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Banking Law Update

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REGULATORY DEVELOPMENTS

Prudential Regulation Authority (PRA)

Bank Stress Test

The Bank of England has published the terms for the 2015 stress test that the largest UK banks and building societies have to comply with following agreement with the Financial Policy Committee (FPC). The objective is to confirm the resilience of UK banks to a deterioration in global economic conditions based on a 'tail-risk' scenario based on a series of assumed shocks. The test is based on a synchronised global downturn in Asian and Euro markets which amplify global disinflationary pressures, severe financial stress arising through a reduction in global risk appetite especially in indebted economies, reduced market liquidity and counterparty default, and the slowdown in the UK economy following a downturn in trading partners, reduction in confidence and correction in market risk appetite. The results are assessed against a threshold of 4.5% core equity tier (CET) 1 risk weighted capital adequacy ratio and a 3% tier 1 leverage ratio with up to 25% of tier 1 capital being satisfied through additional tier 1 (AT1) instruments. Banks may be required to hold additional capital where their ratio falls below these thresholds.

PRA, 30.3.2015

Foreign Exchange Best Market Practice

Eight foreign exchange committees within the major financial centres have agreed a revised set of *Global Preamble: Codes of Best Market Practice and shared global principles* (March 2015). The document updates an earlier 2013 version and was agreed at the annual global foreign exchange committees meeting in Tokyo on 23 March 2015. The objective is to develop and promote clear, robust and implementable best practice guidance in the foreign exchange area. The revised draft principles were prepared following a committee meeting in Sydney in 2014. Areas covered include personal conduct, confidentiality and market conduct as well as execution policies which reflect the Financial Stability Board's (FSB) Foreign Exchange Benchmark recommendations produced on 30 September 2014. UK markets were represented by the London Foreign Exchange Joint Standing Committee (FX JSC) which was originally set up in 1973 under the auspices of the Bank of England.

Bank of England, 30.3.2015

Financial Stability

The European Central Bank (ECB) and the Bank of England have announced measures to enhance financial stability with regards to centrally cleared markets within the EU including agreed arrangements for information exchange and cooperation with regards to UK Central Counterparties (CCPs) with significant Euro denominated business and an extension of the standing swap line between the EEC and Bank to provide multi-currency liquidity support to CCPs within the UK and Euro areas. The measures following litigation brought by the UK Government before the EU General Court. The Court annulled the ECB Eurosystem Oversight Policy Framework insofar as it required CCPs to be located within the Eurozone in case T-496/11 with judgement on 4 March 2015 with two other cases on the ECB's location policy being outstanding with T-45/12 and T-93/13. Further litigation has been surceased. The European Market Infrastructure Regulation (EMIR) No 648/2012 allows CCPs established and authorised in one Member State to provide clearing services in multiple currencies throughout the EU with CCPs being used to clear standardised over the counter (OTC) derivative contracts. Fifty percent of global OTC interest rate derivatives were cleared through CCPs as against only 16% in 2007. International central banks had also agreed in June 2012 to provide emergency liquidity to solvent and viable CCPs without any liquidity pre-commitment.

Bank of England, 29.3.2015

Solvency II

The PRA has concluded the pre-application process for the Solvency II matching adjustment with a letter being sent out to firms on Solvency II internal model and matching adjustment approvals. Solvency II is due to come into effect on 1 January 2016. Matching adjustment provides for adjustment in the risk-free interest term structure used to calculate the best estimate of a portfolio of eligible insurance obligations subject to prior supervisory approval and eligibility criteria. The guidance confirms how conditions are assessed as part of the formal application process and advises on how the eligibility criteria are to be applied.

PRA, 28.3.2015

Financial Policy Committee

The FPC published a statement following its meeting on 24 March 2015 which reviewed risk to the UK financial stability. Credit growth within the UK had remained moderate with UK banks continuing to build resilience. Work was nevertheless commissioned with regard to global risk, market liquidity risks, cyber risk and other domestic risks. The FPC asked the Bank and Financial Conduct Authority (FCA) to encourage international work on dealing with data gaps and to build a common understanding of vulnerabilities in capital market and asset management activities, increase understanding of the channels through which UK financial stability may be impacted by market correction and a reduction in market liquidity, collect information from UK asset managers on the strategies for managing funds liquidity in normal and stress scenarios and determine how liquidity might become more fragile in relevant markets. The FPC decided to maintain the countercyclical capital buffer (CCB) at 0% for UK exposures. The CCB rate in Hong Kong had been raised to 0.625% on banks' domestic exposures.

FPC, 26.3.2015

RTGS Outage

The Bank of England has published the results of an independent review conducted by Deloitte on the disruption suffered to the Real Time Gross Settlement (RTGS) system on 20 October 2014 with the Bank's response. The RTGS system has suffered a nine-hour service disruption principally caused by the defects arising as a result of functionality changes to the RTGS system in April 2013 and May 2014. All submitted payments of £289.3 billion had been settled within the operating hours which had been extended to 8:00pm with risks to financial stability and financial loss being avoided through the execution of a plan to ensure resolution and timely clearing of all end-of-day transactions. Inconvenience had nevertheless been suffered by RTGS participants especially with regard to housing transactions with the Bank considering contingency solutions and future systems development as well as other strengthening of its crisis management framework. The RTGS Board had been reconstituted with other recommendations being implemented. The Bank had settled nine separate claims totalling £4,060 in respect of losses suffered by market participants.

Bank of England, 25.3.2015

Individual Accountability

The PRA has published feedback on its consultation papers on *Strengthening accountability in banking: a new regulatory framework for individuals* (CP14/14) and *Senior insurance managers' regime: a new regulatory framework for individuals* (CP26/14). The PRA has also issued final rules on the implementation of the Senior Managers Regime (SMR) and Certification Regime for UK banks, building societies, credit unions and PRA designated investment firms (referred to as 'relevant authorised persons') and the Senior Insurance Managers Regime (SIMR) for Solvency II insurers. SMR rules specifically cover scope, allocation of Prescribed Responsibilities to Senior Managers, coverage of the Certification Regime and assessment of fitness and proprietary of Senior Managers and certified employees. The PRA would issue a further policy statement and final rules with supervisory statements on outstanding elements following consultation with the FCA. Further information was available on the PRA's 'Strengthening accountability' webpage.

PRA, 23.3.2015

Solvency II

Final rules for the implementation of Solvency II have been published by the PRA (PS2/15). The objective is to reduce possible firm failure with the better alignment of capital to asset and liability profiles with capital quality also being enhanced and incentives incorporated to strengthen risk management, reporting and disclosure. This includes provisions on the long-term guarantees package which reduces risk where liabilities are closely matched with long-term assets with reduced capital and reserving requirements. A consultation paper (CP11/15) has also been produced on the volatility adjustment to the risk-free discount rate for valuing insurance liabilities which is intended to mitigate the effects of short-term volatility in markets.

PRA, 20.3.2015

Regulated Fees and Levies

The PRA has published a consultation paper on *Regulated fees and levies: rates proposals 2015/16* (CP10/15). This sets out rates to secure the PRA's Annual Funding Requirement (AFR) with rates for Special Project Fees for March 2015 – February 2016 for dual regulated FCA/PRA firms. The proposed AFR is £257.8 million which represents an increase of 4% on the £246.8 million for 2014/15. This reflects transition costs of bringing Bank of England staff onto the same terms and conditions and the need for additional resources in light of additional work arising from, in particular, implementation of the Parliamentary Commission on Banking Standards (PCBS) on Senior Managers Regime (SMR) and Senior Insurance Managers Regime (SIMR), Solvency II, Capital Requirements Directive IV and UK stress testing. The Bank of England has spent £73.9 million (excluding capital expenditure) on the creation of the PRA and regulatory reform which would be recovered during their five-year period between 2013–2017 with £14.8 million being added to the PRA AFR each year.

PRA, 19.3.2015

UK Foreign Bank Branches

The PRA and FCA have issued a consultation paper on *Strengthening accountability in banking: UK branches of foreign firms* (March 2015) CP9–15. The consultation is issued in advance of secondary legislation to extend the application of the Senior Managers Regime (SMR), Certification Regime and Conduct Rules to UK branches of overseas banks and PRA designated investment firms. This follows earlier consultation on implementation of accountability regimes, supervisory approach to foreign branches, technical aspects of accountability and non-executive directives (NEDs) (CP14/14, SS10/14, CP28/14 and CP7/15). The SMR will replace the earlier Approved Persons Regime (APR) for banks, building societies, credit unions and designated investment firms. Under the most recent documents, the Head of Overseas Branch is made a specific Senior Management Function (SMF), dedicated SFOs, CROs or Head of Internal Audit will require approval, Group Entity Senior Managers will require approval and other Senior Managers subject to a revised set of PRA Prescribed Responsibilities with the PRA's Certification regime generally applying to all Material Risk Takers (MRTs) under the Remuneration Rules.

