks which, in turn, exacerbated the shocks. Many banks failed to maintain adequate systems to monitor liquidity risks on specific products and business lines with substantial contingent obligations that were not visible or understood. Contingency funding plans were based on optimistic assumptions with regulatory restrictions not being severe enough. The Basel Committee had undertaken a number of specific initiatives in this area. The banking industry had to ensure that it was able to better measure, manage and price liquidity risk in future.

BIS, 15.5.2014

International Journal of Central Banking

The BIS has published the latest edition of its quarterly *International Journal of Central Banking* (IJCB) which includes papers on central bank theory and practice especially with regard to monetary and financial stability. The edition includes specific papers on price stability risks, fiscal policy and inflation targets, monetary policy risk channels, monetary and macroprudential policy, financial frictions and macroprudential policy, financial stability and monetary policy, inflation targeting long-term inflation expectations and nominal anchors.

BIS, 30.5.2014

Property Price Data

The Bank for International Settlements (BIS) has published a detailed data set of nominal residential property prices based on 300 series from 54 countries provided by national central banks. The data provided varies according to local market structure and circumstances. Best practice recommendations on the compilation of price indices is set out in the *Handbook on Residential Property Prices Indices* (*RPPIs*) prepared by academics working with the EU statistical office, Eurostat, with the International Labour Organisation (ILO), International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), United Nations Economic Commission for Europe (UNECE) and the World Bank. The price data is collected following Recommendation 19 in the IMF and Financial Stability Board (FSB) report on *The Financial Crisis and Information Gaps* (October 2009). A separate long series of residential property prices has also been prepared based on data provided by central banks, statistical offices, research institutes, private companies and academic studies.

BIS, 11.6.2014

Quarterly Review

The BIS published its *Quarterly Review* on international banking and financial market developments at the beginning of June 2014. Cross-border claims on BIS reporting banks had continued to contract for a seventh consecutive quarter to \$2.4 trillion at the end of 2013 although the decline had slowed down from 1.7% to 0.4%. Claims on banking offices and non-bank entities fell with euro-denominated claims falling sharply. Cross-border lending in US dollars and Japanese yen had grown with emerging market claims increasing especially with lending to China. OTC derivative markets had continued to expand in the second half of 2013 to \$710 trillion nominal especially in medium to long term interest rate derivative contracts. Central clearing and netting improvements continued in connection with credit default swaps (CDSs). The BIS published its separate statistical release on *OTC derivatives statistics at end-December 2013* (May 2014) which confirmed an increase in activity from $633 trillion end 2012 to $693 trillion end-June 2013 and $710 trillion end 2013. Gross market value fell to $19 trillion from $20 trillion end-June and $25 trillion end 2012 driven by a narrowing between market interest rates and contract rates in interest rate derivative contracts. CDS contracts with central counterparties represented 26% of notional CDS outstanding with bilateral netting agreements reducing the net market value of outstanding CDS contracts to 21% of gross market value.

BIS, 2.6.2014

Working Papers

BIS had published a number of working papers. These include on "Credit Growth, Monetary Policy and Economic Activity in a Three-Regime TVAR (Threshold Vector Autoregression) Model" (WP449), "Globalisation, pass-through and the optimal policy response to exchange rates" (WP450), "Measuring economic slack: A forecast-based approach with applications to economies in Asia and the Pacific" (WP451) and "A shadow policy rate to calibrate US monetary policy at the zero lower bound" (WP452). The papers are revealed on the BIS website. BIS had published an earlier working paper on "The exit from non-conventional monetary policy: what challenges?" (May 2014) WP448 by Philip Turner with New Classical Macroeconomics at the end of the 1980s having focused exclusively on policy rate and neglecting balance sheet effects and central banks having to re-balance their balance sheets in cooperation with finance ministries but without surrendering monetary policy independence.

