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Banking Law Update

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REGULATORY DEVELOPMENTS

Financial Conduct Authority (FCA)

Annual Public Meeting

The FCA held its Annual Public Meeting on 17 July 2014 at which time it presented its *2013/14 Annual Report*. FCA chairman, John Griffith Jones welcomed participants to the first FCA Annual Public Meeting and reviewed the FCA achievements in the first year, and operational building blocks including specifically with regard to good governance, transparency and accountability, performance framework, organisational efficiency and attracting and retaining staff. He considered that the first year had been one of solid progress. FCA CEO, Martin Wheatley, explained how the FCA considered that it was different from its predecessor, reviewed key developments in the *Annual Report* and commented on the importance of behavioural economics, high interest only mortgages, the high street bank system, cash savings study, asset management, markets and 2014 highlights especially with regard to the consumer credit market, credible deterrents, recognition and the 2014/2015 challenges to follow. The *Annual Report* reviewed the FCA's work with regard to securing its objectives of protecting consumers, enhancing integrity and building competitive markets as well as new consumer credit functions and international activities. The report also contains review of its operational structure, Strategic and Directors' reports and financial statements.

FCA, 17.7.2014

Application Fees

The FCA has issued a discussion paper on *Recovering the costs of administering the regulatory gateway through application fees* (June 2014) DP14/1. The paper examines the cost of operating the gateway, distributing the recovery of authorisation costs between different fee payers with possible suggestions for revising application fees. Dual regulated firms pay a single application fee which is split equally between the FCA and PRA although the FCA has had to assume additional statutory responsibilities to promote effective competition in the interest of consumers. The discussion only applies to the 18,500 firms in the FCA's A fee block and excludes fee blocks and consumer credit. Administrative processes cover applications for authorisations, variations, passporting, approval of persons, cancellations, sensitive business names, waivers, Capital Requirement Regulation permissions and changes in control with costs only being recovered from a narrow range of processes. Current fees vary between £1500, £5000 and £25000. The OFT has stated that the £25000 fee for authorisation of a bank is comparatively small. Fees have also been eroded by the about a third through inflation.

FCA, 23.6.2014

Best Execution

The FCA has published the findings of its thematic review of *Best Execution and payment for order flow* (July 2014) TR14/13. The review identifies a

significant risk that best execution is not being delivered to all clients on a consistent basis with many firms not delivering best execution through adequate management focus, front-office business practices or supporting controls, firms had to improve their understanding of best execution obligations and prepare for NiFID II implementation. A limited number of firms had continued to receive payment for order flow in breach of the provisions set out in FCA Finalised Guidance published in May 2012 (FG12/13).

FCA, 31.7.2014

Cash Savings Market Competition

The FCA has asked for comments on the results of its interim report into the effectiveness of competition in the cash savings market. The interim findings confirm that banks are able to pay lower interest rates to customers that have stayed with the same account for a number of years due to limited account movement with the largest current account providers being able to attract a larger proportion of easy access deposits despite offering lower rates on average. The FCA considers that while aspects of the cash savings market worked well, competition does not appear to be operating in the interest of many consumers. The majority of consumers do not attempt to obtain better deals while a minority of active engaged consumers regularly change providers. The FCA wants to establish a market in which informed consumers are able and willing to take advantage of the best products available with firms actively competing in attracting business. Further research will be conducted before the FCA determines whether it should intervene to attempt to ensure that competition is working. The interim findings are set out in FCA, *Cash savings market study: interim report* (July 2014) MS14/2.

FCA, 8.7.2014

Competition in the Wholesale Sector

The FCA has launched a review of competition in the wholesale sector to ensure that wholesale markets are clean as well as competitive. The FCA considers that wholesale markets are efficient, fair and competitive with effective competition increasing institutional efficiency, lowering prices, providing greater innovation and improving the quality and range of financial services provided more generally. This should support the sustainable development of the financial system with ancillary benefits to retail customers and the real economy. The review is referred to as an exploratory exercise to attempt to highlight areas where competition may be weak or not working properly. The review will specifically focus on markets and market infrastructure, investment banking, asset management and corporate banking. The FCA will attempt to identify features of the market or behaviour that may inhibit or distort competition. The Government announced a separate Fair and Effective Financial Markets Review to be conducted by the Bank of England, Treasury and FCA on 12 June 2014 which will focus on trading practices, regulatory scope, regulatory impact and supervisory implications. Significant overlap was not expected although the respective bodies would

liaise. Mary Starks, Director of Competition at the FCA, discussed the wholesale market review at the Chartered Institute of Securities on 9 July 2014.

FCA, 9.7.2014

Contingent Convertible Securities

The FCA has restricted firms from distributing contingent convertible securities (CoCos) to retail investors from 1 October 2014. The FCA considers that CoCos are highly complex and unsuitable for the mass retail market. CoCos may offer high headline returns but be high risk and unsuitable for inexperienced investors. It was expected that the market for CoCos would expand in future following the changes made in regulatory requirements for capital adequacy which include provision for providing convertible securities with conversion being triggered in the event that the firm experiences financial difficulty.

FCA, 6.8.2014

Deutsche Bank Fine

Deutsche Bank AG London branch has been fined £4.7 million by the FCA for incorrectly reporting 29,411,494 Equity Swap contracts for difference (CFD) transactions between November 2007 and April 2013. The fine had been reduced by 30% on early settlement. Transaction reports consisted of data sets submitted to the FCA relating to individual market transactions including details of product traded, the firm undertaking the trade, counterparty and trade characteristics including buy/sell identifier, price and quantity. The FCA had advised firms on a number of occasions about the importance of accurate transaction reporting, published a number of enforcement actions during the relevant period and issued Deutsche Bank with a private warning on 3 June 2010 in relation to similar reporting failures. The reporting was specifically required under MiFID and SUP 17.

FCA, 28.9.2014

Financial Incentives for Whistleblowers

The FCA and Prudential Regulation Authority (PRA) supported the recommendations made by the Parliamentary Committee on Banking Standards (PCBS) on whistleblowing and the need to establish a better culture within financial firms to improve behaviour and accountability through whistleblowing. The FCA and PRA have conducted further research on the impact of incentives which confirms that this would be unlikely to increase the number or quality of disclosures made. A number of specific conclusions were drawn with regard to a review of the use of financial incentives in the US which revealed that there was no empirical evidence that incentives led to an increase in the number and quality of disclosures with incentives only benefiting a small number of individuals where the information led directly to successful enforcement action involving the imposition of fines. This also generated significant legal fees and potentially undermined the effectiveness

of internal whistleblowing mechanisms. The government had also stated in the response by the Department for Business, Innovation & Skills (BIS) to their Call for Evidence on Whistleblowing on 25 June 2014 that it did not believe that financial incentives should form an integral part of the whistle-blowing framework. The regulators did support the PCBS recommendations for giving senior management responsibility and personal accountability for ensuring that effective mechanisms were in place and for safeguarding the interests of whistleblowers with the regulators publishing annual reports on whistleblowing disclosures and their use. Separate concerns arose with regard to malicious reporting, entrapment, conflicts of interest in court, inconsistency with regulatory expectations, qualification criteria and public perceptions.

FCA, 30.7.2014

Financial Promotions

The Financial Conduct Authority (FCA) has advised financial firms to ensure that financial promotions do not mislead customers. The FCA had conducted a review of over 1500 promotions in connection with consumer credit products with 227 cases being opened on non-compliant promotions in connection with payday loans, debt management services and credit brokers. A quarter of these involve advertisements for high cost short term credit with many not displaying a risk warning of representative APR. Eighty percent of consumer credit cases were concerned with digital media including websites, emails and text messages. Firms had to ensure that all promotions were clear, fair and not misleading. The FCA issued a consultation paper on *Social media and consumer communications: the FCA's supervisory approach to financial promotions in social media* (August 2014) GC14/6. The guidance follows communication with industry over the past 18 months with concerns being expressed with regards to specific compliance issues including with regard to character limited forms of social media such as Twitter. The FCA's approach is that financial promotion rules should be media neutral to ensure that consumers are presented with certain minimum information in a fair and balanced manner at the beginning of the customer relationship with all communications being fair, clear and not misleading. Social media can be powerful channels of communication and of significant value to firms with the FCA not intending to limit their availability directly. Communications have to be fair, clear and not misleading even where they are viewed by non-intended recipients such as where messages are passed on. Firms have to consider how to convey complex information such as through the use of links or image advertising. Specific guidance is provided with regard to promotions for investment products, standalone compliance, risk warnings and other required statements and image advertising.

FCA, 6.8.2014

Financial Promotions

The FCA has stated that firms must take further action to ensure that financial promotions do not mislead customers. Over 1,500 promotions had

been reviewed since April 2014 in connection with consumer credit products with 227 cases being opened with regard to non-compliant promotions including in connection with payday loans, debt management services and credit brokers. A quarter these related to advertisements for high cost short term credit with appropriate risk warnings or representative APR not being provided. Eighty percent of consumer credit cases involved digital media including websites, emails and text messages.

FCA, 13.8.2014

Independent Governance Committees

The FCA has designed a package of reform measures with the Department for Work and Pensions (DWP) and the Pensions Regulator (TPR) to ensure that workplace pension schemes provide high quality value for money. The FCA has issues a specific consultation paper on *Proposed rules for independent governance committees* [IGCs] (August 2014) CP14/16. Under the new requirements, employees are automatically enrolled into workplace pension schemes from 2012 which may involve having no choice in pension asset investment. This follows an Office of Fair Trading (OFT) market study report published in September 2013 on defined contribution workplace pension schemes. The present consultation paper requires firms to establish and maintain IGCs with the specific duties of the IGCs being specified and with firms being required to complain or explain any concerns expressed by a workplace IGC. Smaller and less complex firms may be allowed to use a governance advisory arrangement (GAA) in place of an IGC which would involve appointing another third party firm to assume the IGC responsibilities for the particular scheme.

FCA, 6.8.2014

Individual Savings Accounts

The FCA has published a policy statement on rule changes to investment firms managing Individual Savings Accounts (ISAs) (PS14/10). This requires firms to hold any money within stocks and shares ISAs as client money and allows firms that manage cash ISAs to opt into the CASS regime and elect to hold money in cash ISAs as client money. This follows consultation paper 14/9 on *Client Money held in Individual Savings Accounts* (June 2014).

FCA, 1.7.2014

Insider Dealing

The FCA has obtained Confiscation Orders at Southwark Crown Court before His Honour Judge Pegden QC for £3,249,499.71 against seven defendants who had been convicted of insider dealing offences under Part V of the Criminal Justice Act 1993 with a combined profit of £732,044.59 being generated between May 2006 and May 2008. A number of sentences had been imposed varying from two to four years. Separate orders for costs were also awarded. Eight separate actions for insider dealing continue.

FCA, 15.9.2014

LBG Fine

Lloyds Banking Group has been fined £105 million for serious LIBOR and other benchmark failings. The fines apply with regard to Lloyds Bank plc and Bank of Scotland plc which form part of the Lloyds Banking Group (LBG). £70 million relate to attempts to manipulate the fees payable to the Bank of England for participation in the Special Liquidity Scheme (SLS). The firms had manipulated the LIBOR benchmark rates and the Repo Rate to reduce SLS fees. The firms had been significant beneficiaries of financial assistance under the SLS which was considered by the FCA to constitute an unacceptable abuse. The firms had manipulated their repo submissions between April 2008 and September 2009 with the repo rate later being discontinued by the BBA in December 2012. Repo rate panel banks had submitted rates for a range of maturities at which they were prepared to trade in the repo market. LBG agreed to pay the Bank of England £7.76 million in compensation. The firms had separately engaged in misconduct in connection with the LIBOR benchmark rates between May 2006 and June 2009. This included making GBP, USD and JPY LIBOR submissions taking into account the profit and loss (P&L) of their money market trading books, collusion between Lloyds and Rabobank to influence the JPY LIBOR rate to benefit their trading positions, engaging in 'forcing LIBOR' to influence the GBP LIBOR submissions of other panel banks and with BOS manipulating its GBP and USD submissions following two directors from a manager to avoid negative media comment and market perception with regard to its financial stability during the crisis. This represented the joint third largest fine imposed by the FCA.