PRA, 16.3.2015

Financial Market Infrastructures

The Bank of England has published its *Annual Report* for the supervision of financial market infrastructures (FMIs) for 2014–2015. FMIs consist of recognised payment systems, central counterparties (CCPs) and securities settlement systems subject to Bank of England oversight. The Bank has intensified its focus on FMIs as part of its *Strategic Plan* announced in March 2014. The report signifies important developments with regard to FMIs including on EMIR implementation and CCP work.

Bank of England, 11.3.2015

External Auditors

The PRA has published a consultation paper on *Engagement between external auditors and supervisors and commencing the PRA's disciplinary powers over external auditors and actuaries* (February 2015) CP8/15. External auditors support PRA supervision, in particular, in forming judgement based decisions which promotes the safety and soundness of PRA authorised firms. The PRA had established closer and more frequent engagement with external auditors with a Code of Practice having been produced and the PRA Board considering the quality of dialogue between its staff and external auditors following PCBS recommendations. The PRA is to require external auditors of the largest UK headquartered deposit-taking institutions that are not subsidiaries of non-UK firms to provide written reports to the PRA as part of the statutory audit cycle. HM Treasurer has also laid regulations to commence PRA disciplinary powers over actuaries and auditors under s 345a of the Financial Services and Markets Act (FSMA) with the PRA explaining how it will use those powers in the consultation. The PRA has power to discipline firms where they fail to comply with reporting requirements under FSMA or PRA rule duties which may include the imposition of fines, public censures or disqualification from working in the financial services area.

PRA, 27.2.2015

Senior Management Accountability

The PRA set out how it will hold senior managers accountable for failure to meet its requirements. The PRA and FCA have been given additional powers to impose regulatory sanctions on individual senior managers under the Financial Services (Banking Reform) Act 2013. The Act also introduces a criminal offence for the making of reckless decisions resulting in the failure of a financial institution (s 36). The PRA has issued two consultation papers on *Approach to non-executive directors in banking and Solvency II firms & Application of the presumption of responsibility to Senior Managers in banking firms* (February 2015) CP7/15 and *Whistleblowing in deposit-takers, PRA-designated investment firms and insurers* (February 2015) CP6/15. The SMR and SIMR would be extended to apply to non-executive directors (NEDs) including the chairman, senior independent director, chair of the risk committee, chair of the audit committee and chair of the remuneration committee. Such persons will be responsible for their collective decision-taking and may be held individually accountable under the new requirement. The PRA was also consulting on notification and assessment requirements for NEDs not included within its regime with the FCA adopting a narrower approach to NEDs. The PCBS had also recommended that banks ensure that they maintain effective mechanisms to allow employees to raise concerns internally with a separate package of measures being produced by the PRA and FCA on whistleblowing procedures. All employees are encouraged to report any suspected misconduct without threat of personal repercussion.

PRA, 23.2.2015

Financial Conduct Authority (FCA)

Multilateral Trading Facilities

The FCA has published Finalised Guidance on *Multilateral Trading Facilities* (*MTFs*) (April 2015) FG15/6 with a 'Dear CEO Letter' and FCA *Good Practice Observations on MTF Rulebooks*. This follows earlier guidance consultation (GC14/9) in December 2014. The guidance contains MAR 5 requirements and FCA Good Practice Observations with regard to MTF operator rulebooks. MAR 5.3.1 (Trading Process Requirements) requires that firms operating an MTF must have transparent and non-discriminatory rules and procedures for fair and orderly trading. MTF operators should have appropriate rulebooks in place and made publically available through their website. This follows an earlier thematic review of MTF operators' rulebooks. The Dear CEO Letter states that the FCA expects all MTF operators to be able to demonstrate that they have considered the good practice observations attached in determining their approach to compliance with the Handbook requirements and, in particular, MAR 5. MTF rulebooks should, in particular, contain participant eligibility criteria, participant obligations, instrument eligibility criteria, fair and orderly trading rules, market abuse prohibition rules, post-trade obligations, compliance, monitoring and sanctions, definitions and glossary of terms and provisions governing cooperation with regulators.

FCA, 15.4.2015

Bank of New York Mellon Fined

The Bank of New York Mellon London Branch (BNYMLB) of The Bank of New York Mellon International Ltd (BNYMIL) have been fined £126 million for failure to comply with the Custody Rules. The BNY Mellon Group is the world's largest global custody bank by safe custody assets with BNYMLB and BNYMIL being the third and eighth largest custody banks in the UK providing services to 6,089 UK-based clients holding £1.3 trillion and £236 billion of assets respectively. The firms had used global platforms to manage clients' safe custody assets that did not record which BNY Mellon Group entity clients had contracted with which meant that the two firms were unable to comply with the Custody Rules, in particular, with regard to conduct entity specific external reconciliations, maintaining an adequate CASS resolution pack and submitting accurate Client Money and Asset Returns (CMAR). The firms had also failed to take necessary steps to prevent the comingling of safe custody assets with firm assets from 13 proprietary accounts, occasionally using safe custody assets held in omnibus accounts to settle other clients' transactions without the express prior consent of all clients involved and failing to implement sufficient CASS specific governance arrangements having regard to the nature of the firms' business and failure to identify and remedy the failings identified. The failings occurred between November 2007 and August 2013 with FCA specialist client assets supervisors having identified the issues. The firms agreed to settle at an early stage and qualified for a stage one 30% discount of the proposed £180 million penalty.

FCA, 15.4.2015

Clydesdale Bank

Clydesdale Bank plc has been fined £20,678,300 for serious failings in its Payment Protection Insurance (PPI) complaint handling processes between May 2011 and July 2013. The FCA considered that the bank had implemented inappropriate policies in mid-2011 with PPI complaint handlers not taking into account all relevant documents in deciding how to deal with customer complaints. False information had also been provided to the Financial Ombudsman Service between May 2012 and June 2013 in response to evidence requests held on PPI policies sold to individual customers. System printouts had been altered to indicate that no relevant documents were held with PPI information on products sold to a customer being deleted from a separate printout. It was accepted that the practices were not known to or authorised by Clydesdale's PPI leadership team or more senior management. 42,200 out of 126,600 PPI complaints may have been decided unfairly with up to 50,900 upheld complaints possibly having resulted in inappropriate redress. The bank agreed to settle early and qualified for a stage one 30% discount on the original proposed £29,540,500.

FCA, 14.4.2015

Financial Complaints

The FCA has published statistics showing that total financial services complaints had decreased by 7% between July and December 2014 compared with the previous six months and 12% from the year before. Total complaints were 2,183,540. This nevertheless included an 8% rise in complaints relating to banking and credit card products. PPI complaints accounted for 48% of complaints with a total of 1,124,622 complaints. While this was less than half, this remained the most important product generating customer grievances. The number of PPI complaints opened had fallen by 14% to 1,058,918. Total redress paid had increased by 4% to £2.44 billion with £2 million and £15 billion (88%) relating to general insurance and pure protection products including PPI. Redress in relation to banking and credit card products increased by 64% to £145 million which represent 6% of total redress. The largest banks received the following number of complaints: Barclays Bank plc (276,626), Lloyds Bank plc (242,782), Bank of Scotland (231,869), HSBC (152,148), National Westminster Bank (126,507), Santander UK (124,829), MBNA Ltd (103,328) and Royal Bank of Scotland (74,455).

FCA, 30.3.2015

Mortgage Credit Directive

The FCA has issued a policy statement on *Implementation of the Mortgage Credit Directive and the new regime for second charge mortgages, feedback to CP14/20 and final rules* (March 2015) PS15/9. The original consultation paper (CP14/20) had been published in September 2014. The new measures will come into effect on 21 March 2016. The Mortgage Credit Directive (MCD) creates a new framework for the sale of first and second charge mortgages within the EU many of which parallel UK mortgage rule provisions. The MCD has only been copied out where existing rules could not be used. Second charge mortgages are regulated as consumer credit in the UK with the MCD applying equally to first and second charge mortgages which has led to the incorporation of second charge mortgages within the UK mortgage regime. Specific material covered in the original consultation paper included MCD application, Mortgages and Home Finance: Conduct Business (MCOB) sourcebook, the sales pipeline, binding offers, lifetime mortgages, foreign currency mortgages and European Standardised Information Sheet (ESIS) language.

FCA, 27.3.2015

MiFID II Implementation

The FCA has issued a discussion paper on *Developing our approach to implementing MiFID II conduct of business and organisational requirements* (March 2015) DP15/3. The objective is to obtain industry views on MiFID II implementations where some flexibility exists. Matters covered include the extent to which the FCA should apply MiFID II to insurance based investment products and pensions, the application of investor protection measures to structured deposits, third-party rebating bans for discretionary investment management firms, options to treat local authorities as professional clients, advisor independence, the application of sales staff remuneration rules to non-MiFID II firms, telephone and electronic communication recording by Article 3 exempt firms (including independent financial advisors and corporate finance boutiques) costs and charges disclosure requirements and inducement rules for advisors, discretionary investment managers and other firms. The paper also sets out FCA expectations on restrictions to be imposed on non-complex products and application of the appropriateness test to complex products.