BIS, 4.6.2014

Financial Stability Board (FSB)

Data Gaps

The FSB has issued a funding template as part of Phase 2 of its Data Gaps initiative to create a common data template to collect key granular data on global systemically important banks (G-SIBs) assets and liabilities to allow authorities to assess the interlinkages between the largest banks and market and sector concentrations. Phase 1 began in March 2013 focusing on G-SIB exposures to large counterparties and major risks with Phase 2 focusing on institution to institution liabilities, funding providers and funding structures. The funding template requires banks to report on their largest wholesale secured and unsecured funding providers and on tradable debt securities issued by other G-SIB consolidated banking groups. The FSB has also reviewed a roadmap for Phase 3 with the common template being extended to include granular and comparable institution to aggregate (I-A) consolidated balance sheet data on a country, sector, instrument, currency and maturity basis. Reporting banks would be asked to participate in a Quantitative Impact Analysis (QIA) in the third quarter of 2014.

FSB, 6.5.2014

Regional Consultative Group

The Financial Stability Board (FSB) Regional Consultative Group (RCG) for America held its sixth meeting in Bogota, Columbia on 6 June 2014 hosted by the Central Bank of Columbia. The meeting considered the FSB's continued work plan including on building resilient financial institutions, ending too-big-to-fail (TBTF), dealing with shadow banking and making derivatives markets safer. TBTF reforms specifically included the adequacy of loss absorbing capital on resolution, cross-border recognition of resolution actions and cooperation and information sharing with host supervisors outside crisis management groups for global systemically important financial institutions (G-SIFIs). The RCG for Europe held its sixth meeting in Copenhagen, Denmark on 7 May 2014. The RCG for Sub-Saharan Africa held its fifth meeting in Accra, Ghana on 6 May 2014. The FSB maintained RCGs for the Americas, Asia, Commonwealth of Independent States, Europe, Middle East and North Africa and Sub-Sahara Africa.

FSB, 6.6.2014

Thematic Peer Review

The FSB has published a peer review report on national authorities' implementation of its *Principles for Reducing Reliance on CRA Ratings* (October 2010). The G10 required national authorities to accelerate progress in implementing the FSB principles in accordance with a roadmap set by the FSB in October 2012 following the St Petersburg G20 Summit and later meetings. The roadmap contains milestones to reduce mechanistic reliance on CRA ratings in standards, laws and regulations and to ensure that financial institutions strengthen and disclose information on their credit assessment approaches. The FSB conducted two thematic peer reviews covering references to CRA ratings in national laws and regulations and implementation activity. The second stage review confirmed that progress had been uneven in removing CRA references in laws and regulations with separate difficulties arising in terms of market practice and the need to develop alternative standards of creditworthiness to avoid an over reliance on CRA ratings as a sole input to credit risk assessment. Authorities had to establish stronger internal credit risk assessment practices either using CRA ratings as one indicator or ensuring fully independent risk assessments. All FSB members had prepared action plans to reduce reliance on CRA ratings although these varied in scope and detail. National authorities had to implement their action plans and refine them in terms of experience acquired, engage with market participants to encourage the adoption of alternative assessment processes and review reliance on ratings in private contracts, including ratings triggers, and avoid imposing any new mechanistic reliance on a limited number of alternative measures that might create substituted procyclicality and herd behaviour.

FSB, 12.5.2014

International Organisation of Securities Commissions (IOSCO)

Asset Management Ratings

The International Organisation of Securities Commissions (IOSCO) has issued a consultative paper on *Good Practices on Reducing Reliance on CRAs in Asset Management* (June 2014). The objective is to collect information to develop best practices to reduce an overreliance on external credit ratings in the asset management area with managers using ratings to assess the creditworthiness of issuer before purchasing securities, selecting counterparties or determining the best collateral to use in secured transactions. The initiative follows the FSB earlier *Principles for Reducing Reliance on CRA Ratings* (October 2010). The consultation paper contains a number of possible good asset management practices including requiring managers to make their own credit determinations, maintaining an effective internal assessment process, requiring disclosure of alternative credit information sources, encouraging the use of alternative sources through trade associations and SROs, understanding CRA methodologies and bases, disclosure of external CRA use and relationship with internal credit assessment methods, use of alternative quality parameters and avoiding asset sales where a rating downgrade has triggered an asset review.