FCA, 28.7.2014

MiFID II Conference

The Financial Conduct Authority (FCA) held a Conference on the revised EU Markets in Financial Instruments Directive (MiFID II) held on 18 September 2014. The original MiFID came into effect in the UK on 1 November 2007 with MiFID II to be implemented from 3 January 2017. MiFID II consists of Directive 2014/65/EU of 15 May 2014 and Regulation (EU) No 600/2014 of 15 May 2014. Addresses were made at the conference by David Lawton, FCA Director of Markets, and Maggie Craig, Acting Head of Savings and Investments. David Lawton noted that firms had 838 days, or 27 Months, to implement the new measures before 2017. Specific provisions discussed included the new requirements with regard to wholesale market transparency, commodity markets, high frequency trading and micro-structural issues, wholesale conduct, best execution, dealing commission and retain investor protection.

FCA, 18.9.2014

Mobile Banking and Payments

The FCA has published the results of its thematic review on mobile banking and payments (TR14/15). British Banker Association (BBA) research confirmed that over 18 million mobile transactions were made by UK retail banks each week in 2013 which represented a 50% rise on 2012. Mobile

banking provided substantial advantages to customers especially in terms of convenience, flexibility, timing and better management of finances. The purpose of the review was to consider the extent to which firms had achieved good outcomes for consumers in delivering mobile banking products. Specific findings were reported with regard to consumers' understanding of rights and responsibilities, senior management knowledge and understanding, security and technological resilience, third party oversight and the monitoring of new payment firms entering the market. The FCA had set up a Project Innovate to assist businesses bring innovative ideas to financial services markets that benefit customers with proposals announced for the creation of an Incubator and an Innovation Hub to assist with regulatory authorisation.

FCA, 11.9.2014

Mortgage Contract Fairness

The FCA has issued a discussion paper on *Fairness of changes to mortgage contracts* (July 2014) DP14/2. The objective is to obtain opinion from the industry and consumers with regard to the most appropriate manner in which to deal with proposed changes to mortgage contracts including, in particular, standard variable rates (SVRs) following intimation that a number of lenders wished to make alterations. The discussion paper sets out the regulatory framework on how the FCA applies its Principles for Businesses in practice in considering fairness of changes to contracts. Fictional case studies are provided. No specific regulatory response is intended at this time.

FCA, 7.7.2014

Payment Protection Insurance

The FCA has published an update on firms' progress in the handling of payment protection insurance (PPI) complaints (TR14/14). Firms were managing 13 million complaints with customers having received over £16 billion in compensation. Seven out of ten claims had been upheld in the consumer's favour with the Financial Ombudsman Service receiving over one million complaints. 3.2 million letters had been sent to customers that may have been mis-sold PPI with a further 2 million letters to be sent out.

FCA, 29.8.2014

RBS and NatWest Fine

The FCA has fined Royal Bank of Scotland (RBS) and NatWest £14,474,600 for failing to ensure that advice given to mortgage customers was suitable. Two reviews had confirmed that the suitability of the advice provided was not clear from the file or call reporting in over half of the cases examined after 2012. Specific concerns arose with affordability assessments failing to consider the full extent of a customer's budget, failing to advise customers looking to consolidate debt properly and not advising customers which mortgage term was most appropriate. Only two of 164 sales reviewed were considered to comply with the standard required. In the firms' own mystery

shopping, advisers had expressed personal opinions on the future movement of interest rates which was considered highly inappropriate with customers being sold the wrong type of mortgage product. Earlier failings raised by the Financial Services Authority (FSA) had not been properly dealt with, in particular, following a review of branch and telephone sales in November 2011. Assurances had been given by the firms to the FSA in July 2012 although insufficient action had not been taken until end September 2012. The FCA admits that there was no evidence that the failings had caused any widespread detriment to customers although the firms would write to 30,000 customers to allow them to raise any concerns. The original fine of £20,678,000 had been reduced on 30% discount.

FCA, 27.8.2014

Recovery and Resolution

The FCA has published a consultation paper on implementation of the EU Recovery and Resolution Directive (RRD) in the UK. This applies with regard to solo-FCA regulated firms falling within the definition of IFPRU 730K firms which covers around 230 firms. (FCA, *Recovery and Resolution Directive* (August 2014) CP14/15). The purpose of the RRD is to promote the soundness and stability of firms and minimise the potential negative impacts of firm failure on markets and customers. The FCA is the Competent Authority (CA) in the UK for the regulation of most investment firms subject to the RRD, with the PRA publishing a separate consultation paper with regard to PRA regulated firms on 24 July 2014. The RRD requires the preparation of recovery and resolution plans with early intervention in the event of distress and then resolution action if a firm is failing or likely to fail. Recovery plans are prepared by the firm, assessed by the CA and passed onto the resolution authority (RA) resolution plans are prepared by the RA with firms submitting required information to the RA directly or through the CA. In the event of distress, the CA may either use an early intervention tool or apply the recovery plan with the RA being advised if the firm is failing or likely to fail. In the event of failure, the RA will determine whether appropriate resolution action should be taken (including business sale, bridge institution, bail-in support or asset separation) or the firm placed into special administration, or insolvency. The FCA will apply the RRD on a minimum copy-out basis insofar as possible. The Treasury has published a separate consultation on aspects of the RRD requiring new legislation or legislative amendment. (HM Treasury, *Transposition of the Bank Recovery and Resolution Directive* (July 2014)). The Treasury document contains specific provision on recovery and resolution planning, removing impediments to resolvability, intra-group financial support, early intervention, resolution objectives and general principles, entry conditions, valuation, special managers, asset separation tools, bail-in, safeguards, government stabilisation options, write down of capital instruments, third country branches, resolution financing arrangements, depositor preference and scope. The parallel PRA provisions were set out in *Implementing the Bank Recovery and Resolution Directive* (July 2014) CP13/14 which included specific provisions on

recovery and resolution planning, intra-group financial support, notification of failure or likely failure and contractual recognition of bail-in tools.

FCA, 1.8.2014

Regulated Fees and Levies

The FCA has published a policy statement on *FCA regulated fees and levies 2014/15* (July 2014) PS14/11. This sets out the proposed fees and levies for the FCA, Financial Ombudsman Service (FOS) general levy and the Money Advice Service. This includes feedback on the responses received to CP14/6 with almost all respondents questioning the 3.3% annual funding requirement to £446.4 million. The FCA explains this in terms of not being able to return as much under-spend to fee payers as in the previous year with £19.5 million being re-credited. The underlying increase in AFR is then 1% close to the 1.4% increase in annual Ongoing Regulatory Activity (ORA) budget which increased from £445.7 million to £452 million in 2014/15. The policy statement contains a breakdown of the FCA periodic fees for authorised firms, other bodies and application of financial penalties as well as consumer credit periodic fees, FOS general levy and Money Advice Service levies.

FCA, 3.7.2014

Price Caps Short-Term Credit

The FCA has issued a consultation paper on *Proposals for a price cap on high-cost short-term credit* (July 2014) CP14/10. The FCA assumed regulatory responsibility in this area on April 1 2014 with the high-cost short-term credit industry growing substantially in recent years as customers look for quick and easy borrowing. The price cap would apply from January 2015 with a 100% limit on the total amount of fees and interest paid and 0.8% limit on interest and fees per day and £15 maximum on default fees. Current rates varied from 0.4% to over 4% per day with the 100% total cap meaning that borrowers would never have to repay more than double the original amount of the loan. The market was worth £2.5 billion with 1.6 million customers taking out ten million loans with an average loan of £260 and six loans being taken by an average customer each year. The payday firm Dollar had separately agreed to improve lending practices and refund £700,000 to 6,247 customers.

FCA, 15.7.2014

Retail Investment Advice

The FCA has published guidance on different retail investment sales models and the boundaries between them and associated regulatory requirements (CG14/03). This follows a thematic review on services that do not provide personal recommendations and simplified advice investment services and research on the experiences of customers purchasing investments without a personal recommendation. The guidance clarifies the regulatory landscape on personal recommendations on retail investments, summarises the thematic work results, reports on consumer research and provides detailed examples of

business models indicating whether this constitutes the provision of regulated advise or not. The FCA has also set up a Project Innovate to encourage innovative business models in the interest of consumers in this area.

FCA, 11.7.2014

Retirement Reforms

The FCA has published a consultation paper on *Retirement Reforms and the Guidance Guarantee* (July 2014) CP14/11. The Government has published a separate response to their consultation on *Freedom and Choice in Pensions: Government response to the consultation* (July 2014) CM8901. The Government response requires the FCA to set the standards for the delivery partners, maintaining standards, monitoring compliance and collective the levy that will fund the provision of guidance. The FCA proposes to issue a series of principles based standards which delivery partners issuing the Guidance Guarantee will comply with. The standards will cover free provision, consistency and quality, professional standards, communications, systems and controls, management compliance, delivery partner information, guidance session content, assisting consumers act and providing a record of guidance. The levy will be collected using the existing FCA 'A' fee block framework.

FCA, 21.7.2014

Self-Invested Personal Pension Operators

The FCA has produced *A new capital framework for Self-Invested Personal Pension* (*SIPP*) *Operators* (August 2014) PS14/12 which includes amendments made to the original consultation conducted in November 2012 on SIPP capital requirements. £2 trillion of assets are managed within the UK pensions industry with £100 billion of these administered through SIPPs. SIPPs provide consumers with additional choice with regard to investment options with SIPP operators being regulated from 2007. Difficulties have arisen where SIPP operators have gone into administration with the SIPP book having to be transferred to another provider which may include non-standard asset classes. Additional capital requirements would be imposed based on the assets under administration (AUA) with a separate Capital Surcharge (CS) applying where firms administer non-standard asset types. It was proposed, for example, that the initial capital requirement (ICR) for a firm with £100 million AUA would be 0.2% of AUA or 0.09% for a firm with £500 million of AUA. Amendments have been made to reduce discrepancies to avoid higher impacts for smaller firms.

FCA, 4.8.2014

Small and Medium Sized Businesses

The FCA has published a joint market study with the Competition and Markets Authority (CMA) on banking services for small and medium size businesses (SME). Over 4.5 million SMEs require banking services in the UK which represents 60% of private sector employment and half total turnover. The provision of effective competition and high quality and responsive

banking is considered critical to SMEs. The study examined business current accounts (BCAs) and overdrafts as well as secured and unsecured business loans excluding commercial mortgages. While there had been improvements, competition was still considered not effectively to serve the interests of SMEs. Markets had remained concentrated with the largest four providers managing 85% of BCAs and 90% of business loans. Barriers to entry and expansion for newer and smaller banks remained significant including through the need to establish a branch network. There was little movement in the market shares at the largest banks with only new entrant in the full service SME area in recent years. Many customers saw little difference between the largest banks in terms of the services they provided. Levels of switching remained low with only 4% of SMEs switching each year.