FCA, 26.3.2015

Regulated Fees and Levies

The FCA has published a consultation paper on *Regulated fees and levies: rates proposals 2015/16* (March 2015) CP15/14. This sets out the proposed fees and levies for the FCA, the Financial Ombudsman Services (excluding case fees) and Money Advice Services as well as proposals on consumer credit fees, pension and guidance levies and Payment Systems Regulator (PSR) fees. The FCA Annual Funding Requirement (AFR) for 2015/16 was set at £481.6 million which represented a 7.9% (£35.2 million) increase on the 2014/15 AFR of £446.4 million. The £35.2 million represented £27 million of ongoing regulatory activity (ORA) and a £10 million reduction in underspend return to fee payers offset by £1.8 million decrease in scope change costs. The FCA attempts to ensure an even distribution of the increase across fee blocks unless there is a material reason increasing an individual block.

FCA, 26.3.2015

Capital Alternatives Appeal

The Court of Appeal has ruled in favour of the FCA in proceedings against Capital Alternatives in connection with unauthorised collective investments schemes. The FCA initially proceeded against two investment schemes in July 2013 consisting of an African land (AGRI Capital) scheme offering investments in rice farm harvests in Sierra Leone and Reforestation Projects (Capital Carbon Credits) providing investments in carbon credits generated from land in Sierra Leone, Brazil and Australia. The High Court ruled in February 2014 that the schemes constituted unregulated collective investment schemes. This was upheld by the Court of Appeal following a hearing on 27 and 28 January 2015 (*FCA v Capital Alternatives Ltd* [2014] EWHC 144 (Ch)). The FCA considered that the schemes had been structured to avoid UK regulation. Four schemes were involved with the African Land Scheme and Carbon Credits Scheme with two other carbon credit schemes involving the preservation of existing forests. The first scheme had attracted 1,160 investors and £8.1 million in investment with the other schemes receiving £8.8 million from 919 investors.

FCA, 25.3.2015

Pension Wise

The FCA has published a consultation paper on *Pension Wise – recommendation policy* (March 2015) CP15/12. The consultation covers FCA recommendations to designated guidance providers and to HM Treasury in connection with the free impartial guidance provide to consumers with Defined Contribution (DC) pensions following the announcements made by the Government in the 2014 Budget especially with regard to the ‘Guidance Guarantee’. This came into effect under the brand ‘Pension Wise’ from 6 April 2015 with the FCA publishing standards for designated guidance providers under the scheme. The document sets out the FCA policy of making recommendations and monitoring approach.

FCA, 25.3.2015

General Insurance Add-Ons

The FCA has produced a consultation paper following its general market insurance study on *Proposed Remedies: banning opt-out selling and supporting informed decision-making for add-on buyers* (March 2015) CP15/13. The study had confirmed that competition in add-on markets had not always worked in the consumer interest with this being the first review conducted under the FCA’s new competition mandate. The FCA proposed banning opt-out selling and issuing guidance to assist firms deliver better and more timely information to add-on buyers especially shopping through price comparison websites.

FCA, 25.3.2015

Business Plan

The FCA has published its *Business Plan 2015/16* (March 2015). The Business Plan notes that financial and insurance services contributed £126.9 billion to UK gross value added (GVA) or 8% of total GVA. Banks paid £21.4 billion in UK tax receipts (including corporation tax, income tax, national insurance and the bank levy). 1.1 million people were employed in the financial services industry or 3.4% of UK employment. Ninety-seven percent of adults held a current account and 44%, at least, one credit card with a total of £61.2 billion of total credit card debt or £2,292 per household. The FCA regulated 26,000 firms when it originally came into operation in 2013 and now regulated 73,000 firms with 50,000 firms having been registered for interim permission to carry out consumer credit business. The Business Plan notes the fundamental changes introduced with regard to UK pension policy. Key priorities were targeted at developing a strategic markets led approach to regulation, protecting consumers, ensuring individual accountability, international issues and staff development. A number of priority areas are set out in the Business Plan including the sales practices of pension providers, mortgage market, consumer credit regime, wholesale market study of competition in investment and corporate banking, developments in technology, international benchmark reform, MiFID II and Market Abuse Regulation (MAR) implementation, asset management market study and new anti-competitive enforcement powers. The FCA had set up two new Divisions with Supervision Investment, Wholesale and Specialists under Tracey McDermott and Retail and Authorisations under Linda Woodall both of whom would also sit on the Executive Committee. The Business Plan includes a foreword by FCA chairman, John Griffith-Jones, and introduction by FCA CEO, Martin Wheatley.

FCA, 24.3.2015

Approved Persons Regime

The Financial Conduct Authority (FCA) has published two consultation papers on *Changes to the Approved Persons Regime for Solvency II firms* (CP15/16) and *Insurers not subject to Solvency II* (CP15/15). These follow earlier consultation papers in November 2014 (CP14/25) and February 2015 (CP15/5) to ensure that all relevant individuals are subject to appropriate requirements following the changes introduced under the Financial Services (Banking Reform) Act 2013.

FCA, 23.3.2015

Transparency Directive

The FCA and the Treasury have issued a joint consultation paper on *Implementation of the Transparency Directive Amending Directive*

(*2013/50/EU*) *and other Disclosure Rule and Transparency Rule Changes* (March 2014) CP15/11. The Transparency Directive Amending Directive (TDAD) amended the Transparency Directive (TD) and Transparency Directive Implementing Directive (TDID) as well as the Prospectus Directive (PD). The consultation paper contains proposed amendments to FSMA and the Disclosure Transparency Rules (DTRs) to give effect to these changes. Other amendments are proposed not requiring TDAD implementation. The changes generally relate to requirements to disclose voting rights arising from holdings of financial instruments that have similar economic effects to holding shares, extension of deadlines to publish half-yearly reports and the publication of financial reports, home Member State rules, introduction of a new stabilisation exemption and changes to the definition of an issuer. Other measures include the introduction of minimum administrative measures and sanctions, creation of a central access point with the National Storage Mechanism (NSM) and a harmonised electronic reporting format.

FCA, 20.3.2015

Insider Trading

Former senior execution trader and portfolio strategist at Moore Europe Capital Management LLC, Julian Rifat, has been sentenced to 19 months' imprisonment at Southwark Crown Court. Rifat has also been ordered to pay £100,000 financial penalty and £159,402 in costs. Rifat had passed inside information to an associate, Graeme Shelley, which had been obtained during the course of employment with the information being used for trading purposes. Shelley had been a broker at Novum Securities and had plead guilty to insider trading with another associate, Paul Milsom, execution trader at Legal and General Insurance Management Ltd. Rifat was the third individual to be sentenced for insider dealing under Operation Tabernula.

FCA, 19.3.2015

Current Account Switching

The FCA has published a report on *Making current account switching easier* (March 2015) which examines the effectiveness of the Current Account Switch Service (CASS). The FCA confirms that the Current Account Switch Service had worked well with the CASS rules containing specific provision for the transfer of salary payments and utility bills. Most switches had been made within seven days and without error. A small number of operational issues had been identified with the FCA recommending that further measures were undertaken to raise awareness of the service. Switching would be made easier again through the development of current account number portability which would be considered by the newly created Payment Systems Regulatory (PSR).

FCA, 12.3.2015

Market Supervision and Infrastructure

The FCA and Bank of England, including the PRA, have carried out the second review of the Memorandum of Understanding (MoU) which sets out their cooperation on the supervision of markets and market infrastructure. The FCA CEO and Deputy Governor Financial Stability of the Bank considered industry and staff use and concluded that the cooperation arrangements were working well with appropriate coordination and no material duplication. Both confirmed their commitment to ensure effective cooperation. Staff would take forward some suggested improvements identified by industry participants and necessary revisions to include the Payment Systems Regulator (PSR).

FCA, 11.3.2015

Benchmark Regulation

The FCA has published a policy statement on *Bringing additional benchmarks into the regulatory and supervisory regime* (March 2015) PS15/6. This follows an earlier consultation paper (CP14/32) published in December 2014. This follows the separate *Fair and Effective Markets Review* (*FEMR*) set up by the Chancellor of the Executor in June 2014 to review the operation of wholesale markets, restore trust and influence international debate on trading practices. A consultation paper had been published by HM Treasury, the Bank of England and FCA on *How fair and effective are the fixed income, foreign exchange and commodities markets?* (October 2014) with the Treasury publishing a follow-up paper on *Implementing the Fair and Effective Markets Review's recommendations on financial benchmarks: response to the consultation* (December 2014). Three criteria had been developed as part of the review to identify additional markets for inclusion including major FICC (Fixed Income, Currency and Commodities) benchmarks that had the greatest usage with the main FICC product markets, benchmarks with the main benchmark administration activities were located in the UK and benchmarks based on transactions in financial instruments that were not covered comprehensively by existing market abuse regulation. The additional benchmarks identified consisted of the Sterling Overnight Index Average (SONIA), Repurchase Overnight Index Average (RONIA), ISDA FIX (to be renamed the ICE Swap Rate), WM/Reuters (WMR) London 4pm Closing Spot Rate, London Gold Fixing (to be replaced by the LBMA Gold Price), LBMA Silver Price and ICE Brent Index.