IOSCO, 4.6.2014

Investor Education and Financial Literacy

IOSCO has published a consultation paper on *Strategic Framework for Investor Education and Financial Literacy* (May 2014). The paper explains IOSCO's function and strategic approach to promoting investor education and financial literacy. Investor education was considered essential in enhancing investor protection, promoting investor confidence and encouraging investor engagement in financial planning and decision-making. Investor education was treated as complementary to the more traditional tools of regulation, supervision and enforcement within IOSCO's Principles for Securities Regulation. Investor education and financial literacy had become of even more significant importance especially with the complexity of investment products and services and the need for retail investors to be able to understand and assess financial choice. This was also particularly necessary with the shift in many retirement schemes from employer to individual management. The IOSCO Board approved the creation of a Committee on Retail Investors (C8) in June 2013 to examine its work in the area of retail investor education and financial literacy and to advise the Board on emerging retail investor protection matters as well as implement policy work as requirement. A number of reports surveying members on investor education and literacy have been published since 2001. The most recent report highlights the importance of research in the area of education and literacy and the C8's strategic approach with the review of current practices of C8 members in the area. The report contains separate reviews on behavioural economics and financial decision-making with a behavioural economics literature review.

IOSCO, 29.5.2014

2015–2020 Strategic Plan

IOSCO has approached key stakeholders with a view to collecting opinions on the preparation of its 2015–2020 Strategic Plan following an earlier member survey. The objectives of the review are to define IOSCO outcomes for 2020, develop an appropriate strategic plan to achieve those outcomes, determine necessary funding and resourcing needs and prepare a financing plan to cover the funding and resourcing needs identified. The review specifically covers IOSCO performance, stakeholder engagement and key challenges.

IOSCO, 28.5.2014

International Association of Insurance Supervisors (IAIS)

International Information Exchange Agreement

Brazil has joined the International Association of Insurance Supervisors (IAIS) *Multilateral Memorandum of Understanding* (MMoU) and international supervisory cooperation and information exchange agreement. This provides a global framework for cooperation and information exchange between insurance supervisors with minimum standards that signatories have to adhere to with participants being subject to review and approval by an independent IAIS team. This operated on a day-to-day and crisis basis to promote safer and more stable insurance markets. Forty jurisdictions were signatories to the MMoU which represented around 55% of worldwide insurance premium volume.

IAIS, 21.5.2014

International Swap Derivatives Association (ISDA)

The International swaps and Derivatives Association (ISDA) has published a study on *Central Clearing in the Equity Derivatives Market* (June 2014) which outlines the nature of the equity derivatives market and the degree of central clearing secured as well as criteria to be considered in determining whether a clearing mandate should apply to the EU. ISDA encourages the European Securities and Markets Authority (ESMA) to examine the nature of the equity derivatives market and avoid applying EU requirements under the European Market Infrastructure Regulation (EMRI) too broadly. The majority of equity derivatives were already traded on exchanges and subject to clearing with the EU requirements to impose an obligation to trade all OTC equity derivatives. The BIS estimated that equity index futures and options were worth $251.17 trillion in 2013. ISDA welcomed the appointment of Timothy Massad as the new chairman of the US Commodity Futures