FCA, 21.7.2014

Transparency Directive

The FCA has issued a consultation paper on removing the Transparency Directive's requirement to publish interim management statements (CP14/12). HM Treasury has asked the FCA to remove the requirement to publish interim management statements early with the Transparency Directive Amending Directive (TDAD) 2013/50/EC amending the Transparency Directive 2004/109/EC. Issuers are required to publish interim management statements during the first six months of the financial and again during the second six month period with the TDAD removing this requirement unless issuers wish to do so on a voluntary basis.

FCA, 23.7.2014

Wonga Redress

The FCA has entered into an agreement with Wonga, the UK's largest payday lender, to pay compensation of over £2.6 million to 45,000 customers for unfair and misleading debt collection practices. An investigation by the Office of Fair Trading (OFT) and the FCA confirmed that Wonga had sent letters to customers in arrears from non-existent law firms threatening legal action with administrative charges also being applied for sending the letters. The misconduct was considered to be particularly serious due to the difficulty of customers paying in arrears. Wonga used unfair debt collection practices between October 2008 and November 2010 with neither of the firms being referred to existing.

FCA, 25.6.2014

Prudential Regulation Authority (PRA)

Barriers to Entry

The PRA and FCA have published a review of the changes introduced in 2013 to reduce the barriers to entry for new financial institutions. These have led to a number of positive changes with the PRA authorising five new banks with the regulators conducting pre-application meetings with over 25 potential applicants. The mobilisation option was of value in allowing firms to be

given authorisation on compliance with essential conditions with restrictions applying to activities until other matters had been dealt with. Capital and liquidity requirements were lower than previously with a new £1 million rather than £5 million requirement.

PRA, 7.7.2014

HBOS Review

The PRA and FCA have published the detailed Terms of Reference (ToR) for the review into the failure of HBOS plc. The review had been commissioned by the board of the Financial Services Authority (FSA) although it had not been appropriate to launch a wider review until the end of enforcement proceedings which were concluded in September 2012. The purpose is specifically to explain and describe why HBOS failed and the supervision of HBOS, assess the enforcement investigations conducted following the failure of HBOS and carry out a wider internal and public understanding of the causes of failure during the crises. It is expected that the final report will be produced by the end of the year.

PRA, 11.7.2014

International Branch Supervision

The Prudential Regulation Authority (PRA) has published a final policy approach on the supervision of international banks and on branch supervision. Foreign banks either operate in the UK as subsidiaries or as branches. With regard to branch supervision, the PRA has to ensure that home state supervision is equivalent to that of the PRA. As the host authority the PRA has to confirm the licensed activities covered including whether they include wholesale and retail banking activities and obtaining assurance from the parent authorities over the effectiveness of the resolution plan and its ability to reduce the impact on financial stability in the UK. Supervisory responsibilities have to be clearly divided between the home and host authorities with the PRA taking appropriate action where it has concerns which may include refusing authorisation of a new branch or cancelling current authorisation. These reflect the Basel Committee on Banking Supervision's international standards on supervision. The provisions generally apply to non-European Economic Area (EEA) firms with EEA firms having Treaty rights under relevant EU banking and financial treaties. The PRA attempts to ensure that firms do not cause instability within the UK financial system which continues to provide Critical Economic Functions (CEFs) which include retail banking, corporate banking, payments, clearing and settlement, custody, intra-financial system borrowing and lending and investment banking. The PRA's final approach is set out in *Supervising international banks: the Prudential Regulation Authority's approach to branch supervision* (September 2014) SS10/14 with a separate Policy Statement PS8/14. The Branch Rules Instrument PRA2014/23 was included within PS8/14. These follow the PRA's earlier Consultation Paper CP4/14 in February 2014.

PRA, 5.9.2014

Loan to Income Ratios

The PRA has issued a consultation paper on *Implementing the Financial Policy Committee's recommendation on loan to income ratios in mortgage lending* (June 2014) CP11/14. This follows the FPC recommendation that the PRA and FCA ensure that mortgage lenders do not extend more than 15% of total new residential mortgages at loan to income ratios at or greater than 4.5 on loan books offered by lenders with mortgage lending in excess of £100 million per annum. The housing market recovery had involved a significant increase in the share of mortgages extended at high loan to income multiples. The PRA proposes that a new Part on Housing is created within its Handbook which will specifically include a series of new definitions and a new limit on high loan to income ratios. This would not prevent high ratio lending but only act as a limit on lending flows. The new requirements are to come into effect on 1 October 2014.

PRA, 26.6.2014

Responsibility and Accountability

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have issued two consultation papers on *Strengthening accountability in banks: a new regulatory framework for individuals* (July 2014) and *Strengthening the Alignment of Risk and Reward: New Remuneration Rules* (July 2014) with a Policy Statement on *Clawback* (July 2014). The objective is to create a new approval regime for the most senior individuals within banks whose behaviour and decisions could lead to failure or cause serious harm to customers and to introduce new rules on remuneration and to strengthen the alignment of long term risk and rewards. A new Senior Managers Regime is to be set up under the first consultation paper proposals to clarify the lines of responsibility within banks, enhance regulators' ability to hold individuals to account and require banks to confirm fitness and propriety on a regular basis. A Certification Regime is introduced to require firms to assess fitness and propriety in positions where individuals could pose significant harm to the bank or any of its customers with a new set of conduct rules in the form of high level principles to set out the standards expected of bank employees. The Conduct Rule will consist of three First tier Individual Conduct Rules (ICRs) covering integrity, due skill, care and diligence and being open and cooperative with the regulators. Four common Second tier rules are applied for Senior Managers requiring that they take reasonable steps to ensure that the business of the firm is controlled effectively (SM1), ensure that the business for which the manager is responsible complies with relevant requirements and standards of the regulatory regime (SM2), ensure that any delegation of responsibilities is to an appropriate person and that the manager oversees the discharge of the delegated responsibility effectively (SM3) and any information is appropriate disclosed to the regulators which they would reasonably expect notice (SM4). Two additional Individual Conduct Rules (ICRs) are to be applied by the FCA requiring individuals to pay due regard to the interest of customers and treat them fairly and to observe proper standards of market conduct. The PRA has produced a draft

supervisory statement which reproduces some of the more general earlier guidance provided on the types of conduct that may comply with or breach the rules with the FCA providing additional supporting guidance (Annex 6) based on the current Code of Practice under APER. The new Conduct Rules generally reflect the current PRIN and SYSC. The second consultation paper asked for comments on the proposals to amend the remuneration rules with regard to deferral, clawback, bailed-out banks, buy-outs, risk adjustment and remuneration of non-executive directors. A new Remuneration Part of the Rulebook is to be added by the PRA to apply to all material risk takers within firms within the scope of the rules with the FCA measures being set out in revisions to the existing Remuneration Code. The policy statement summarises the responses received to CP6/14 on clawback with the finalised rules in PS7/14. This, in particular, extends the clawback period to seven years under SYSC 19a.3.51.

PRA, 30.7.2014

Bank for International Settlements (BIS)

84th Annual General Meeting

The BIS held its 84th Annual meeting in Basel, Switzerland on 29 June 2014 with the publication of its latest *Annual Report*. The BIS confirms that the global economy has demonstrated encouraging signs but has still not moved past its post-crisis malaise. Investment remains weak despite an aggressive search for yield with historic low volatility and credit spreads with unusually accommodative monetary conditions. Productivity growth has decreased and private and public debt continued to rise. Policies had to move beyond their traditional business cycle focus and take a longer-term view of their financial cycle to ensure an effective return to sustainable and balanced growth. Structural deficiencies and resource misallocations had to be corrected with supply site rather than debt growth. Attention had to shift from monetary and fiscal stimulus to balance sheet repair and structural reform in crisis damaged countries with a more careful management of cycles in other countries that escape the worst effects of the crisis. The report refers to a collective failure to manage financial cycles with necessary adjustments to fiscal, monetary and prudential policy to limit booms and avoid aggressive and persistent effects during downturns or busts. Policies that are not sufficient symmetrical over successive business and financial cycles can generate bias that entrenches instability and weakness in the global economy and dilutes the effects of policy tools. It was time to step out from the shadow of the global financial crisis. The BIS had a net profit of $647.9 million with a total balance sheet of $343.8 billion.

BIS, 29.6.2014

Basel II, 2.5 and III Implementation

The Financial Stability Institute (FSI) has published updated information on national implementation of Basel II, 2.5 and III capital adequacy requirements following earlier results in 2006, 2008 and 2010. Separate results were

published in 2013 for non-Committee and non-EU member countries. The results for the 2014 survey include information provided by 90 non-Committee and non-EU jurisdictions.

BIS, 24.7.2014

Basel III Monitoring

The Basel Committee on Banking Supervision has published a report on *Basel III Monitoring Report* (September 2014). This follows earlier reviews of Basel III implementation impacts on banks in April and September 2012, March and September 2013 and March 2014. Two hundred and twenty seven banks participated in the most recent study including 102 large Group 1 internationally active banks (with tier 1 capital of more than €3bn) and 125 other Group 2 banks. The monitoring exercise assumed that the new capital measures had been in effect from end 2013 irrespective of relevant transitional arrangements. Most Group 1 banks complied with the risk based minimal capital requirements imposed with capital shortfalls being substantially reduced relevant to target levels. Average CET 1 capital ratios for Group 1 banks were 10.2% and Group 2 banks 10.5%. The weighted average liquidity coverage ratio (LCR) for Group 1 banks was 119% (up from 114%) and 132% for Group 2 banks. The minimum requirement would be set at 60% from 1 January 2015 rising to 100% by 2019. Average net stable funding ratio (NSFR) for Group 1 banks was 111% and 112% for Group 2 banks.

BIS, 11.9.2014

Counterparty Credit Risk

The Basel Committee has published a technical paper on *Foundations of the standardised approach for measuring counterparty credit risk exposures* (SA-CCR) (August 2014). This explains the different modelling assumptions used following the final standard which was published in March 2014. The paper specifically covers general structure, framework for add-ons, structure of add-on calculations and add-on calculations by asset class, multiplier and calibration.

BIS, 28.8.2014

Exchange Rate Indices

The effective exchange rate (EER) indices produced by the Bank for International Settlements (BIS) has been extended to include 61 economies with the most recent data being provided for the 2010 base year. Two basket compositions are provided with a broad set of indices covering 61 economies from 1994 and narrow indices including 27 economies from 1964. Real EERs are weighted averages of bilateral exchange rates adjusted by consumer prices with nominal EERs averages of bilateral exchange rates. The new effective exchange rate indices were explained in the BIS *Quarterly Review* (March 2006).

BIS, 15.8.2014

Guidelines on the Identification of Weak Banks

The Basel Committee has published a consultation document on *Supervisory guidelines for identifying and dealing with weak banks* (June 2014). These replace the earlier guidance issued in 2002 following significant developments in global financial markets and financial regulation since the crisis. The guidelines highlight the need for early intervention and use of recovery and resolution tools and updating supervisory communication policies for distressed banks. Additional guidance is provided on improving supervisory processes including the incorporation of macroprudential assessments, stress testing and business model analysis and reinforcing sound corporate governance. Specific issues are highlighted including liquidity shortfalls, excessive concentrations, misaligned compensation and inadequate risk management with improved guidelines on information sharing and cooperation between authorities.