FCA, 10.3.2015

Fraud Sentence

Phillip Boakes who ran Currency Trader Ltd, has been sentenced to ten years' imprisonment for defrauding investors using false instruments and accepting deposits without authorisation of, at least, £3.5 million at Southwark Crown Court. Currency Trader Ltd had been set up to carry out foreign exchange spread betting for customers promising an annual guaranteed return of 20% or more. Boakes had not been authorised by the FCA to accept deposits and the guaranteed returns were funded from the deposits or from new investor funds and constituted a scam.

FCA, 6.3.2015

Market Abuse Fine

The Upper Tribunal has partly upheld the FCA's decision to fine Tariq Carrimjee for assisting a client to commit market abuse with the case being referred back to the FCA by the Tribunal for the first time under new powers. Carrimjee had been an investment and fund manager and responsible for compliance oversight at Somerset Asset Management LLP. Carrimjee had recklessly assisted his client, Rameshkumar Goenka, to manipulate the closing price of Gazprom Global Depository Receipts (GDRs) in April 2010 and Reliance GDRs on October 2010. Goenka had arranged for a series of substantial trades to be executed in the final seconds of the LSE closing auction on the Reliance GDRs to increase the closing price which allowed Goenka to avoid a loss of $3,103,640 on structured products (3Y USD Phoenix Plus Worst of Gazprom/Lukoil/Surgut and Airbag Leveraged Laggard Note on Indian ADR – Private Placement) tied to the price. The trades had been authorised by David Thomas Davis, senior partner of Schweder Miller and compliance officer, after advice had been given on the option by Vandana Parikh at Schweder with the trades also being carried out by Parikh. Goenka had been fined $9,621,240 (£6 million) and Davis £70,258 and Parikh £45,673. Carrimjee was fined £89,004 which was upheld by the Tribunal. The Tribunal also held that Carrimjee had failed to act with due skill, care and diligence in failing to escalate the risk that Goenka would engage in market manipulation and that this risk should have been apparent although it did not uphold the FCA's decision that Carrimjee had acted without integrity.

FCA, 6.3.2015

Structured Products

The FCA has published an occasional paper on structured products (FCA, *Two plus two makes five? Survey evidence that investors overvalue structured products* (March 2015) Occasional Paper 9). A survey of retail investors revealed that consumers struggled to assess complex financial products for a number of reasons. They significantly and systematically overestimated the returns on structured deposits leading to a preference over cash savings with targeted disclosure proving how consumers make comparisons. Returns had been overestimated by almost 10%. Consumers had been asked to anticipate how the FTSE 100 would grow over time and their expectations on structured products linked to the FTSE 100 during the same period. The FCA also published the results of its separate *Structured Products: Thematic Review of Product Development and Governance* (March 2015) TR15/2.

FCA, 5.3.2015

Remuneration Policies

The FCA has issued a statement on the publication by the European Banking Authority (EBA) of its Draft Guidelines on sound remuneration policies under the Capital Requirements Directive IV (EBA/CP/2015/03). These provide clarification on the interpretation of the remuneration rules by firms and regulatory authorities. It was expected that this would have the effect of removing the proportionality principle with regard to smaller firms with Member States having a degree of flexibility in applying the rules in a proportionate way. The FCA regulated around 1,000 CRD IV firms and applied the proportionality principle to smaller firms.

FCA, 4.3.2015

Pension Transfer Rules

The FCA is consulting on proposed changes on making advising on conversion or transfer of safeguarded pension benefits into flexible benefits a regulated activity (FCA, *Proposed Changes to a pension transfer rules* (March 2015) CP15/7). The FCA regulates transfer to personal pension scheme advice with this becoming considerably more complex under the new regime with advisers being required to hold the Pension Transfer Specialist qualification. The FSMA 2000 (Regulated Activities) Order 2001 (RAO) will be separately amended to make advising on conversion or transfers a regulated activity with corresponding amendments being made to the Conduct of Business Sourcebook (COBS). The new flexible pensions regimes came into effect on 6 April 2015 allowing defined contribution (DC) scheme holders immediate access to pension savings with defined benefit (DB) holders expected to transfer benefits to DC schemes to allow earlier access.

FCA, 4.3.2015

Bank for International Settlements (BIS)

Basel Progress Report

The Basel Committee on Banking Supervision has issued its *Eighth progress report on adoption of the Basel regulatory framework* (April 2015) which covers Basel II, 2.5 and III. The review is based on information provided by members through the Committee's Regulatory Consistency Assessment Programme (RCAP). The report covers risk based capital standards, global and domestic systemically important bank (SIB) measures, the Basel III leverage ratio and liquidity coverage ratio (LCR). The report confirms the status of national rulemaking in transforming Basel Committee measures into national law and regulation within the timetables set. The data is provided in the form of a table for each of the member countries.

BIS, 27.4.2015

Low Interest Rate Environment

BIS Deputy General Manager, Hervé Hannoun, has given an address on 'Ultra-low or negative interest rates: what they mean for financial stability and growth' for the Eurofi High-Level Seminar, Riga, 22 April 2015. The comments refer to the normalisation of interest rate positions as being remote in most advanced economies six years after the global financial crisis. This has led to an unprecedented situation in which nominal interest rates across a range of maturities from overnight to five years are negative in a number of European countries. Low-interest rate policies rely on transmission channels with uncertain effects and potentially serious unintended consequences. Specific risks arise with regard to financial dominance, exchange rate dominance and fiscal dominance with monetary policy becoming subordinated to supporting financial markets, generating lower interest rates and maintaining low public refinance costs in light of unprecedented public debt burdens. A basic trade-off between short and long-term effects arises with borrowing growth from the future not being sustainable.

BIS, 24.4.2015

International Banking Statistics

The BIS has published its latest international banking statistics as at end of December 2014. Global cross-border claims fell by $5 billion after three quarterly increases. Cross-border lending to non-banks nevertheless grew by $174 billion although this was off-set by a fall of $179 billion in cross-border claims on banks including inter-office positions. Cross-border claims on emerging market economies fell by $80 billion with the annual growth rate falling to 6%. Cross-border claims in China were reduced by $51 billion with annual growth falling to 21% from 40% at end of September 2014. Total claims were $32.918 trillion including $22.964 trillion against advanced economies, $4.909 trillion against offshore centres and $4.421 trillion against emerging market economies.

BIS, 23.4.2015

Capital Discretions

The Basel Committee has confirmed that it will remove a number of national discretions within the capital adequacy framework which would otherwise allow countries to adjust domestic implementation having regard to local financial conditions. These specifically apply with regard to Basel II including the treatment of past-due loans, the definition of retail exposures, transitional arrangements for corporate, sovereign, bank and retail exposures, rating structure standards for wholesale exposures, internal and external audit and re-ageing. The treatment of equity exposures under the internal ratings based (IRB) approach will expire in 2016 and not be continued. The Committee has issued a separate response to a frequently asked question (FAQ) on funding valuation adjustment.

BIS, 21.4.2015

Monetary and Financial Stability Analysis

The Irving Fisher Committee (IFC) has issued the papers produced at the Seventh IFC Conference on 'Indicators to support monetary and financial stability analysis: data sources and statistical methodologies' in Basel, 4–5 September 2014. The keynote address was given by Hyun Song Shin on 'Breaking the triple coincidence in international finance'. The conference was structured in terms of sessions examining new indicators for monetary policy, new indicators for financial stability, the use of sample surveys, granular and micro data, statistical techniques and methodologies, policy indicators (public debt and macroprudential data) and household finance statistics.

BIS, 20.4.2015

Macroprudential Tools

The BIS has published a series of Panel remarks by Hyun Song Shin, BIS Economic Advisor and Head of Research, on 'Macroprudential tools, their limits and their connection with monetary policy' at the IMF Spring Meeting on *Rethinking macro policy III: progress or confusion?*, Washington DC, 15 April 2015. Evidence had indicated that macroprudential and monetary policy had been used in concert and operated in the same direction rather than opposition directions with a modest positive correlation between tighter macroprudential policy and monetary policy. Where they operated in opposite directions, firms and households were instructed simultaneously to borrow more and borrow less at the same time. Evidence also indicated that macroprudential policies had been effective in counteracting the credit cycle although shifting patterns of financial intermediation meant that tools intended to regulate the banking sector were of increasingly limited effectiveness.