Trading Commission (CFTC) and two new commissioners, J Christopher Giancarlo and Sharon Y Bowen. ISDA welcomed the increase in OTC derivative contracts to $710 trillion in 2013. Gross credit exposure following legally enforceable netting had fallen from $3.8 trillion in June 2013 to $3 trillion in December 2013 with collateral reducing that exposure further. The BIS figures had also included every cleared trade twice with parties dealing with a common central counterparty. Compression had also reduced outstanding cleared and uncleared derivatives by $453 trillion by April 2014. ISDA and FIA Europe have published a European Cleared Derivatives Execution Agreement for principal to principal client clearing under English law to be cleared by central counterparties located outside of the US. This sets out the rights and obligations of each counterparty to a trade to be cleared including the clearing submission process and fallback provisions in the event that the transaction is not accepted for clearing. The 2014 Collateral Agreement Negative Interest Protocol has been published which clarifies the payment of interest on posted collateral in a negative interest rate environment under ISDA collateral documentation. ISDA has responded to the UK HM Treasury's consultation on bail-in capital in September 2013 including on implementation of the EU Bank Recovery and Resolution Directive (BRRD). ISDA supports early implementation before the 2016 BRRD implementation date although it recommends that the Code of Practice is finalised to provide appropriate guidance to support market certainty.

ISDA, May/June 2014

EUROPEAN DEVELOPMENTS

ESMA and EBA publish harmonised guidelines for handling consumer complaints across the EU

On 3 June 2014 ESMA and the EBA published a joint final report setting out guidelines for handling consumer complaints in the securities and banking sectors. The guidelines aim to increase market confidence and to ensure a harmonised approach to handling complaints for all 28 EU Member States and across all financial services sectors. They were based upon the existing complaints-handling guidelines established by EIOPA for the insurance sector.

The guidelines will be translated into the official languages of the European Union (EU) and they will become applicable two months after the date of publication of their translations.

The final guidelines can be viewed at: http://goo.gl/w3e70M

Bank Recovery and Resolution Directive and Directive on Deposit Guarantee Schemes

On 12 June 2014 the Directive on the Recovery and Resolution of Credit Institutions and Investment Firms (BRRD) and the recast Directive on

Deposit Guarantee Schemes (DGS) were published in the EU Official Journal. They therefore entered into force on 24 June 2014.

EBA launches interactive single rulebook

In June 2014, the EBA launched an on-line tool designed to facilitate navigation through the single set of harmonised prudential rules in the EU banking sector. It seeks to provide a comprehensive compendium of the level one text for both the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV), the corresponding technical standards developed by the European Banking Authority (EBA) and adopted by the European Commission (RTS and ITS), as well as the EBA guidelines and related Q&Ashttp://www.eba.europa.eu/single-rule-book-qa. This tool will also include the Bank Recovery and Resolution Directive (BRRD).

It can be accessed through the EBA website: www.eba.europa.eu

European Commission review of financial regulation agenda

On 15 May 2014 the European Commission published its review of the financial regulation agenda. This summarises the measures implemented by the EU in response to the financial crisis, evaluates their cost and concludes that the reforms have had a positive effect but that effective implementation and consistent application will determine their ultimate success.

The review also highlights the future focus by the commission on long-term financing and developing a more diversified financial system.

The review can be read at: http://goo.gl/yu3OlP

ISLAMIC FINANCE DEVELOPMENTS

The UK Government issues first Islamic bond

Britain becomes the first country outside the Islamic world to issue sovereign Sukuk.

The government (25 June 2014) has cemented Britain's position as the western hub for Islamic finance by becoming the first country outside the Islamic world to issue sovereign Sukuk, the Islamic equivalent of a bond.

The government confirmed that £200 million of Sukuk, maturing on 22 July 2019, have been sold to investors based in the UK and in the major hubs for Islamic finance around the world.

The UK's first sovereign Sukuk received very strong demand, with orders totalling around £2.3 billion, and allocations have been made to a wide range of investors including sovereign wealth funds, central banks and domestic and international financial institutions.

Investors from the major centres for Islamic finance in the Middle East, Asia and Britain were all represented in the final allocation. The profit rate on the Sukuk has been set at 2.036% in line with the yield on gilts of similar maturity.

The Chancellor of the Exchequer George Osborne said:

> "Today's issuance of Britain's first sovereign Sukuk delivers on the government's commitment to become the western hub of Islamic finance and is part of our long term economic plan to make Britain the undisputed centre of the global financial system.
>
> "We have seen very strong demand for the Sukuk, resulting in a price that delivers good value for money for the taxpayer. I hope that the success of this government issuance will encourage further private sector issuances of Sukuk in the UK."