BIS, 18.6.2014

Headquarters

The BIS has asked the Canton of Basel-Stadt to rezone part of its existing headquarters site in Basel to allow it to make better use of its Tower headquarters building at Centralbahnplatz. Staff numbers had increased from 300 in 1977 when the BIS Tower was constructed to over 650. Three hundred meetings were conducted annually attended by 9000 participants. The BIS operated out of three other buildings including the Botta building on Aeschenplatz and two older buildings facing Centralbahnstrasse and Gartenstrasse.

BIS, 19.8.2014

International Banking Statistics

The BIS has published international banking statistics for end March 2014. Cross-border claims of BIS reporting banks rose by $580 billion between December 2013 and March 2014 which was the first substantial increase since late 2011. The largest growth was with regard to Chinese borrowers with total claims on China exceeding $1tr including inter-office transactions by Chinese and other banks. More modest increases were realised in Asia, Latin America and Africa and the Middle East. Total claims were $33.823 trillion and total cross-border claims $29.385 trillion with $4.114 trillion of foreign currency claims on residents. Total foreign claims by UK reporting banks were $3.858 trillion and total cross-border claims by UK reporting banks $1.577 trillion. The BIS has also published quarterly locational, consolidated and international banking statistics.

BIS, 23.7.2014

Macroprudential Oversight

Claudio Borio, Head of the Monetary and Economic Department at the BIS has published on ‘Macroprudential frameworks: (too) great expectations?’ in BIS *Central Banking Journal*, 25th anniversary edition, 5 August 2014. The

development of a range of macroprudential frameworks following the global financial crisis have been welcomed. Such measures are nevertheless very much still in their infancy with substantial work being required to improve the range of tools available, refine the balance between rules and discretion and strengthen governors arrangements at the national and international levels. Two principal objectives can be identified in terms of increasing the resilience of the financial system and constraining financial excesses which are also referred to as protecting banks from the financial cycle and protecting the financial cycle from the banks. Evidence suggests that a more limited range of core tools is more effective than a large number of possible responses. Specific governance issues arise with regard to insulating macroprudential oversight from political cycles, reconciling the tension between microprudential and macroprudential and securing effective international coordination. Claudio Borio notes that it would imprudent to rely solely on macroprudential oversight in attempting to contain financial cycles with the enormous costs that these can inflict. Cycles are simply too powerful with other policies being necessary including economic and fiscal. The establishment of effective macroprudential frameworks can only be considered to form one part of a larger solution.

BIS, 13.8.2014

Pillar 3 Disclosure

The Basel Committee has published a consultation paper on *Review of the Pillar 3 disclosure requirements* (June 2014). These are intended to enhance comparability across banks by ensuring greater consistency in the way in which they disclose information on risk exposures. Concerns had arisen that the Pillar 3 requirements had failed properly to promote the early identification of material risks within banks and had not provided sufficient information to allow market participants to assess banks' overall capital adequacy positions. The transparency of internal model based approaches would specifically be improved including disclosure of the drivers to changes in risk-weighted assets and the results of actual versus forecast performance of modelling parameters. The Committee is reviewing the current disclosure requirements as part of phase 1 with revised arrangements to be considered during phase 2.

BIS, 24.6.2014

Quarterly Review

The BIS has published its latest *Quarterly Review* (September 2014). This notes that volatility in financial markets increased in early August following an extended period of calm with the recovery being threatened by escalating geopolitical tensions. Equity prices fell, especially in Europe, with high yield credit spreads widening significantly. Markets recovered in September with investors expecting further monetary stimulus within the Euro area. Volatility fell with investors searching for yield with accommodative monetary policy supporting elevated asset price valuations. A divergence in monetary policy was expected with asynchronous exit from monetary support, in particular, in

the US and Eurozone. Emerging market economies had been resilient to market instability. The review contains additional features on emerging market asset managers, emerging market risk, cross-border bank lending during the "taper tantrum" (following the Federal Reserve Board's indication that it would reduce bond purchases earlier than expected in May 2013) and global residential property price statistics.

BIS, 14.9.2014

Residential Property Price Statistics

The BIS has obtained approval from national data providers to disseminate residential property price statistics from a range of sources and covering a number of countries. Two specific data sets are provided with a detailed data set on nominal residential property prices for 55 countries, with several original series being made available within each at different frequencies including nominal and real residential property price data for 54 countries on a quarterly basis, and a separate long series of nominal prices for 18 advanced economies on a quarterly basis since 1970. Recommendations on best practice for compiling residential property price indices is set out in Eurostat, *Handbook on Residential Property Prices Indices* (*RPPIs*) 2013 edition. Property price data is set out following Recommendation 19 in the IMF FSB report to the G20 on *The Financial Crisis and Information Gaps* (October 2009).

BIS, 25.7.2014

Retail Payments and Collateral Management

The Committee on Payments and Market Infrastructure (CPMI) has issued two reports on *Non-banks in retail payments* (September 2014) and *Developments in collateral management services* (September 2014). The first paper examines the role of non-banks in retail payment services and examines the implications of the growing importance of the sector following a number of fact finding exercises. A number of issues are identified with regard to the potential impact of non-banks on operational risk, level playing field, consumer protection and outsourcing risks where payment services are concentrated in a single a limited number of non-banks. The second paper examines potential benefits and risks in the development of the collateral management services industry which had grown, in particular, in response to demands for increased collateral. A number of different approaches were used by various service providers to provide customers with enhanced tools to monitor securities holdings and to increase efficiencies in the deployment of securities. This had led to a number of benefits as well as increased complexity and potential operational risks.

BIS, 9.9.2014

Securitisation Markets

The Basel Committee on Banking Supervision and the International Organisation of Securities Commissions (IOSCO) are to conduct a survey of

international securitisation markets through a cross-sectoral Task Force on Securitisation Markets set up by the International Association of Insurance Supervisors (IAIS) and the International Accounting Standards Board (IASB). This will examine the markets to understand how they are evolving in different parts of the world, identify factors that may hinder the development of sustainable markets, assess whether any factors inhibit the participation of investors, and, in particular, non-bank investors, and develop criteria to identify and assist in the development of simple and transparent securitisation structures. An online survey was issued the collection of the results closing on 25 July 2014.

BIS, 3.7.2014

Standards Implementation Monitoring

The CPMI and the International Organisation of Securities Commissions (IOSCO) have begun monitoring implementation of the *Principles for financial market infrastructures* (PFMIs) produced by the Committee on Payment and Settlement Systems (CPSS) and IOSCO in April 2012. The PFMIs consist of international standards governing payment, clearing and settlement systems including central counterparties and trade repositories with full, timely and consistent implementation being essential to ensuring the safety, soundness and efficiency of global financial market infrastructures. The CPMI has detailed the scope and jurisdictional coverage of the assessments and types of infrastructure covered. The CPMI previously operated as the CPSS with the committee being renamed following a review of its mandate in September 2013. The CPSS had originally been set in 1990 following an earlier Group of Experts on Payment Systems established in 1980 and the ad hoc Committee on Interbank Netting Schemes under Alexandre Lamfalussy in 1989.

BIS, 1.9.2014

Supervisory Colleges

The Basel Committee has issued revised *Principles for effective supervisory colleges* (June 2014) which replace the earlier principles issued in 2010. The objective is to promote and strengthen international cooperation and supervision of internationally active banks by providing guidelines to support the operation of supervisory colleges which supports wide guidance on cross-border cooperation and information sharing. The revised principles contain a greater emphasis on continuing collaboration and information sharing with home and host supervisors instead of establishing appropriate mechanisms and allocating sufficient resources for effective and timely information exchange. A clearer distinction is also drawn between colleges and crisis management groups (CMGs) with guidance on communication and coordination between colleges and CMGs on crisis preparation. The principles were also revised to support the sharing of macroprudential information.

BIS, 26.6.2014

Trading Book Exercise

The Basel Committee has published the results of a trading book test portfolio exercise conducted in parallel with its Basel III monitoring exercise. This contains the results of the first quantitative impact study (QIS) to be conducted in 2014 which covered the revised internal models based approach using hypothetical portfolios. The second exercise will focus on actual portfolios in July 2014. Preliminary findings are explained with regard to variability of the new risk measures (including expected shortfall (ES) and incremental default risk (IDR) measures), a comparison of the new measures to current risk measures, implementation of varying liquidity horizons, impact of constraining diversification and hedging benefits and computation of non-modellable risk factors (NMRF) and the incremental default risk measure for equities.

BIS, 9.9.2014

Working Papers

The BIS has published a number of working papers. These include on "Monetary analysis and the global financial cycle: and Asian central bank perspective" (September 2014) No 463, "The effects of intraday foreign exchange market operations in Latin America: results for Chile, Colombia, Mexico and Peru" (September 2014) No 462, "A policy model to analyse macroprudential regulations and monetary policy" (September 2014) No 461, "Traditional and matter-of-fact financial frictions in a DSGE model for Brazil: the role of macroprudential instruments and monetary policy" (September 2014) No 460, "Spillovers, capital flows and prudential regulation in small open economies" (September 2014) No 459. Other working papers published in September included "Cross-border banking and global liquidity" (September 2014) No 458, "The international monetary and financial system: a capital account historical perspective" (September 2014) No 457, and "The international monetary and financial system: its Achilles heel and what to do about it" (September 2014) No 456.

BIS, 9 and 1.9.2014

Working Papers

The BIS published a number of working papers in August 2014. These include "Filling in the blanks: Network Structure and Interbank Contagion" (August 2014) No 455 and "Understanding the challenges for infrastructure finance" (August 2014) No 454. The BIS also published a paper on "The transmission of unconventional monetary policy to the emerging markets" (August 2014) BIS Paper No 78.

BIS, 27, 26 and 21.8.2014

Financial Stability Board (FSB)

Compensation

The FSB has published the results of its second workshop on compensation practices held in Paris in April 2014 to share experience and lessons on the

implementation of the FSB *Principles and Standards for Sound Compensation Practices*. Implementation monitoring is carried out by the Compensation Monitoring Contact Group (CMCG) under the FSB Standing Committee on Standards Implementation (SCSI). The G20 Leaders called on the FSB to undertake work on the monitoring and public reporting of compensation practices at the Cannes Summit in November 2011 with compensation being included as one of the designated priority areas within the FSB's Coordination Framework for Implementation Monitoring (CFIM). The FSB published the results of its first workshop in November 2012 with progress reports in June 2012 and August 2013 and peer reviews in October 2011 and March 2010.

FSB, 27.6.2014

Foreign Exchange Benchmarks

The FSB has issued a consultation paper on *Foreign Exchange Benchmarks* (July 2014) following the provisional work undertaken by the Foreign Exchange Benchmarks Group (FEBG) set up to review FX benchmarks and examine market practices with regard to their use and their functioning of the FX market more generally. The interim paper contains 15 draft recommendations with final recommendations to cover the calculation methodology of the WM/Reuters (WMR) benchmark rates, publication of reference rates by central banks, market infrastructure with regard to the execution of fix trades, the behaviour of market participants at the time of benchmark release (including principally the WMR at 4.00pm London fix) and the IOSCO review of the WMR fixes. The work is being conducted independently of other national investigations.

FSB, 15.7.2014

FSB Plenary

The FSB held a plenary in Cairns, Australia in September 2014. Conditions in the international financial system were discussed with the core system continuing to strengthen with improvements in bank capital and liquidity despite increasing signs of complacency and asset price concerns remaining. Leverage had grown in non-banking sectors with separate concerns on the mispricing of liquidity risks. Continuing policy initiatives were reviewed including ending too-big-to-fail (TBTF), shadow banking, financial derivatives, foreign exchange benchmarking, accounting, auditing and disclosure, implementation monitoring and the work of the six FSB's regional consultative groups (FCGs).