BIS, 15.4.2015

International Monetary and Financial System

Claudio Borio, Head of BIS Monetary and Economic Department, has given an address on 'The international monetary and financial system: It's Achilles heel and what to do about it' before the INET Conference on *New Economic Thinking: Liberté, Égalité, Fragilité*, Paris, 9 April 2015. Claudio Borio identified the Achilles heel as amplifying the 'excess financial elasticity' of domestic policy regimes which limited their inability to prevent the build-up of financial imbalances, or outsized financial cycles, leading to series financial crises and macroeconomic dislocations. This contrasted with the more traditional views of highlighting the failure of the system to prevent disruptive current account imbalances (excess saving) and the generation of structural shortages of safe assets (excess demand). The new view highlighted financial rather than current account imbalances with a persistent expansionary rather than contractionary bias within the system. The failure to adjust domestic and international regimes increased risks including with regard to entrenched increased global instability, possible divisive competitive currency devaluations and a potential severe rupture in policy regimes reflecting trade and financial protectionism and stagflation.

BIS, 9.4.2015

Operating Frameworks and Collateral Markets

The Committee on the Global Financial System (CGFS) has published a paper on *Central bank operating frameworks and collateral markets* (March 2015) no 53. Collateral markets had become increasingly important as demand for collateral assets had increased driven by changing market practices and an evolving regulatory landscape. The paper examines the extent to which central bank operating frameworks had influenced private collateral markets including in relation to collateral availability, pricing, market practices and market performance under stress. Central banks influenced the use of collateral through determining asset supply (referred to as the scarcity channel) and the pledgeability of assets in private transaction (the structural channel) or both. Central bank operating frameworks had not traditionally been a determining factor although this influence had increased in recent years highlighting the importance of monitoring these effects.

BIS, 31.3.2015

Margin Requirements

The Basel Committee on Banking Supervision and IOSCO have produced a revised framework for margin requirements for non-centrally cleared derivatives following the original framework produced in September 2013. The revisions delay the beginning of the phase-in period for collecting and posting initial margin on non-centrally cleared trades from 1 December 2015 to 1 September 2016 with the full phase-in schedule being adjusted to reflect the nine-month delay. A six-month phase-in is also provided for the exchange variation margin beginning on 1 September 2016. Progress in implementing the measures will be monitored by the Committee and IOSCO.

BIS, 18.3.2015

Quarterly Review

The BIS has published its *Quarterly Review* (March 2015) which reviews international banking and financial market developments. Global financial markets had been dominated by an unexpected wave of monetary policy easing with a number of central banks providing additional stimulus with falling oil prices and rising foreign exchange tensions. This included the ECB expanded asset purchase programme which was larger and of a longer duration than expected. Global international banking activity had continued to expand with international debt securities issuance also continuing to grow supported by very low sovereign yields. $9.2 trillion had been lent to non-bank borrowers outside the US which represented a 9% increase over the year and a 50% increase since end of 2009. This consisted of $4.9 trillion of bank loans and $4.2 trillion of debt securities. The *Quarterly Review* also included a number of special articles including on the costs of deflation, oil and debt, weak investment, financial inclusion and market liquidity and market making in fixed income instruments.

BIS, 18.3.2015

Statistics

The BIS has published Locational and Consolidated banking statistics for the last reporting quarter on international financial claims and liabilities of bank offices resident in BIS reporting countries broken into currency, counterparty sector and country of counterparty residence and by reporting bank nationality. Total claims on banks and non-banks in September 2014 were $33.723 trillion. Separate consolidated claims of reporting banks were also produced. The BIS also published its latest exchange traded derivatives statistics, total debt security statistics and its long series on credit to the private non-financial sector statistics. Effective exchange rate indices had been published earlier in the month.

BIS, 16–18.3.2015

Basel III Implementation Assessments

The Basel Committee has published its reports assessing the implementation of Basel III for Hong Kong SAR and Mexico carried under its Regulatory Consistency Assessment Programme (RCAP). The objective is to determine consistency and completeness of country standards adoption and the significance of any regulatory deviations. Assessments now cover both capital and liquidity coverage ratio (LCR) measures. Hong Kong SAR was found to be compliant with 12 components being compliant and one largely compliant. Fourteen of the Mexico components were compliant with the countercyclical buffer and Pillar 3 assessed largely compliant. Follow-up post-assessment reports had also been published for Brazil, China, Japan, Singapore and Switzerland.

BIS, 16.3.2015

CCP Stress Testing

The Committee on Payments and Market Infrastructures (CPMI) and IOSCO are to review stress testing by central counterparties (CCPs). Stress testing is required under the CPMI and IOSCO *Principles for financial market infrastructures* (PFMI) to determine relative financial resources required to manage credit and liquidity risk under a range of stress scenarios.

BIS, 11.3.2015

Macroeconomics and Global Financial Markets

The BIS held its second Research Network meeting on *Macroeconomics and global financial markets* on 10–11 March 2015. The purpose was to examine long-term research issues related to banking, monetary policy, regulation and financial stability under the macroeconomic theory. The opening remarks were made by Jaime Caruana, BIS General Manager, with a number of papers being reproduced.

BIS, 10–11.3.2015

Basel III Monitoring Report

The Basel Committee has published its latest *Basel III Monitoring Report* (March 2015) following a market study. Earlier exercises had been conducted in April and September 2012, March and September 2013 and March and September 2014. Two-hundred and twenty-four banks had participated in the most recent study representing 96 large internationally Group 1 banks (with tier 1 capital of more than €3 billion) and 126 Group 2 banks. The exercise assumes that Basel III is fully implemented as of 30 June 2014 without any transitional adjustments. The results confirm that all Group 1 banks complied with the risk based capital minimum requirements with capital shortfalls relative to higher target levels having been further reduced falling from €15.1 billion to €3.9 billion since end of 2013. Average common equity tier (CET) 1 ratios for Group 1 banks were 10.8% and 11.8% and for Group 2 banks. The weighted average liquidity coverage ratio (LCR) for Group 1 banks had increased from 119% to 121% and from 132% to 140% for Group 2 banks. Weighted average net stable funding ratio (NSFR) for Group 1 banks was 110% and 114% for Group 2 banks.

BIS, 3.3.2015

Working Papers

The BIS has published a number of working papers. These cover such issues as 'Foreign exchange intervention: Strategies and effectiveness' (March 2015) no 499, 'Liquidity Squeeze, Abundant Funding and Macroeconomic Volatility' (March 2015) no 498, 'Global Asset Allocation Shifts' (March 2015) no 497, 'When is macroprudential policy effective?' (March 2015) no 496 and 'The transmission of monetary policy in EMEs in a changing financial environment: a longitudinal analysis' (March 2015) no 495. The paper on the effectiveness of macroprudential policy was specifically written by Chris McDonald which examined the relative effectiveness of tightening and loosening macroprudential measures (such as loan-to-value (LTV) and debt-to-income (DTI) ratios) depending upon where in the housing cycle these are applied. The more significant effects were realised where credit was expanding quickly and house prices were high relative to income. Separate working papers had been produced on 'Financial crisis, US unconventional monetary policy and international spillovers' no 494 and on 'Why do we need both liquidity regulations and a lender of last resort? A perspective from Federal Reserve lending during the 2007–09 US financial crisis' no 493.

BIS, 3.4.2015

Financial Stability Board (FSB)

Middle East and North Africa

The seventh meeting of the Financial Stability Board (FSB) Regional Consultative Group for the Middle East and North Africa (RCG MENA) met in Bahrain on 27 April 2015. The meeting was attended by representatives of the Basel Committee, IMF and World Bank with FSB policy priorities and work plan being reviewed. Regional financial stability issues were discussed and prospects for global and regional growth following the recent decline in oil prices. The decline in correspondent banking services was also referred to within international banks including as a result of possible anti-money laundering and counter-financial terrorist enforcement actions. The availability of financing for small and medium-sized enterprises and the function of capital markets were also referred to. Proposed revisions to the standardised approach for credit risk under Basel III were also referred to.

FSB, 27.4.2015

International Monetary and Financial Committee

Mark Carney, Chairman of the FSB, has written to the International Monetary and Financial Committee (IMFC). The letter refers to vulnerabilities in the financial system and trends in market liquidity and asset management. FSB work was referred to including with regard to market-based finance, ending too-big-to-fail, market conduct implementation monitoring and data gaps. Five new Plenary members joined the FSB with the finance or treasury ministries in Argentina, Indonesia, Saudi Arabia and Turkey and the South African reserve bank. The work of the Emerging Markets Forum (EMF) was also reviewed.

FSB, 18.4.2015

Antalya Summit

The FSB Chairman, Mark Carney, wrote to G20 Finance Ministers and Central Bank Governors, in advance of the meeting in Washington in April 2015 to provide a progress report following the earlier Frankfurt Plenary meeting. The FSB had agreed the following priorities at the meeting in Istanbul in February 2015 covering full, consistent and prompt implementation of agreed measures, finalising the design of the remaining post-crisis reforms and dealing with new risks and vulnerabilities. Specific post-crisis matters referred to the Chair's letter to the G20 included ending too-big-to-fail for different types of financial institutions (including central counterparty (CCP) resilience, recovery planning and resolvability) and making derivatives markets safer. Specific vulnerabilities referred also included financial stability risks relating to market based finance, including asset management activities, and misconduct risks and withdrawal from correspondent banking. Mark Carney had separately written to the G20 on financial reform in advance of the meetings in Istanbul, Turkey in February 2015.