By issuing sovereign Sukuk, the government has demonstrated that it is possible to create a successful British base for Islamic finance.

Britain's sovereign Sukuk uses the Al-Ijara structure, the most common structure for sovereign Sukuk, with rental payments on property providing the income for investors. The Sukuk is underpinned by three central government properties. This issue will settle on 2 July 2014, and will be listed on the London Stock Exchange.

MH Treasury 25.06.14

https://www.gov.uk/government/news/government-issues-first-islamic-bond

The Prudential Regulatory Authority Decides to allow Sharia-compliant firms to include a wider set of assets in their liquid assets buffers

In its Policy Statement (PS4/14) the Prudential Regulatory Authority (PRA) decided to go ahead with the proposals made in the CP5/14. The PRA originally proposed to amend eligibility criteria in BIPRU 12.7 to allow Sharia compliant firms to include a wider set of assets in their liquid assets buffers. These proposals are intended to help reduce the risks of concentration in Sharia-compliant firms' liquidity buffers and they are intended to help remove potential barriers to growth and entry. In addition to the highest-quality assets (sukuk issued by the highest-rated sovereigns), the PRA proposed to recognise sukuk issued by sovereigns with lower credit ratings and other sukuk that are not issued by a member of the financial sector. These lower-quality assets would be subject to haircuts and caps. The haircuts proposed use the Basel text as a benchmark, though in some instances the PRA proposes to increase the haircut to account for a less developed secondary market.

The Prudential Regulatory Authority, Bank of England, 27.05.14

http://www.bankofengland.co.uk/pra/Pages/publications/ps/2014/ps414.aspx

IFSB-IRTI Released the Mid-Term Review of the Ten-Year Framework and Strategies for Islamic Financial Services Industry Development

In 2013, the Islamic Development Bank and Islamic Financial Services Board initiated a mid-term review of the Ten-Year Framework ("Mid-Term Review") as more than half of the period has passed. The Mid-Term Review seeks to assess the impact of macroeconomic events, to monitor progress in implementing the recommendations, and to propose additions or modifications to the recommendations to guide the industry. The current document reports the findings of this Review, with the following goals in mind:

- to assess the impact on the respective Islamic finance segments arising from developments
- in the global financial system post-crisis;
- to examine the progress and current status of the priorities and initiatives suggested in the
- Ten-Year Framework and Strategies;
- to identify the gaps involved in implementing the priorities and initiatives; and
- to assess the need for a re-orientation of such priorities and initiatives.

The Mid-Term Review thus seeks both to assess progress made by the industry in implementing the 2007 recommendations, and to amend the recommended Ten-Year Framework in the light of developments since its publication.

The "Ten-Year Framework and Strategies for Islamic Financial Services Industry (IFSI) Development: A Mid Term Review", a document jointly published by the IFSB and Islamic Research and Training Institute (IRTI), the research arm of the Islamic Development Bank Group (IDB),was launched during an IFSB-IRTI Session on Mid-Term Review of the IFSI Development: Ten-Year Framework and Strategies held in Mauritius.

The session was held in conjunction with the 11th IFSB Summit, which is hosted by the Bank of Mauritius. It discussed the proposed measures to address the gaps or challenges in meeting the objectives of the Ten-Year Framework, as well as the roles of the public and private sectors and other stakeholders of the IFSI in carrying out the 16 recommendations, taking into account the state of development of the IFSI in the respective jurisdictions. The Ten-Year Framework was first published by the IFSB, IDB and IRTI in 2007 to provide a general blueprint or guideline for new and existing Islamic finance jurisdictions in designing and developing their national plans and initiatives as part of their financial sector development policies.

The Mid-Term Review has benefitted from feedback from regulatory and supervisory authorities as well as consultation with market players and leading industry experts in various IFSB-IRTI events organised during the review exercise.