FSB, 18.9.2014

Global LEI Foundation

The FSB, as Founder of the Global Legal Entity Identifier Foundation (GLEIF) has approved the documents necessary to create the GLEIF with documents being submitted to establish the GLEIF as a Swiss not for profit foundation. The inaugural board of directors has been appointed with

Gerard Hartsink to act as the initial Chair of the GLEIF under its statutes. The board of directors held its inaugural meeting in Zurich on 26 June 2014. A three tier structure will be set up with a Regulatory Oversight Committee (ROC), the GLEIF and Federated Local Operational Units (LOUs) which will supply registration and other services and act as primary interfaces for LEI registrants. Of the 28 current pre-LOUs, 16 have been endorsed by the ROC to issue globally accepted legal entity identifiers with 12 having been allocated prefixes to support operational planning and development. Unique identifiers for parties to financial transactions will be provided to support multiple financial stability objectives as outlined in the original FSB June 2012 LIE Report.

FSB, 30.6.2014

Interest Rate Benchmarks

The Financial Stability Board (FSB) has published proposals for the reform and strengthening of major interest rate benchmarks and possible development of alternative benchmarks with supporting plans and timetables. Major rates include LIBOR, EURIBOR and TIBOR (collectively referred to as IBORs) which are used as benchmarks for a large number of financial products and contracts nationally and internationally. Significant concerns had arisen with regard to the reliability and robustness of benchmark setting arrangements with the G20 asking the FSB in February 2013 to review major interest rate benchmark operations. An Official Sector Steering Group (OSSG) of regulators and central banks was set up by the FSB to review standards and principles including assessing major benchmarks against the IOSCO *Principles for Financial Benchmarks* with a separate report being produced by private sectors experts on possible additional rates and transitional arrangements. This work was carried out by a Market Participants Group (MPG) set up by the OSSG. The FSB supports a multiple-rate approach to reform with the strengthening of existing IBORs and other potential reference rates based on unsecured bank funding costs supported by actual transaction data use and the developing of alternative, nearly risk free rates. New designs and methodologies would be produced for the data production systems referred to as IBOR+ with the recommendations made to be implemented by end 2015 and the OSSG to monitor and oversee implementation work.

FSB, 22.7.2014

Investment Finance

The FSB published an initial report in February 2013 on regulatory reforms that could affect the supply of long-term investment finance with an update being released in August 2013 and with G20 Leaders looking to further monitoring work following the St Petersburg's Summit in September 2013. The FSB was to collect inputs on specific regulatory reform areas that may have material unintended consequences, engage with practitioners to understand and assess potential effects, consult with the RCGs and work with the FSB Secretariat and IMF, World Bank and OECD staff to develop key

quantitative indicators summarising the principal developments that arose with regard to the provision of long-term financial across different types and regions. The FSB confirmed that there was little evidence or data to indicate any adverse consequences with reforms being proportionate and not intended to have any significant impacts. The FSB would continue to monitor the area as implementation was still at an early stage with standardised definitions and quantitative indicators to be produced to assist the review process.

FSB, 16.9.2014

OTC Derivatives Data Aggregation

The Financial Stability Board (FSB) has published feasibility study on the aggregation of OTC derivatives trade repository data to allow authorities to obtain a comprehensive view of the OTC derivatives market and activity. Twenty five trade repositories in 11 jurisdictions had either been set up or would come into operation. Three data aggregation options are provided based on a physically centralised model, logically centralised model and raw data collection and aggregation by the authorities separately. The options are compared in terms of suitability and legal, data and technological issues. Options 1 and 2 are to be preferred with specific recommendations made on implementation including through the use of legal entity identifiers (LEIs), unique transaction identifiers (UTIs) and unique product identifiers (UPIs). The CPMI and IOSCO have been asked to develop data elements harmonisation guidance with further work to be carried out by the FSB in cooperation with the CPMI and IOSCO including on governance arrangements.

FSB, 19.9.2014

Regional Consultative Groups

The FSB Regional Consultative Group (RCG) for Asia held its seventh meeting on 27 August in Kyoto, Japan. The RCG for the Americas has published two papers with a *Report on the Effect of Host Countries of Balance Sheet Consolidation and Risk Management Practices by Global Banks* (22 August 2014) and on *Shadow Banking in the Americas* (22 August 2014). The RCG for the Americas (RCGA) was established in 2011 following the decision by the FSB to expand its outreach in November 2010. The RCGA set up a Working Group to study the effects on host countries of balance sheet consolidation and risk management practices by global banks with the findings being set out in the first report. This recommended that good communication and cooperation channels between home and host countries were essential, the Basel Committee should ensure that existing reviews assess consistency in capital implementation and limit arbitrage opportunities, banks' risk management systems should assess the extent to which sovereign exposures denominated and funded in local currency had overseas subsidiaries may be given the same treatment available to domestic banks in host markets with the scope of consolidation and distribution of capital being examined as part of wider efforts to strengthen international capital standards. The RCGA set up a separate working group to examine shadow banking which examined the work carried out by the FSB Analytical Group

on Vulnerabilities (AGV) within the Standing Committee on Assessment of Vulnerabilities (SCAV). The shadow banking report outlines the work carried out on designing a shadow banking monitoring exercise for RCGA countries based on the AGV exercise, provide a macro mapping monitoring component with country specific examination of the nature of shadow banking and proposed recommendations to improve the oversight of shadow banking within the region. The RCGA for Asia produced a separate *Report on the Impact of SIFI Framework on the Asia Region and Measures and Response* (22 August 2014) and *Report on Shadow Banking in Asia* (22 August 2014). The first paper specifically examines the current status and impact of Global Systemically Important Banks (G-SIBs) in Asia and reviews the emerging response with the second paper defining and examining the relationship between shadow banking and non-bank financial institutions (NBFIs) with a review of emerging risks and comment on the relevance of the FSB recommendations on shadow banking in Asia.

FSB, 27 and 22.8.2014

Regulatory Deference

The FSB has published a statement on "Jurisdictions' ability to defer to each other's OTC derivatives market regulatory regimes" (18 September 2014) following the commitment by the G20 Leaders to reform OTC derivative markets at the September 2009 Pittsburgh Summit and subsequently. Concerns nevertheless remained with regard to actual or potential overlap, duplication, conflicts or gaps in regulatory coverage. Authorities had developed the tool of regulatory deference with countries deferring to the operation of the regulatory regime applicable in another jurisdiction. G20 Leaders agreed in September 2013 that "jurisdictions and regulators should be able to defer to each other when it is justified by the quality of their respective regulatory and enforcement regimes, based on similar outcomes, in a non-discriminatory way, paying due respect to home country regulation regimes" with the FSB's April 2014 progress report on derivatives recommending that jurisdictions provide clarity on their processes for taking decisions on an equivalent or comparable basis. The FSB Chairman wrote to all FSB member jurisdictions on 8 May 2014 asking for reports on derivatives reform including on deference frameworks especially with regard to trade repositories, central counterparties, exchanges and electronic trading platforms and market participants.

FSB, 18.9.2014

Systemically Important Financial Institutions

The FSB is to conduct a peer review of supervisory frameworks and approaches to systemically important financial institutions (SIFIs) with two questionnaires being used for national supervisory authorities and for a representative sample of global systemically important banks (G-SIBs). The FSB Supervisory Intensity and Effectiveness (SIE) group issued initial recommendations on SIFIs in October 2010 including measures on enhanced supervision with the FSB Progress report to the G20 on *Too-Big-To-Fail*

(TBTF) in September 2013 recommending the establishment of a peer review framework to improve or identify remaining challenges in the supervision of SIFIs including with regard to challenging risk management practices and decision making processes within G-SIBs. The peer review is to be conducted in consultation with the Basel Committee and would focus on supervisory mandate, strategy and culture, organisational structure, supervisory approach, methods and tools, cooperation, operational independence and resources and lessons learned and next steps.

FSB, 4.7.2014

International Organisation of Securities Commissions (IOSCO)

Benchmark Implementation

IOSCO has published its *Review of the Implementation of IOSCO's Principles for Financial Benchmarks by Administrators of LIBOR, EURIBOR and TIBOR* (July 2014) as part of the FSB report on *Reforming Major Interest Rate Benchmarks* (July 2014). The IOSCO Report was prepared by a Review Team of IOSCO members in response to the FSB request to review the three major interest rate benchmarks against the IOSCO *Benchmark Principles*. The review confirmed that completed and on-going reforms had raised the overall oversight, governance, transparency and accountability of the three administrators involved and the benchmarks used. This improved the quality and integrity of the benchmarks with each administrator having made good progress in implementing the principles on governance and on transparency and accountability although further work was required on benchmark methodology and design. LIBOR and TIBOR administrators had to carry out more work on the management of conflicts of interest. Specific concerns arose with regard to principle 7 and the need to ensure that the data used to construct the benchmark determination had to be sufficiently accurate and reliable to represent the interest measured by the benchmark. Further work was required in this area with a further review to be conducted in the middle of 2015.

IOSCO, 22.7.2014

Commodity Derivatives

IOSCO has published an *Update to Survey on the Principles for the Regulation and Supervision of Commodity Derivatives Markets* (September 2014) following its earlier April 2012 review of the implementation of IOSCO's principles for commodity derivatives markets. The update report was prepared in advance of the G20 Brisbane Summit in November 2014 and restates the conclusions in the 2012 review focusing, in particular, on supervision and enforcement and principals that had not been fully implemented.

IOSCO, 9.9.2014

Oil Price Reporting

IOSCO has issued a report on *Implementation of the Principles for Oil Price Reporting Agencies* (PRA) (September 2014). This was prepared in cooperation with the International Energy Association (IEA), International Energy Forum (IEF) and Organisation of Petroleum Exporting Countries (OPEC). This reviews implementation of the Oil PRA principles during the 18 months since publication in October 2012 with good progress having been made although certain implementation aspects required further examination especially with regard to operational inefficiencies and monitoring risks relating to the quality and quantity of information used by PRAs for price assessments. Further work would be undertaken in 2015.

IOSCO, 9.9.2014

Non-GAAP Financial Measures

IOSCO has published a proposed *Statement on Non-GAAP Financial Measures* (September 2014). This set outs IOSCO expectations for issuer on the presentation of financial measures other than those prescribed under the Generally Accepted Accounting Principles (GAAP) with non-GAAP measures assisting issuers and investors understand financial performance, condition and cash flow as well as allow the communication of useful entity specific information. Difficulties nevertheless arose where non-GAAP measures were present inconsistently, defined inadequately or obscured results determined under GAAP with the statement attempting to allow issuers to provide clear and useful information in a consistent manner.

IOSCO, 8.9.2014

Public Information Repository

IOSCO has released information comprising a repository for central clearing requirements for OTC derivatives to provide authorities and market participants with consolidated information on clearing arrangements within different jurisdictions. The objective is to assist authorities in rule making and participants comply with relevant regulations. This includes central clearing requirements on a product by product basis with any exemptions and with the information being updated annually. The repository was set up in February 2014 with the results only being made more widely available following experience and necessary information collection. IOSCO published an earlier report on *Requirements for Mandatory Clearing* (February 2012) in response to the G20 requirement that all standardised over-the-counter (OTC) derivatives contracts would be cleared through central counterparties (CCPs) by end 2012.