FSB, 17.4.2015

Resolution Review

The FSB has commenced its second review of resolution regimes in member jurisdictions to examine the resolution powers and procedures in place and consider any further requirements for recovery and resolution planning for systemically important domestically incorporated banks. The FSB sought comment on the adequacy and nature of national resolution regimes, the scope and design of official guidance on entry into resolution and the exercise of resolution powers, factors determining the manner in which powers may be exercised and experiences and challenges in undertaking recovery and resolution planning and resolvability assessments. The reviews will be conducted under the terms of the *Handbook for FSB Peer Reviews* (12 March 2015) with the most important standard being set out in the FSB *Key Attributes for Effective Resolution Regimes* (15 October 2014).

FSB, 13.4.2015

Sub-Saharan Africa RCG

The FSB Regional Consultative Group (RCG) for Sub-Saharan Africa met in Zanzibar, Tanzania on 11 March 2015. Participants reviewed the FSB's work plan and the next phase of regulatory reform priorities. These included work on implementation, post-crisis reform design and dealing with new risks and vulnerabilities. Regional developments were referred to including the importance of Pan-African banks and vulnerabilities such as limited economic diversification, low financial market depth and challenges related to non-performing loans. Views were exchanged on the adoption of policies to promote the development and growth of regional financial systems. The RCG for Asia also met in Bohol, Philippines on 4 March 2015.

FSB, 11.3.2015

NBNI G-SIFIs

The FSB and the International Organisation of Securities Commission (IOSCO) have published a second consultation document on *Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions* (*NBNI G-SIFIs*) (March 2015). The objective is to indentify relevant NBNI G-SIFIs based on the earlier bank methodologies considering responses after the first consultation in January 2014. Relevant factors include size, complexity and systemic interconnectedness and disruption to the wider financial system and global economic activity. The sector specific methodologies agreed included almost final methodologies for finance companies and market intermediaries and revised proposals on sector specific methodologies for asset management entities (including investment funds and hedge funds). The objective is to cover all different types of systemic risk in different business models and its profiles while ensuring consistency with other assessment methodologies specifically applicable to global systemically important banks (GSIBs) and insurers (G-SIIs). The methodologies have also had to allow for different business models and limited data availability in specific areas with domestic data analysis and supplementary international supervisory information sharing and coordination.

FSB, 4.3.2015

Russian Peer Review

The FSB has completed its peer review of Russia with a *Review Report* (2 February 2015). The review examined the macroprudential policy framework and tools and bank resolution framework within Russia. The Russian authorities had secured good progress in implementing FSAP recommendations although additional work remained to be completed. The authorities had to clarify the mandate of the National Council on Ensuring Financial Stability (FSE) and develop the Central Bank of Russia's (CBR) macroprudential policy framework. The framework for prompt remedial resolution action had also to be strengthened and range of resolution tools extended with the process for rehabilitating failing systemic banks being further reviewed to increase its efficiency and effectiveness.

FSB, 2.2.2015

International Organisation of Securities Commissions (IOSCO)

Business Continuity Planning

IOSCO has issued a consultation paper on *Mechanisms for Trading Venues to Effectively Manage Electronic Trading Risks and Plans for Business Continuity* (April 2015) with a parallel report on Market Intermediary Business Continuity and Recovery Planning (April 2015). The objective is to enhance the ability of financial markets and intermediaries to manage risks, withstand catastrophic events and resume services following a disruption. The first paper examines risk related to electronic trading disruptions and business continuity planning with trading venues having to continue to adapt to technological changes. A number of recommendations are made. The paper specifically examines technology related risks to trading venues, critical systems, managing technology to mitigate risk, managing external risks to critical systems and planning for disruptions and business continuity planning including with regard to scenarios, governance, redundancy, minimum service level, communications, record keeping, testing and periodic review and outsourced services and intermediaries. The second paper focuses on business continuity and recovery planning for market intermediaries and includes study results inter alia covering the role of senior management and board of directors, mission critical systems and activities, back-up facilities, data and asset protection, critical personnel, third-party relationships and other aspects. A number of sound practices for business continuity planned by intermediaries are listed.

IOSCO, 7.4.2015

Credit Rating Agencies

IOSCO has published a final report on *Code of Conduct Fundamentals for Credit Rating Agencies* (March 2015) which includes a number of revisions and updates to its earlier Code of Conduct for CRAs. This includes specific measures to strengthen the Code on protecting the integrity of credit rating processes, managing conflicts of interest, transparency and safeguarding non-public information, governance, trading and risk management and securing additional clarity and transparency through the inclusion of a number of revised and extended definitions. The CRA Code had originally been published in 2004 and revised in 2008 with a further revision consultation report published in February 2014. The revised Code is attached as an appendix to the March 2015 document. This includes four general objectives or Principles (covering quality and integrity, independence and conflicts of interest, transparency and timeliness of disclosure and confidential information) with a number of more detailed measures being set out under five general headings (including quality and integrity of CRA process, independence and avoidance of conflicts of interest, responsibilities to investing public, rated entities, obligors, originators, underwriters and arrangers, underwriters and arrangers, governance, risk management and employee training and disclosure and communication with market participants).

IOSCO, 24.3.2015

Asia Pacific Regional Committee

The IOSCO Asia Pacific Regional Committee (APRC) met on 11 March 2015 in Tokyo to enhance cooperation and develop capacity building. An APRC Roadmap was agreed setting out a strategic framework for making a meaningful contribution to development within the region. The 29 APRC members would strengthen regional cross-border regulatory cooperation and extend training and assistance to member jurisdictions, collaborate and coordinate to support the role of small and medium sized enterprises (SMEs) in driving regional capital markets and deal with the cross-border impact of European and US financial reform initiatives in the Asia Pacific area on a collective basis.

IOSCO, 23.3.2015

International Association of Insurance Supervisors (IAIS)

International Information Exchange Agreement

The supervisory authorities within three US states, Iowa, Maine and Missouri, had joined the International Association of Insurance Supervisors (IAIS) Multilateral Memorandum of Understanding (MMoU) on international supervisory cooperation and exchange of information. Forty eight jurisdictions were now participants which represented over 63% of global insurance market premia. The purpose of the MMoU is to avoid the need for the entering into of individual, bilateral agreements between regulatory authorities and contains minimum standards to which signatories are required to adhere subject to independent review and approval. The MMoU had been adopted by the IAIS Executive Committee on 15 February 2007.

IAIS, 27.3.2015

International Swap Derivatives Association (ISDA)

The International Swaps and Derivatives Association (ISDA) has published a 105-page report on *Asia-Pacific Regulatory Profiles* (April 2015) which contains information on key institutions, regulatory milestones, developments and ISDA submissions for OTC derivative markets in major regional economies. ISDA has reported that one of its principal concerns is with regard to cross-border fragmentation with trading rules having to work together. A split in global liquidity pools would lead to lower trading liquidity, regulatory arbitrage, duplicative compliance and higher end user costs with authorities having to develop a common set of principles on central counterparty recovery, data reporting and centralised swaps execution. While a quarter of the euro interest rate swaps market had been between European and US dealers, the market was now almost exclusively only between European firms following the introduction of US trading rules requiring the registration of swap execution facilities (SEFs) in October 2013. ISDA has published principles to promote regulatory consistency in the development of centralised trading rules for derivatives. The two-year extension of the start date for non-cleared derivatives margin rules produced by the joint Basel Committee and IOSCO Working Group on Margining Requirements (WGMR) has been welcomed. Market data confirmed that interest rate derivatives (IRDs) were being traded more frequently although in smaller sizes. ISDA published a statement supporting the use of market rates in connection with negative interest rates and its May 2014 Collateral Agreement Negative Interest Protocol which was intended to increase certainty on the payment of interest on posted collateral within negative interest rate environments. ISDA has separately warned on the need to correct continuing data consistency defects following the production of *Key Principles* on improving the regulatory transparency of global derivatives markets. ISDA had assisted established trade repositories for different asset classes, develop taxonomies for standardised trade data, compile reference data sources and codify reference data within financial products markup language (FpML) and in standardising transaction terms and processes. ISDA considered that current trade reporting was costly, inefficient and unproductive with further work being required to improve regulatory transparency and data reporting standards.

ISDA, 3.4.2015

EUROPEAN DEVELOPMENTS

Long-term investment Funds

On 20 April 2015 the European Council adopted the regulation on European long-term investment funds ('ELTIF'). This creates a new form of fund vehicle for professional and retail investors with the aim of boosting European long-term investment in the real economy.

Eligibility to manage the funds is restricted to EU alternative investment funds (AIFs) that are managed by alternative investment fund managers, authorised in accordance with the AIFM directive. Managers must also apply for authorisation for each ELTIF that they wish to manage. The regulation sets down restrictions on the investment classes open to ELTIFs as well as their investment policies. There are also specific protections that apply to the sale of these investments to retail investors.