In the first session of the event, shared the objectives of the Mid-Term Review of the Ten-Year Framework, namely to (a) assess the impact on the respective Islamic finance segments arising from the development in the global financial system post-crisis; (b) examine the progress and current status of the priorities and initiatives; (c) identify the gaps involved in implementing the priorities and initiatives; and (d) assess the need of a re-orientation of such priorities and initiatives.

Distinct features of The Mid-Term Review prioritises a set of recommendations that are organised in three pillars: (a) Enablement: fostering conditions for the industry to thrive; (b) Performance: enhancing the effectiveness of institutions active in the industry; and (c) Reach: expanding the set of potential beneficiaries of the industry. Other distinct features of the Mid-Term Review are the development of Key Performance Indicators, introduction of three additional recommendations from 13 in the 2007 document to 16, and the establishment of a stronger implementation plan to be undertaken by a range of stakeholders.

The second session, themed “Updated Framework Recommendations: Enablement, Performance and Reach”, focused on proposed measures to address the gap or challenges in meeting the objectives of the 10-Year Framework, as well as adopting and utilising the Key Performance Indicators to help address weaknesses and monitor progress of the framework.

The panel focused on several initiatives that can be undertaken by Islamic finance jurisdictions to help finance the real sector of the economy, encourage financial inclusion, and ultimately grow the Islamic finance sectors, making it a mainstream industry instead of its current niche status. This can be achieved by, among others, developing a national strategy for Islamic finance, creating a level playing field for the industry, encouraging savings and investment by developing the Takaful, microTakaful and microfinance segments, innovating products with value propositions that clearly separate them from conventional products, developing capacity building at public, private and individual levels, as well as encouraging cross-border linkages at both the public and private sector levels. Having in place a set of Key Performance Indicators to track progress and performance is therefore crucial to ensure the objectives of the 10-Year Framework are met.

The third and final session entitled “Bringing the 16 Recommendations to Life: Concrete Initiatives and a Stronger Implementation Plan” discussed the roles of the public and private sectors and other stakeholders of the IFSI in driving implementation, as well as key initiatives to support the implementation of the Recommendations.

The panel shared their experience in developing the IFSI in terms of the three pillars of the Mid-Term Review of the Ten-Year Framework – Enablement, Performance and Reach. They also stressed some of the factors that could contribute towards further development of the industry. These include the role of the private sector in influencing public sector policies in Islamic finance, cooperation and collaboration among the regulatory and supervisory authorities in terms of garnering technical support and developing human capital, initiatives to strengthen Islamic finance institutions and markets, greater awareness of Islamic finance products and services, and developing and offering Islamic finance products as an alternative solution across all segments of populations regardless of their religious beliefs.

Islamic Financial Service Board 19.05.14

http://www.ifsb.org/preess_full.php?id=259&submit=more

INTERNATIONAL DEVELOPMENTS

The International Monetary Fund-World Bank Publish Revised Guidelines for Public Debt Management

The International Monetary Fund (IMF) and World Bank staffs have prepared and issued to the Executive Boards of both institutions the Revised Guidelines for Public Debt Management for information on April 1, 2014. Application of these guidelines should strengthen the international financial architecture, promote policies and practices that contribute to financial stability and transparency, and reduce member countries' external vulnerabilities.

The revision of the original 2001 Guidelines and their 2003 Amendments was requested by the G-20 Finance Ministers and Central Bank Governors at their meeting in Moscow on February 15–16, 2013. The request was triggered by structural changes in many countries' debt portfolios— in terms of both size and composition—over the last decade, as a result of financial sector and macroeconomic policy developments, especially in response to the recent financial crisis.

The 2014 revision of the Guidelines was carried out by the IMF and World Bank staffs, supported by a working group of debt management offices and central bank authorities from Argentina, Bangladesh, Belgium, Brazil, the Comoros, Denmark, the Gambia, Germany, India, Italy, Jamaica, Korea, the People's Republic of China, Russia, Sierra Leone, Spain, Sudan, Sweden, Turkey, the United States, Uruguay, and Vietnam. Lars Hörngren, Chief Economist at the Swedish National Debt Office, chaired this working group. The OECD provided inputs during the review process.