IOSCO, 5.8.2014

Risk Identification and Assessment

IOSCO has published a report on *Risk Identification and Assessment Methodologies for Securities Regulators* (June 2014). This provides an overview of the methods, approaches and tools used by IOSCO and securities authorities

to identify and assess emerging and potential systemic risks. The report was prepared by the IOSCO Committee on Emerging Risks as part of ongoing work to monitor systemic risk especially following the collapse of Bear Stearns and Lehman Brothers Holding in 2008. The review confirms that there was no one size fits all method for identifying trends, vulnerabilities and risks within securities markets with a number of different methods being used by national authorities. The paper specifically examines the issue of risk definition, risk identification methods, risk identification within national security systems and provides an analytical framework for assessing systemic risks. This was still considered a new discipline for securities authorities with further work expected in this area. Domestic systems included use of a risk committee, risk register, regulatory collaboration, risk focused meetings, risk surveys, risk dashboard, research and publications and data analytics and econometrics with the new analytical framework including macro and micro level indicators (tables pages 27–28) with systemic risk identification factors including size, interconnectedness and lack of substitutes or concentration as well as leverage, typology and structure of assets and liabilities, contagion, liquidity, transparency or opacity, behaviour, quality and complexity.

IOSCO, 26.6.2014

Risk Mitigation Standards

The International Organisation of Securities Commissions (IOSCO) has published a consultation report on *Risk Mitigation Standards for Non-centrally Cleared OTC Derivatives* (September 2014). This contains nine standards to reduce risks in non-centrally cleared contracts. These are based on scope of coverage, trading relationship documentation, trade confirmation, valuation with counterparties, reconciliation, portfolio compression, dispute resolution, implementation and cross-border transactions. The objective is to promote legal certainty and facilitate timely dispute resolution, facilitate the management of counterparty credit and other risks and increase overall financial stability.

IOSCO, 17.9.2014

Social Media and Advice Tools

IOSCO has published a report on *Social Media and Automation of Advice Tools Survey* (July 2014) with the results of four separate surveys on the use of social media and automated advice tools in capital markets and regulatory use of these tools. The objective is to investigate changes in the way in which market intermediaries interact with potential and existing customers using social media and automated advice tools through technology including the internet. Social media allows substantially increased methods of interaction between investors and market intermediaries with automated tools allowing the provision and delivery of advice to customers in more efficient and cost effective ways. New regulatory challenges may nevertheless arise. The results of the social survey confirm that market use was still at an early stage with firms prohibiting staff from making direct recommendations or providing investment advice with the most commonly used sites being Facebook,

Twitter and LinkedIn. Authorities had neither defined social media nor prohibited its use although social media sites would be used for supervisory purposes to identify personal relationships between parties and a source of general information. On advice tools, use was growing including in assisting firms comply with their suitability and know your customer (KYC) obligations. In making recommendations, the majority of firms provide advice with regard to asset classes including specifically collective investment schemes, mutual funds, exchange traded funds and equity classes. Authorities did not prohibit the use of automated advice tools with only limited rules and guidance being available. Authorities continue to rely on suitability, disclosure, supervision and recordkeeping rules. The issue would be reviewed within 12 and 24 months.

IOSCO, 24.7.2014

Storage Warehouses

IOSCO is to conduct a survey of the effects of storage warehouses on price formation in commodity derivatives markets. The work is to be carried out by IOSCO Committee 7 on Commodity Derivatives. A questionnaire is to be used for the initial stage with a number of sets of questions being asked under separate sections on different aspects of storage infrastructure. Responses will be published in due course.

IOSCO, 1.8.2014

International Association of Insurance Supervisors (IAIS)

Capital Requirements

The IAIS has released for consultation its proposed *Basic Capital Requirements* (*BCR*) *for GSIIs* following its original consultation in July 13 on its assessment methodology and policy measures. The policy measures included a requirement for Higher Loss Absorption (HLA) of which the BCR will form part and apply to all group activities including non-insurance operations. The BCR is to be calculated on a consolidated group wide basis with all holding companies, insurance legal entities, banking legal entities and any other service companies included within the consolidation. This will reflect major categories of risks that effect the business of the G-SII and account for on and off-balance sheet exposures. This will consist of three components with an insurance component, banking component (applying the Basel III leverage ratio and risk weights) and a component for other non-insurance activities (financial and material non-financial) not currently subject to regulatory capital cover. The BCR will be calculated using a factor based approach with 15 items applied to define the segments within the main categories of insurance activity consisting of Traditional Life insurance, Traditional Non-Life insurance, Non-Traditional (NT) insurance and Assets. The BCR will form part of a larger long term standard applying on a risk base, group wide and global basis. The HLA requirements should be complete end 2015 with the risk based group wide global insurance capital

standard (ICS) end 2016 and implemented within all major Internationally Active Insurance Groups (IAIGs) by 2019.

IAIS, 9.7.2014

International Information Exchange Agreement

The International Association of Insurance Supervisors (IAIS) has confirmed that the insurance supervisors in California and Virginia have joined its Multilateral Memorandum of Understanding (MMoU) international supervisory cooperation and information exchange agreement. This provides a global framework for cooperation and information exchange between authorities containing minimum standards to which signatories had to adhere with applicants being subject to review and approval by an independent IAIS team. The MMoU was now supported by authorities representing 60% of worldwide insurance premium volume. The MMoU was issued in February 2007 and revised in July 2014. It consists of ten articles, covering preamble, definitions, objective and scope, principles, valid purpose and confidentiality, procedures, points of contact, cost, participation and review and amendment, with four annexes on list of signatory authorities, confidentiality, application and accession and a model information request sheet.

IAIS 28.8.2014

Supervisory Capacity Building

The IAIS has published a *Report of the Survey on Supervisory Capital Building Needs* (4 July 2014). The IAIS adopted an Education Strategy on October 2011 to support the implementation of its *Insurance Core Principles* (ICPs) within national supervisory regimes and to enhance professional supervisory skills and insurance knowledge. The strategy includes assessing member educational and development needs, centralising information relevant to supervisors and performing, facilitating and promoting actions to deal with supervisory needs. A regular survey is conducted by the Supervisory Development Working Group (SDWG) as part of the strategy. The report includes key findings from May 2013 survey members expected to recruit between one and five new supervisors within the next three years, the majority of members had financial resources available although there was no consensus on how to develop new staff, programmes had to be constructed to train the trainers with resources provided on coaching, mentoring and training in the workplace, with the IAIS having a role in providing training programmes or materials and active supervisory support. The report supports IAIS educational activities and recommended the establishment of an online library, induction seminar and supervisory guide with FSI Connect being considered a useful e-learning tool. The greatest training needs arose in emerging market authorities.

IAIS, 4.7.2014

Supervisory Material and Draft Policy

The International Association of Insurance Supervisors (IAIS) has published a consultation document on *Draft IAIS Procedures on Meeting Participation*

and the Development of Supervisory Material and Draft Policy for Consultation of Stakeholders (July 2014). This forms part of a series of decisions designed to increase the effectiveness of the IAIS's activities, ensure adequate coordination of standard setting, standard implementation and financial stability work and to improve the process for obtaining and enhancing the quality of stakeholder input. The IAIS has been reviewing since 2013 its strategic goals, financial outlook and resources to develop proposals to improve its structures, operations and resource allocation. This follows a substantial increase in the workload and responsibilities of the IAIS in recent years especially with regard to designating global systemically important insurers (GSIIs) and developing global insurance capital standards which were not anticipated in its current five year strategic plan and financial outlook. The closing date for comments is September 2014.

IAIS, 4.8.2014

International Swap Derivatives Association (ISDA)

The International Swaps and Derivatives Association (ISDA) has confirmed that trading using the new 2014 ISDA Credit Derivatives Definitions for standard credit default swaps (CDSs) will begin on 6 October 2014. The deadline for adhering to the 2014 Credit Derivatives Definitions Protocol was extended until 17 September 2014 following a recommendation by the ISDA Credit Steering Committee (CSC). ISDA has confirmed that the use of OTC derivatives continued to be an integral part of end user risk management strategies following a survey conducted at its 2014 Annual North America Conference in New York. Eighty six respondents confirmed the importance of derivatives to risk management with 81% expecting to increase or maintain their current levels of derivatives activity. Purposes identified included risk management, maintaining and improving pricing, operating expenses and returns, reducing financing costs and managing the cost of capital, hedging exposures and maintaining or enhancing competitiveness. Fifty four percent of end users confirmed that market fragmentation had occurred on geographic lines following the introduction of new regulatory requirements with over 50% of respondents preferring to trade with dealers in their own jurisdiction. ISDA has written to the European Supervisory Authorities (ESAs) in connection with segregation requirements and proposed margin requirements. ISDA has also written to the Basel Committee and IOSCO on the timing or margin rules for uncleared derivatives and proposed that the rules become effective two years after they have been clarified and finalised within Europe, Japan and USA rather than end 2015 as currently proposed.

Joint Forum

Conglomerate Supervisory Colleges

The Joint Forum has published a *Report on Supervisory Colleges for Financial Conglomerates* (September 2014). This follows the conduct of a self-assessment survey by members on colleges for conglomerates to determine, in particular, how cross-sectoral issues and conglomerate specific questions were dealt with under colleges. This also reviewed implementation of the Joint

Forum *Principles for the Supervision of Financial Conglomerates* (September 2012) including Principle 6 on supervisory cooperation, coordination and information sharing. Fourteen countries responded to the survey with the results being discussed in terms of general scope, supervisory powers and authority (Principles 1–4), supervisory responsibility (Principles 5–9), corporate governance (Principles 10–14), capital adequacy and liquidity (Principles 15–20) and risk management (Principles 21–29) as well as crisis. Most jurisdictions had relevant principles in place (including on identification, supplementary supervision, intra-group transactions, concentration, risk management and governance monitoring) with cross-sectoral aspects being covered supported by memoranda of understanding or coordination arrangements. Some disparities nevertheless arose with regard to the types of conglomerates in different countries, crisis management issues were only partly covered under legal and supervisory frameworks and within supervisory colleges and some countries lacked effective coordinated enforcement actions. Not all jurisdictions had an effective supervisory framework and appropriate coordination arrangements especially during times of crisis or stress with the possibility of regulatory arbitrage arising. There had still been general progress since the previous study in 2011.

Joint Forum, 3.9.2014

EUROPEAN DEVELOPMENTS

EBA publishes Guidelines on recovery and resolution

In September 2014 the EBA published today its final Guidelines specifying the type of tests, review or exercises that may lead to extraordinary public support measures for institutions in the banking sector. These Guidelines aim at promoting a consistent and coherent approach to bank resolution across the European Union and will be part of the EU Single Rulebook in the banking sector.

The Bank Recovery and Resolution Directive (BRRD) defines a harmonised regulatory framework for resolving institutions across the EU. The Directive also defines a request for extraordinary public support, as an indicator that an institution is failing or likely to fail. However, such support will not necessarily trigger a resolution if certain exceptional elements and conditions are met. Among these elements and conditions, the BRRD specifically refers to public injections of own funds or to acquisition of capital instruments addressing a capital shortfall that may result from a stress test, an asset quality review or other equivalent exercises.

In the Guidelines the EBA sets out the elements and features of the tests, reviews and exercises mentioned in the BRRD.

The guidelines are available through the EBA website.

EBA proposes potential regulatory regime for virtual currencies

In July 2014 the EBA published an opinion addressed to the EU Council, European Commission and European Parliament setting out a proposal for

the regulation of 'virtual currencies'. The Opinion is also addressed to national supervisory authorities and advises to discourage financial institutions from buying, holding or selling virtual currencies while no regulatory regime is in place.