The regulation will enter into force on the 20th day following its publication in the Official Journal.

The full text of the regulation can be accessed at: goo.gl/6cLspr.

ISLAMIC FINANCE DEVELOPMENTS

The Islamic Financial Services Board Issues Core Principles for Islamic Finance Regulation (Banking Segment)

The Islamic financial services industry (IFSI), with its proposition of inclusiveness, has rapidly progressed across the globe, embracing not only Muslim-majority economies but also other emerging markets and advanced economies. The development of this industry encompasses not only an increase in the business volume and number of institutions offering Islamic financial services (IIFS), but also an enhanced variety of the products and services offered, improved legal and regulatory infrastructure, and new initiatives for international cooperation. Accordingly, the IFSI has gained significant market share, and now constitutes an important building block of the financial systems in many jurisdictions. This development and growth has raised a number of challenges for the resilience and stability of financial systems, and for the protection of their users. Core Principles, such as those issued by the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS), have become a standard tool to guide regulators and supervisors in developing their regulatory regimes and practices. They also serve as the bases for regulatory and supervisory authorities (RSAs) themselves, or external parties such as the multilateral agencies, to assess the strength and effectiveness of regulation and supervision.

The global financial crisis (GFC) in 2008 and the sovereign debt crisis have highlighted the significance of a well-articulated microprudential and macroprudential policy framework for ensuring financial sector stability focusing on: (a) assessment of risks to the financial sector; (b) the financial stability policy framework; and (c) capabilities for resolving crises. In addition, the increased integration of the IFSI into the global financial system makes it necessary for the RSAs of the IIFS to ensure that their regulatory frameworks remain relevant in line with the changes in the global financial environment. However, many RSAs, including those new to the regulation and supervision of the IFSI, face challenges in identifying and applying appropriate principles and benchmarks for assessing the gaps in the existing structures and the policies in their jurisdictions. This is in part because the unique features of IIFS call for special regulation and supervision that effectively address their specificities. The approach to regulating and supervising IIFS needs to reflect: (a) the nature of risks to which IIFS are exposed; and (b) the financial infrastructure needed for effective regulation and supervision, which will result in additional or different regulation and supervisory practices to address the potential risks inherent in the IIFS' operations.

The newly introduced Core Principles by Islamic Financial Services Board (IFSB) deal only with the regulation and supervision of Islamic banking (CPIFR). Other sectors of Islamic finance (principally Takaful and Islamic capital markets) raise different issues, as indeed their conventional counterparts differ from conventional banking. They are at present substantially smaller in scale than Islamic banking. The IFSB proposes to develop Core Principles for these other sectors in the future. In the meantime, however, the present Core Principles may be of some assistance to RSAs in those sectors in areas common across Islamic finance – for example, Shariah governance.

The main objective of the CPIFR is to provide a set of core principles for the regulation and supervision of the IFSI, taking into consideration the specificities of the IIFS in the banking segment and the lessons learned from the financial crisis, and complementing the existing international standards, principally the BCBS's Core Principles for Effective Banking Supervision (Basel Core Principles, or BCPs). In particular, the objectives of the CPIFR include:

a) providing a minimum international standard for sound regulatory and supervisory practices for the effective supervision of the IIFS;

b) protecting consumers and other stakeholders by ensuring that the claim to Shariah compliance made explicitly or implicitly by any IIFS is soundly based;

c) safeguarding systemic stability by preserving the linkages between the financial sector and the real economic sector 1 which underlie Islamic finance; and

d) ensuring that IIFS act in accordance with their fiduciary responsibilities in all their operations, especially in regard to investment account holders (ie investors in profit-sharing investment accounts [PSIAs]).

The IFSB envisages that these Core Principles will be used by jurisdictions as a benchmark for assessing the quality of their regulatory and supervisory systems, and for identifying future work to achieve a baseline level of sound regulations and practices for Islamic finance. The CPIFR will promote further integration of Islamic finance with the international architecture for financial stability, while simultaneously providing incentives for improving the prudential framework across jurisdictions so that it is harmonised and consistently implemented across the globe. Furthermore, the CPIFR may also assist IFSB member jurisdictions in: (a) the International Monetary Fund (IMF) and World Bank financial sector assessment programme (FSAP); (b) self-assessment; (c) reviews conducted by private third parties; and (d) peer reviews conducted, for instance, within regional groupings of banking RSAs.

The 33 CPIFR can be divided into two primary categories:

FIRST: *CPIFR Related to Supervisory Powers, Responsibilities and Functions*

CPIFR 1: Responsibilities, objectives and powers CPIFR

2: Independence, accountability, resourcing and legal protection for supervisors CPIFR

3: Cooperation and collaboration CPIFR

4: Permissible activities CPIFR

5: Licensing criteria CPIFR

6: Transfer of significant ownership CPIFR

7: Major acquisitions CPIFR

8: Supervisory approach CPIFR

9: Supervisory techniques and tools CPIFR

10: Supervisory reporting CPIFR

11: Corrective and sanctioning powers of supervisory authorities CPIFR

12: Consolidated supervision CPIFR

13: Home-host relationships

SECOND: *CPIFR Related to Prudential Regulations and Requirements for IIFS CPIFR*

14: Treatment of investment account holders (IAHs) CPIFR

15: Corporate governance CPIFR

16: Shariah governance framework CPIFR

17: Risk management process CPIFR

18: Capital adequacy CPIFR

19: Credit risk CPIFR

20: Problem assets, provisions and reserves CPIFR

21: Concentration risk and large exposure limits CPIFR

22: Transactions with related parties CPIFR

23: Country and transfer risks CPIFR

24: Equity investment risk CPIFR

25: Market risks CPIFR.

26: Rate of return risk CPIFR.

27: Liquidity risk CPIFR.

28: Operational risk CPIFR.

29: Internal control and audit CPIFR.

30: Financial reporting and external audit CPIFR.

31: Transparency and market discipline CPIFR.

32: Islamic ‘windows’ operations CPIFR.

33: Abuse of financial services.

The Islamic Financial Services Board 02.04.15

www.ifsb.org/.

The Islamic Development Bank seeks inclusion of Islamic banking on the G20 agenda

Chairman of the Islamic Development Bank (IDB) Group says the Bank is in coordination with the governments of the Kingdom of Saudi Arabia, Indonesia and Turkey, all of them members of the G20, to incorporate the topic of 'Islamic banking' in the agenda of the upcoming G20 summit, poised to take place in Antalya, Turkey, during November 2015 under Turkey's chairmanship.

Dr Ahmad Mohamed Ali stated this while speaking at the opening ceremony of the 5th Arab-Turkish Economic Dialogue Forum in Istanbul (5–6 March 2015), graced by HE Dr Ali Babacan, Turkey's Deputy Prime Minister, Minister of Finance and IDB Governor for Turkey. In the statement, the IDB Group Chairman praised the role Turkey played in organising the Forum as well as its chairmanship of the G20/B20 in making the voices of Arab and Turkish investors heard paving the way for a constructive role in achieving G20 aspirations towards balanced growth leading to creation of jobs and sustainable development.

He also welcomed cooperation between Turkey and the Group of Arab States in the framework of the various cooperation programs particularly for exchange of expertise and knowledge sharing among IDB member countries. He emphasised that this would facilitate building capacity for young people and provide appropriate job opportunities for the youth and help fight poverty while leading to the integration of low-income people into economy. He further put forth a number of suggestions including the need for the Group of Arab States to benefit from the importance of Turkey as a strategic and resolute partner, to promote Arab-Turkish partnership and provide recommendations for this partnership in the context of Turkey's Chairmanship of the G20/B20. Dr Ali also proposed the launching of a joint working group to continuously work on developing an ambitious vision for Arab-Turkish cooperation until 2030 inclusive of all mutually beneficial economic sectors. He underlined the need to come up with quick initiatives to plan commitments in the interest of mutual exchange of knowledge and expertise. The IDB Group Chairman expressed the readiness of the Group to support the proposed joint working group comprising the Turkish Ministry of Development, the Union of Arab Banks Union and the Association of Turkish Banks.

Islamic Development Bank 12.03.15

www.isdb.org/irj/portal/anonymous/idb_news_en.

The Central Bank of Bahrain launches a new liquidity management instrument (Wakalah) for the Islamic retail banks

As part of the ongoing efforts towards the development of Islamic banking and promoting liquidity management for Islamic retail banks, the Central Bank of Bahrain (CBB) launched a new Sharia compliant Wakalah liquidity management instrument. This instrument, which was approved by the Shariah Board of the CBB, is aimed at absorbing excess liquidity of the local Islamic retail banks and place it with the central bank. The instrument has been developed, based on a standard contract of the International Islamic Financial Market (IIFM).