The revisions to the Guidelines mainly concentrate on:

(i) management objectives and coordination, including clarifying the roles and accountabilities of fiscal authorities and debt managers to the debt sustainability analysis process;

(ii) transparency and accountability by enhancing communication with investors, especially during periods of crisis;

(iii) institutional framework with the use of collective action clauses (CACs) in bond contracts as necessary for the efficient resolution of sovereign debt restructuring;

(iv) debt management strategy, including debt portfolio risk mitigation strategies and contingency plans;

(v) risk management framework, with emphasis on stress testing of the public debt portfolio and the use of derivatives in managing portfolio risk; and

(vi) development and maintenance of efficient markets for government securities, as an integral part of developing a robust debt management strategy.

The revised Guidelines will be used by the IMF and World Bank staffs to provide a framework for technical assistance and will serve as background for discussions in the context of IMF surveillance. It may also be used as reference material by third party consultants and experts dealing with public debt management issues.

The International Monetary Fund 25.04.14

http://www.imf.org/external/np/sec/pr/2014/pr14181.htm

Final Paper on Point Of Sale Disclosure in the Insurance, Banking and Securities Sectors Released By the Joint Forum

The Joint Forum released its final report on Point of sale disclosure in the insurance, banking and securities sectors. The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.

The report identifies and assesses differences and gaps in regulatory approaches to point of sale (POS) disclosure for investment and savings products across the insurance, banking and securities sectors, and considers whether the approaches need to be further aligned across sectors. It sets out eight recommendations, for use mainly by policymakers and supervisors to assist them in considering, developing or modifying their POS disclosure regulations:

1. Jurisdictions should consider implementing a concise written or electronic POS disclosure document for the product sample identified in this report, taking into account the jurisdiction's regulatory regime.

2. The POS disclosure document should be provided to consumers free of charge, before the time of purchase.

3. A jurisdiction considering POS disclosure should consider requiring that a POS disclosure document disclose key characteristics including costs, risks and financial benefits or other features of a given product and any underlying or referenced assets, investments or indices, irrespective of the financial sector from which the products are derived.

4. The POS disclosure document should be clear, fair, not misleading and written in a plain language designed to be understandable by the consumer.

5. The POS disclosures should include the same type of information to facilitate comparison of competing products.
6. The POS disclosure document should be concise, set out key information about a product and may include, as appropriate, links or refer to other information. It should make clear that it does not provide exhaustive information.
7. Allocation of responsibility for preparing, making available and/or delivering the POS disclosure document should be clearly established, and the POS disclosure document should identify which entity is responsible for its content.
8. A jurisdiction considering POS disclosure should consider how to use its capabilities and powers to implement these POS recommendations, taking into account the jurisdiction's regulatory regime.

International Organisation of Securities Commissions 30.04.14

http://www.iosco.org/news/pdf/IOSCONEWS328.pdf

New approach for measuring counterparty credit risk exposures finalised by the Basel Committee

The Basel Committee has published a final standard on the treatment of derivatives-related transactions in its capital adequacy framework.

'*The standardised approach for measuring counterparty credit risk exposures'* improves on existing non-modelled methodologies for assessing the counterparty credit risk associated with derivative transactions. The standardised approach therefore replaces both the Current Exposure Method and the Standardised Method in the Basel capital framework. It also simplifies the framework by narrowing the range of methodologies available to banks in measuring their counterparty credit risk exposures.

The Committee's aim was to develop a risk-sensitive methodology that appropriately differentiates between margined and unmargined trades, and provides a more meaningful recognition of netting benefits than either of the existing non-modelled approaches.

The new approach reduces the need for discretion by national authorities, limits the use of banks' internal estimates, and avoids undue complexity by drawing upon prudential approaches already available in the capital framework. It is calibrated to reflect the volatilities observed over the recent stress period, while also taking account of incentives for centralised clearing of derivative transactions.