The EBA is of the view that a regulatory approach to address risks posed by virtual currencies would require a substantial body of regulation, some components of which would need to be developed in more detail. In particular, it notes that a regulatory approach would need to cover governance requirements for several market participants, the segregation of client accounts, capital requirements and the creation of 'scheme governing authorities' accountable for the integrity of a particular virtual currency scheme and its key components, including its protocol and transaction ledger.

However, there is no such regime currently in place. The EBA therefore proposes that some of the more pressing risks be mitigated in other ways. As an immediate response, the EBA advises national supervisory authorities to discourage credit institutions, payment institutions and e-money institutions from buying, holding, or selling virtual currencies.

The full opinion can be accessed through the EBA website.

EBA publishes final technical standards

In July and August 2014 the EBA published a number of final technical standards, including on the treatment of equity exposures under the IRB approach and on the treatment of equity exposures under the IRB approach. These are available through the EBA website.

ESMA publishes an update of its Guidelines on ETFs and other UCITS issues

In August 2014 ESMA published an update of its 2012 guidelines on ETFs and other UCITS issues. This update modifies the original provision on diversification of collateral received by UCITS in the context of efficient portfolio management techniques and over-the-counter financial derivative transactions. It can be viewed on the ESMA website.

ESMA publishes retail investor guide to MiFID II

In July 2014 EMSA published a short guide for retail investors explaining the impact of the changes to be made in investor protection under the MiFID II reform. It highlights some of the more important changes taking place to MiFID which may be most relevant to retail investors and is available to view on the ESMA website.

Report on risks and vulnerabilities in the EU financial system

In September 2014 the Joint Committee of the European Supervisory Authorities published its bi-annual report on risks and vulnerabilities in the EU's financial system. The report identifies a number of risks to financial

stability in the EU, including prolonged weak economic growth in an environment characterised by high indebtedness, intensified search for yield in a protracted low interest rate environment, and uncertainties in global emerging market economies.

It can be viewed through the EBA or ESMA websites.

Right to basic bank account

In July 2014 the EU Council of Ministers adopted the Directive on the transparency and comparability of payment account fees, payment account switching and access to a basic payment account.

The Directive aims to foster the creation of a real Single Market for retail financial services bringing numerous benefits to EU citizens by providing them with a right to a basic payment account irrespective of their place of residence or financial situation. The Directive will also require greater transparency of bank account fees and should make it easier to switch a bank account from one bank to another.

The Directive will now be signed by the European Parliament and published in the Official Journal of the European Union. Member States will then have two years after its entry into force to implement the Directive into their national law.

Single Resolution Mechanism

On 30 July 2014, regulation (EU) No 806/2014 establishing a Single Resolution Mechanism for the Banking Union was published into the Official Journal of the EU.

The Single Resolution Mechanism will implement in the Eurozone the new rules set for all 28 Member States by the Bank Recovery and Resolution Directive (BRRD), seeking to put an end to the old paradigm of bank bail-outs, which cost taxpayers' hundreds of billions of euros in the crisis. The Single Resolution Mechanism should allow for the timely and effective resolution of cross border and domestic banks, over a weekend if necessary.

The Regulation entered into force on 19 August. The provisions relating to the cooperation between the Single Resolution Board and the national resolution authorities for the preparation of the banks' resolution plans will apply from 1 January 2015 and the Single Resolution Mechanism should be fully operational from 1st January 2016.

ISLAMIC FINANCE DEVELOPMENTS

IFSB Issued the Islamic Financial Services Industry Stability Report 2014

The Islamic Financial Services Board has issued in May 2014 the Islamic Financial Services Industry Stability Report 2014. The report aims to provide a continuing evaluation of progress of the Islamic financial services industry (IFSI) in the face of challenges posed by the global financial environment.

Thereby it aims to contribute to a wider cross-border engagement on stability issues in Islamic finance, while helping to strengthen the building blocks needed for greater resilience.

It examines the initiatives undertaken by international standard-setting bodies to further ensure the stability of the financial institutions and markets, as well as the implications of such reforms for institutions offering Islamic financial services (IIFS). Further, it reviews the progress of various projects and initiatives undertaken by the Islamic Financial Services Board (IFSB) to ensure soundness of the IFSI. It draws upon the Quantitative Impact Study conducted in 2013 on the preparedness of IFSI for key elements of the liquidity framework being introduced by Basel III.

The report pays special attention to the issue of the resilience of the Islamic financial system through technical analysis of selected indicators for the three segments of the IFSI: Islamic banks, Takāful operators and Islamic capital markets.

The report deals with an emerging issues namely the prospects and role of Islamic finance in contributing to the sustained economic growth and prosperity of new markets and locations, particularly Africa, through promoting financial inclusion and supporting infrastructure financing.

This year's report is issued against the backdrop of a global economic environment in which continuing concerns focus around the prospective withdrawal, or "tapering", of quantitative easing in the United States, and a possible slowdown in the growth rates of emerging economies. There are legitimate questions about the potential impact of these various developments on Islamic finance. In the absence of more coordinated global policies, much will depend on the orderly rebalancing of economies in major emerging markets, such as China, which have significant trade linkages to economies in both Asia and the Gulf. At the same time, it is evident that economies which have the capability to manage the liquidity of both the conventional and Islamic finance sectors, and to achieve healthy balance sheets both at the macroeconomic level and within financial institutions, have proved to be resilient even in the face of substantial swings in gross capital flows.

The Islamic Financial Services Board. May 2014

http://www.ifsb.org/docs/2014-05-06_IFSI%20Stability%20Report%20 2014%20(Final).pdf

Standard & Poor's Reaffirms Highest Rating (AAA) for the Islamic Development Bank

Standard & Poor's (S&P), one of the world's leading rating agencies, has reaffirmed the Islamic Development Bank's (IDB) 'AAA' rating with a stable outlook. The first AAA rating report on IDB was issued in 2002.

According to information received, S&P recognized IDB as having an 'extremely strong' financial profile underpinned by robust capitalization and high liquidity levels; as well as a 'very strong' business profile emanating from

the Bank's important policy role in promoting social and economic development across member countries and Muslim communities in non-member countries. The report emphasized the strong relationship, extraordinary support and preferred creditor treatment which IDB enjoys from its member countries.

The stable outlook reflects S&P's assessment that the downside risks to the 'AAA' rating are low and that IDB will continue to "meet its mandate without materially damaging its extremely strong balance sheet".

On the occasion, Dr. Ahmad Mohamed Ali, Chairman of the IDB Group, congratulated all member countries, IDB Board Members and the staff for this important achievement on the occasion of the Bank's 40th anniversary. He renewed IDB's pledge to further the goals of the institution and affirmed its commitment to continue its strategic efforts towards development and thus further the development aspirations of its constituencies in accordance with IDB's 1440H Vision.

The IDB remains amongst the most highly-rated MDBs and the highest in the Muslim World. The 'AAA' rating enhances the Bank's financial capacity to fulfil its development mandate and play a leading role in the development of the Islamic Finance Industry.

Islamic Development Bank 11.09.14

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

IFSB – INCEIF Executive Forums for Islamic Finance to Discuss the Global Regulatory Reforms and Sound Governance Practices for Islamic Finance

The Islamic Financial Services Board (IFSB) and the INCEIF – The Global University of Islamic Finance are organising the fifth and sixth Executive Forum (EF) on Islamic Finance series in November and December 2014. The IFSB-INCEIF Executive Forums aim to provide a platform for global leaders in Islamic finance to discuss selected emerging issues facing the global Islamic financial services industry, emphasising on issues related to supervision and prudential regulation, both at national and international levels, harnessing from the experiences of a distinguished pool of global experts, academics and practitioners.

The 5th edition of the Executive Forum, themed, *Global Regulatory Reforms: What They Mean For Islamic Finance* will be held on 10–11 November 2014 in Sasana Kijang, Kuala Lumpur, Malaysia. This EF emphasises on the recent global regulatory reforms and how they impact the stability, development and growth of the Islamic financial services industry. It will also include deliberations on macroprudential reforms highlighting the importance of macroprudential issues in financial stability and the efficiency of macroprudential policy in achieving greater stability for the industry.

This EF will provide in-depth knowledge on the fundamental subjects related to the existing Basel Framework, and the main aspects of the Basel III

Requirements. It will also discuss reforms made to the banking sector capital framework, moving from bail-out to bail-in, and enhanced focus on Internal Capital Adequacy Assessment Process (ICAAP). Speakers will also follow global developments in liquidity management and their impact on asset liability management in order to develop a comprehensive and effective liquidity infrastructure for the banking sector. Furthermore, the EF will feature a panel discussion on the strategies and practices in implementing the reform agenda, in which participants will be exposed to real issues and challenges in implementing global regulatory reform from the perspective of both market players and supervisors.

The final EF for this year on *Sound Governance Practices: Promoting Stability in Islamic Finance* which will be held on 9–10 December 2014 aims to provide a platform for high level deliberations and exchanges of views among speakers and participants – global leaders from among practitioners, regulators and academics.

The 6th edition of EF also aims to deliberate on the key trends and dynamics of corporate governance initiatives in the global and Islamic finance industry. Among others, the two-day Executive Forum will discuss the evolving roles of the Board of Directors, Board and management committees and their capacity to meet challenges related to risk governance and internal control. It also seeks to provide insights on how institutions offering Islamic financial services (IIFS) should align their corporate and *Sharī‘ah* governance practices to promote and achieve industry stability. Participants will benefit from the differing views of counterparts and peers of various backgrounds and geographical locations.

The Islamic Financial Services Board 25.09.14

http://www.ifsb.org/preess_full.php?id=275&submit=more

Islamic Development Bank prices US$1.5 billion Fixed-Rate Trust Certificates issuance

Islamic Development Bank (′IDB′), rated Aaa/AAA/AAA by Moody’s, S&P and Fitch (all stable outlook), has successfully priced US$1.5 billion, 5-year, Trust Certificates (Sukuk) issued at par with a 2.111% semi-annual profit rate under its US$10.0 billion Trust Certificate Issuance Programme.

CIMB, First Gulf Bank, GIB Capital, HSBC, Maybank, National Bank of Abu Dhabi, Natixis and Standard Chartered Bank acted as joint lead managers and joint bookrunners, with Bank of London and Middle East and NCB Capital as co-managers. Bookbuilding began on Wednesday, 17 September with the release of initial price thoughts of MS plus 15bps area at 1:30pm London time on the back of which good momentum was built into the orderbook. Despite an uncertain market environment in the backdrop of the FOMC and Scottish debate, IDB achieved extremely attractive pricing, with the deal pricing approximately 10bps inside the secondary market levels.

This is indeed a significant achievement and an evident outcome of IDB’s continued efforts in positioning itself closer to its supranational peers. The

success of IDB's transaction was underpinned by a comprehensive set of investors meetings across key hubs of Asia, Middle-East and Europe. IDB's AAA ratings, strong financial position and commitment to support the liquidity of its Sukuk, made a compelling story for investors who participated strongly in the book.

The issue saw strong participation from investors across the Middle East, Asia and Europe. In terms of allocation, the distribution was well diversified with 59% allocated to MENA, 27% to Asia, and 14% to Europe, respectively. Overall the deal saw strong participation from real money accounts and official institutions providing credence to IDB's credit strength. 43% was allocated to central banks, followed by 34% to banks, 12% to fund managers and 11% to other investor types.

The Trust Certificates will be listed on the London Stock Exchange, Nasdaq Dubai and Bursa Malaysia under an Exempt Regime.