The Wakalah is an investment opportunity for retail Islamic banks who wish to deposit excess liquidity with the CBB. Retail Islamic banks need to sign a Wakalah agreement which appoints the CBB as an agent (Wakil) to invest cash on behalf of the bank (Muwakkil). Accordingly, the Wakil will invest these funds in the investment portfolio allocated in advance, and contains Islamic Sukuks. The duration of the Wakalah is one week and is available for Islamic retail banks every Tuesday.

Sh Salman Bin Isa Al Khalifa, Executive Director of the Banking Operations of the CBB stated that the central bank had worked recently to develop this service for the Islamic retail banks in order to invest excess funds with the Central Bank, similar to those carried out by conventional banks. This service is a new product in Islamic banking and reconfirms Bahrain's commitment to develop Sharia compliant products to serve the growing Islamic Banking industry.

The Central Bank of Bahrain 01.04.15

www.cbb.gov.bh/list.php?p=news.

INTERNATIONAL DEVELOPMENTS

The International Monetary Fund and the Arab Monetary Fund Enhance Cooperation

The International Monetary Fund (IMF) and the Arab Monetary Fund (AMF) have pledged to enhance cooperation to respond more effectively to the needs of their common membership in a Memorandum of Understanding (MOU) signed (19 April) in Washington by Ms Christine Lagarde, IMF Managing Director, and Dr Abdulrahman Al Hamidy, Director General and Chairman of the AMF.

'This agreement will strengthen our partnership with the Arab Monetary Fund and allow us to tap into its vast expertise in the issues facing the region. It also illustrates our strong commitment to step up our engagement with the region in terms of policy advice and capacity development', Ms Lagarde said after the signing ceremony.

The AMF and the IMF share common objectives of maintaining macroeconomic and financial stability, and accelerating broad-based and inclusive economic growth and job creation in the Arab region, in addition to strengthening capacity building.

'Supporting capacity development in our member countries has always been among our top priorities', Al Hamidy said. 'Our long and well established cooperation with the IMF has always been successful and we are glad that today it's being reinforced and strengthened to better serve the needs of our common member countries'.

Under the MOU, the AMF and the IMF will continue to provide training opportunities to Arab officials, support the development of domestic capital markets in the Arab countries, and strengthen their collaboration on the Arabstat initiative, which aims at the development of efficient statistical systems in the region. The two parties also intend to carry out joint analytical work to inform Arab finance ministers and central bank governors, and to organise high level events on topics of mutual interests and priority for the region.

The International Monetary Fund 19.04.15

www.imf.org/external/np/sec/pr/2015/pr15171.htm.

World Bank Group and a Coalition of Partners Make Commitments to Accelerate Universal Financial Access

The World Bank Group and a broad coalition of partners – including multilateral agencies, banks, credit unions, card networks, microfinance institutions and telecommunications companies – issued numeric commitments that will help promote financial inclusion and achieve universal financial access by the year 2020.

Galvanising private-sector investment and innovation to accelerate universal financial access, including through enabling policy and regulatory frameworks, was the focus of a flagship event at the World Bank headquarters. It brought together private-sector leaders, government regulators and the UN Secretary-General Ban Ki-moon.

The 2020 goal calls for adults worldwide to have access to a transaction account or an electronic instrument to store money, send and receive payments, recognising financial access as a basic building block to managing an individual's financial life. Access to a transaction account is a first step toward broader financial inclusion, which helps poor families escape poverty and afford essential social services such as water, electricity, housing, education and health care. For small firms and medium-sized enterprises access to financing can help them reduce risks, grow and expand operations.

'More than 700 million people gained financial access between 2011 and 2014, and this gives us fresh evidence that our ambitious goal of universal access by 2020 is attainable', said World Bank Group President Jim Yong Kim. 'The World Bank Group's role is to convene and energize a coalition of partners – and also to step up our work. Over the next five years, our institution commits to enabling as many as 1 billion adults, who are now financially excluded, to gain access to a transaction account'.

The World Bank Group's commitment builds on and scales up support to governments to create an enabling environment for private-sector innovation and investment. Priority actions include reforms to eliminate or reduce cost or distance barriers to opening and using accounts, measures that increase the viability of new technology and business models to reach the financially excluded.

The Bank Group's private-sector arm, IFC, is also boosting its engagement with the private sector to add millions of new account holders through its investment and advisory work with financial intermediaries and other partners.

Private-sector leaders from around the world came forward with a committed set of actions to reach a specific number of people by year 2020.

'Today, MasterCard is proud to announce our commitment to the World Bank Group's efforts toward universal financial access. Our target is to reach 500 million people currently considered to be excluded from the financial mainstream. In making this commitment, we recognize that reaching full financial inclusion by 2020 requires the active engagement and commitment of the private sector, working in partnership with governments and international development organizations', said Ajay Banga, CEO and President of MasterCard. 'Together, we can be agents of transformative change who create more inclusive economies and more empowered populations'. Several leaders of emerging markets companies also made concrete commitments to reaching the goal.

The panel also reiterated the vital role of policy action in putting forward national financial inclusion strategies that cut across public-sector agencies. Governments should remove regulatory obstacles and leverage the benefits that come from moving away from cash, they said. Constructive steps include enabling even the lowest income individuals to open accounts conveniently and at a low cost, and then shifting social transfers and other large scale payments into those accounts. The discussion further stressed that role of standard setting-bodies and domestic financial regulators.

The commitments announced (17 April) will help empower a significant portion of the 2 billion people who remain without accounts and help propel the global momentum for meeting the universal financial access goal of 2020. More commitments are expected globally as the coalition continues to grow and expand.

The World Bank 17.04.15

www.worldbank.org/en/news/press-release/2015/04/17/world-bank-group-coalition-partners-make-commitments-accelerate-universal-financial-access.

People's Bank of China Decides to Cut Further Reserve Requirement Ratio for All Depository Financial Institutions and to Provide Targeted Reserve Requirement Ratio Cuts for Selected Institutions

The People's Bank of China (PBC) has decided to cut the RMB reserve requirement ratio (RRR) for all depository financial institutions by 1 percentage point, effective from 20 April 2015. Furthermore, in order to enhance the capacity of financial institutions to support structural adjustment, and to step up support for micro and small enterprises (MSEs), the agricultural sector, rural areas and farmers, and major water conservancy projects, the PBC has decided to carry out additional RRR cuts for targeted institutions effective from 20 April 2015: An extra 1 percentage point will be reduced for rural financial institutions, including rural credit cooperatives (RCCs), village and township banks; the RRR for all rural cooperative banks will be lowered to the level applicable to the RCCs; an extra 2 percentage points will be reduced for the Agricultural Development Bank of China; for those state-owned banks and joint-stock commercial banks that have complied with prudential regulatory requirements and have extended a certain share of loans to the MSEs, or to the agricultural sector, rural areas and farmers, their RRR will be lowered by an additional 0.5 percentage points.

The People's Bank of China 21.04.15

www.pbc.gov.cn/publish/english/955/index.html.

Hong Kong Exchanges and Clearing Limited to Enhance its Services for Stock Connect

Hong Kong Exchanges and Clearing Limited (HKEx) rolled out a significant enhancement to its Central Clearing and Settlement System (CCASS) (30 March 2015) to enable investors to settle their trades of A shares (Northbound trades) through Shanghai-Hong Kong Stock Connect (Stock Connect) similarly to the way they settle their trades of Hong Kong stocks.

The new service will allow investors to open Special Segregated Accounts (SPSAs) in CCASS via its Custodian Participants or its General Clearing Participants (GCPs) which are not Exchange Participants (EPs). This new feature will address investors' biggest concern by enabling them to meet Stock Connect's pre-trade checking requirement for A shares without transferring their shares before they sell them. Investors will only be required to transfer shares they are selling to their broker for settlement after their sell orders are executed. Under the current arrangements, A shares must be transferred for pre-trade checking before they can be sold.

'This new service is part of HKEx's ongoing effort to refine the Stock Connect programme', said Calvin Tai, HKEx's Head of Global Clearing (Asia). 'SPSAs will make it easier for investors to minimise counterparty risk in A-share settlement and to maintain compliance with asset segregation and safe keeping requirements for institutional funds. They are expected to benefit our Exchange Participants by giving them additional business opportunities'.

In order to allow time for Custodian Participants, non-EP GCPs and executing brokers to set up SPSAs for their clients, the pre-trade tracking mechanism based on the SPSA model was launched on 20 April 2015.

'After rollout, we understand it will take some time for Clearing Participants to set up SPSAs for their clients', Mr Tai added. 'We will continue to strengthen the Stock Connect programme to benefit the market and investors'.

Additional SPSA information as well as Frequently Asked Questions will be posted on HKEx website later.

There are also new Rule amendments, which have become effective on 30 March 2015, to clarify the role of Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of HKEx, as the nominee holder of A shares under Stock Connect.

Hong Kong Exchanges and Clearing Limited 26.03.15

www.hkex.com.hk/eng/newsconsul/hkexnews/2015/150326news.htm.

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