The new approach gives regard to the feedback received from respondents to the Basel Committee's consultative paper '*The non-internal model method for capitalising counterparty credit risk exposures*', and the results of a related quantitative impact study. In the light of this information, a number of adjustments were made to the methodology outlined in the consultative paper, which include:

- increased specificity on the application of the approach to complex instruments;
- the introduction of a supervisory measure of duration for interest rate and credit derivative exposures;
- removal of the one-year trade maturity floor for unmargined trades and the addition of a formula to scale down the maturity factor for any such trades with remaining maturities of less than one year; and
- adjustments to the calibration of the approach with respect to foreign exchange, credit and some commodity derivatives.

The standardised approach for counterparty credit risk will take effect from 1 January 2017. Given the approach's enhanced risk sensitivity, the Basel Committee has also agreed to eliminate the use of the ′Internal Model Method (IMM) shortcut method′ for measuring counterparty exposures once the new standardised approach takes effect.

Bank for International Settlement 31.03.14

https://www.bis.org/press/p140331.htm

Dubai Financial Services Authority Consults on Major Regulatory Changes

Consultation Paper No. 94 proposes changes to the Financial Market Tribunal (FTM) Jurisdiction, to Dubai Financial Serves Authority's (DFSA) supervisory powers and to Dubai Financial Serves Authority's (DFSA) approach to decision making.

This Consultation Paper (CP) includes the results of public consultation on CP90, proposed changes arising from that consultation and further proposals resulting from the DFSA's review of its supervisory powers. The DFSA undertook the review to assess whether the current supervisory powers are adequate and effective to enable the DFSA to achieve its regulatory objectives, in line with the standards set by relevant international standard setters, and also in light of the DFSA's own supervisory experience in the past decade. This CP also includes further proposals on the DFSA's approach to decision making.

This CP contains two sets of proposals on which we seek public comments:

(1) the first set is the position adopted by the DFSA relating to CP90 proposals to enhance the administrative review of DFSA decisions by the Financial Markets Tribunal (FMT) – with further refinements to the original proposals in light of public comments received and through our own initiative. Where CP90 only set out proposed changes at the level of laws, this CP also proposes changes at the level of Rulebook Modules; and

(2) the second set is detailed proposals to enhance the DFSA's supervisory powers resulting from the comprehensive review of the DFSA's current powers, as indicated in CP90.

The DFSA intends (subject to the outcome of this further consultation) to move forward with the overall set of proposals consulted on in CP90, namely to:

(a) expand the jurisdiction of the FMT to include matters currently falling within the jurisdiction of the Regulatory Appeals Committee (RAC);

(b) abolish the RAC; and

(c) adapt its own approach and processes:

  (i) to decision making; and

  (ii) to setting the level of fines, which was discussed in detail in CP90.

From the review of its supervisory powers, the DFSA proposes:

(1) some minor changes to powers to make sure that the DFSA's regime is sufficiently in line with international standards for financial services regulation;

(2) a number of changes to powers that our supervisory experience suggests are necessary; and

(3) amendments to ensure a more consistent and coherent approach to the due process requirements that apply when the DFSA exercises its supervisory powers.

Dubai Financial Services Authority 21.04.14

http://www.dfsa.ae/WhatsNew/DispForm.aspx?ID=286

People's Bank of China Established a Centralized Clearing Mechanism for OTC Financial Derivative and Launching Centralized Clearing of RMB Interest Rate Swap

In order to promote the sound development of OTC financial derivative market and establish a centralized clearing mechanism for OTC trading of financial derivatives, the trading of RMB interest rate swap and other OTC financial derivatives among the national inter-bank bond market participants (market participants) should go through a centralized clearing arrangement in accordance with the requirements and the Shanghai Clearing House shall provide the centralized clearing services.

People's Bank of China 08.04.14

http://www.pbc.gov.cn/publish/english/955/2014/20140408162107938969555/20140408162107938969555_.html

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