Dr. Abdul Aziz Hinai, Vice President, Finance who led the IDB delegation for the roadshow commented: "We are very delighted with the outcome of the deal, which achieved our main objectives for the transaction to build on the success of the deal in February 2014 in order to establish another liquid benchmark and further position IDB in line with its Supranational peer group. I am particularly happy to see that the deal was placed into a high-quality and diversified orderbook, including a number of first time investors to the IDB credit. In closing I would like to commend the lead managers for delivering a deal that has met the objectives of the Islamic Development Bank for supporting development in its Member Countries."

Islamic Development Bank 21.09.14

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

INTERNATIONAL DEVELOPMENTS

IMF Executive Board Approves One-year Extension of the 2012 Borrowing Agreements

The Executive Board of the International Monetary Fund (IMF) approved a one-year extension of the 2012 Borrowing Agreements. These agreements have played a key role in ensuring that the IMF has adequate resources to meet members' potential needs in the event that tail risks were to materialise.

In 2012, a number of member countries committed to increase IMF resources through bilateral borrowing agreements. Following Executive Board approval of the modalities for the 2012 Borrowing Agreements, 35 agreements for a total of about US$441 billion (SDR 288 billion) have been approved by the Executive Board, of which 32 agreements are now effective for a total of US$425 billion (SDR 277 billion). The 2012 Borrowing Agreements are designed as a second line of defence after quota and New Arrangements to Borrow (NAB) resources and have so far not been activated for use in financing operations. Each agreement has an initial two-year term, and a maximum term of four years.

After this decision, which followed consultations with lenders, the initial two-year term of the agreements will be extended by one year.

The International Monetary Fund 10.09.14

http://www.imf.org/external/np/sec/pr/2014/pr14417.htm

China Legal Entity Identifier System Has Been Launched

The People's Bank of China (PBC) has been working to promote the creation of a domestic system for Legal Entity Identifier (LEI) to keep up with the progress of the global LEI system. Recently The China Legal Entity Identifier System (LEICN) has been formally launched and is providing registration services for Chinese financial institutions.

The global community has turned their attention to financial regulation as a result of the global financial crisis that broke out in 2008. In order to build a unified international framework for financial regulation and improve the capacity to identify systemic financial risks worldwide, the Financial Stability Board (FSB) put forward the initiative of building a global Legal Entity Identifier system in July 2011, to allocate a unique code to every financial institution that participate in global financial transactions. The G20 endorsed the LEI initiative. In June 2012, the FSB started the work to build a global LEI system, establishing a LEI Regulatory Oversight Committee (LEI ROC) in January 2013 and a Global LEI Foundation (GLEIF) in June 2014. Up till now, some advanced economies including the U.S., U.K., and Germany have established their own domestic LEI system, while India, Japan, Korea and other Asian countries are promoting the LEI registration and data management in their own countries.

The PBC, as an important member of the LEI ROC, has been working actively to keep pace with the progress of the global LEI system, and implement the LEI Initiative in China by establishing a domestic channel for the registration of financial institutions. The China Legal Entity Identifier System will provide LEI assignment and registration, annual review, LEI data updating, the porting of LEI data from other local operating units, enquiries and responses, LEI data enquiry and downloading, and other services, process LEI assignment applications, and satisfy the various LEI-related demand from Chinese financial institutions that participate in global transactions. The establishment of the LEICN is expected to facilitate the information management by domestic financial institutions. Furthermore, it is of great significance for China to actively participate in and increase its voice in international financial matters.

The People's Bank of China 17.09.14

http://www.pbc.gov.cn:8080/publish/english/955/2014/20140919102853533714833/20140919102853533714833_.html

Dubai Financial Services Authority Proposes a New Code of Market Conduct

The Markets Law sets out prohibitions against conduct known as market abuse (Part 6 of the Law). It prohibits persons from engaging in fraud and market manipulation, disseminating false or misleading information, using fictitious devices, engaging in insider dealing, providing inside information to another person, inducing another person to deal and misusing certain information. It also defines some key concepts, such as Inside Information, and sets out a number of defences, for example, relating to price stabilisation and share buy backs.

The current market abuse regime was introduced in 2012 and contained a number of enhancements to the previous market misconduct regime. In particular, it was intended to align the market abuse provisions more closely with the European Union (EU) approach reflected in the Market Abuse Directive, as implemented by the UK regime. While the Markets Law regime is broadly based on the UK and EU regime it does contain some differences which reflect the differing market structure and regulatory framework in the DIFC. For example, it potentially applies to a broader range of Investments, including Investments that are not admitted to an Exchange in the DIFC, and includes an additional prohibition against conduct that induces a person to deal. There are also various differences in the content of the prohibitions which were adjusted to reflect local requirements.

While Part 6 of the Markets Law generally does not require the introduction of any further Rules or Guidance in order for the market abuse provisions to be legally effective (apart from Rules setting out how price stabilisations and purchase of own shares must be carried out to fall within the relevant defences), the DFSA considers that it would be desirable to issue further information to assist market participants to understand the scope and effect of the market abuse regime.

The DFSA proposes that this information should be in the form of Guidance on the market abuse provisions that will be contained in a new standalone module in the sourcebook called the Code of Market Conduct. This Guidance would include the DFSA's view on interpretation of some provisions, examples of conduct that in our view may contravene the prohibitions and other conduct that in the DFSA's view does not contravene a prohibition. It would also set out factors that the DFSA may take into account in determining whether or not conduct may be market abuse.

The issue of Guidance will have a number of benefits to the market such as:

(a) assisting persons to determine whether or not conduct is likely to amount to market abuse;

(b) assisting persons to monitor for and prevent market abuse and to report suspected market abuse where they are under an obligation to do so; and

(c) clarifying in certain cases that certain legitimate practices do not ordinarily amount to market abuse

The Dubai Financial Services Authority 18.08.14

http://dfsa.complinet.com/en/display/display_main.html?rbid=1547&element_id=21600

IOSCO Consults on Risk Mitigation Standards for Non-Centrally Cleared OTC Derivatives

The International Organization of Securities Commissions (IOSCO) published the consultation report Risk Mitigation Standards for Non-centrally Cleared OTC Derivatives, which proposes nine standards aimed at mitigating the risks in the non-centrally cleared OTC derivatives markets. The proposed risk mitigation standards would contribute to the G20 effort to strengthen the OTC derivatives market in the wake of the global financial crisis. One of the key planks of the G20 reform programme has been to encourage the central clearing of standardised OTC derivatives.

However, a substantial proportion of OTC derivatives are not standardised and hence not suitable for central clearing. The proposed standards are aimed at these non-centrally cleared OTC derivatives.

The proposed risk mitigation standards are expected to bring about three main benefits:

- Promoting legal certainty and facilitating timely dispute resolution
- Facilitating the management of counterparty credit and other risks
- Increasing overall financial stability

The proposed risk mitigation standards, which are developed in consultation with the Basel Committee on Banking Supervision (BCBS) and the Committee on Payments and Market Infrastructures (CPMI), would complement the margin requirements developed by the BCBS and IOSCO in September 2013 in strengthening the non-centrally cleared OTC derivatives market.

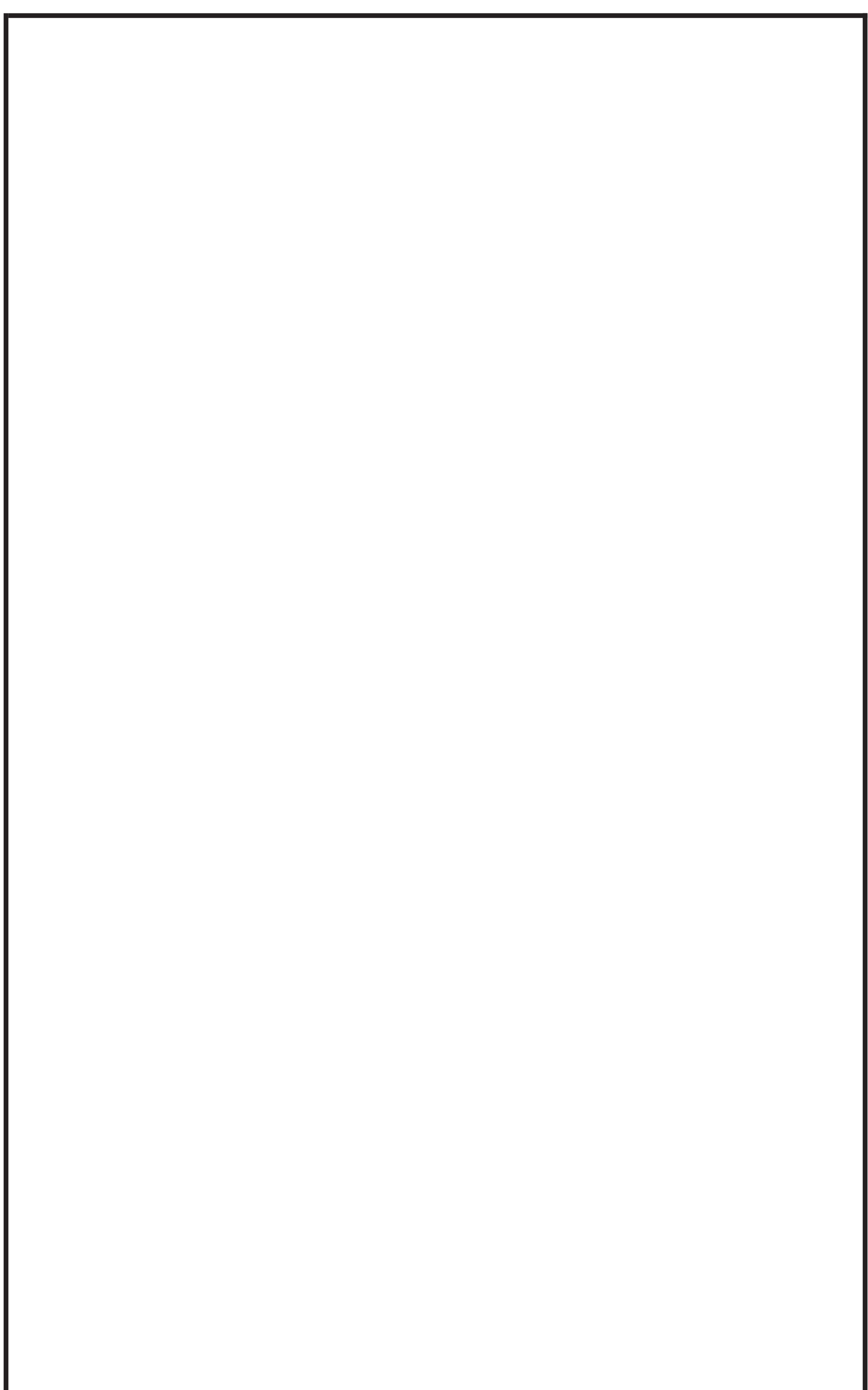
The proposed risk mitigation standards cover nine areas:

- Standard 1: Scope of Coverage
- Standard 2: Trading Relationship Documentation
- Standard 3: Trade Confirmation
- Standard 4: Valuation with Counterparties
- Standard 5: Reconciliation
- Standard 6: Portfolio Compression
- Standard 7: Dispute Resolution
- Standard 8: Implementation
- Standard 9: Cross-border Transactions

Comments on the proposals should be submitted on or before 17 October 2014.

The International Organization of Securities Commissions 17.09.14

http://www.iosco.org/news/pdf/IOSCONEWS346.pdf



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