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Banking Law Update

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REGULATORY DEVELOPMENTS

Financial Conduct Authority (FCA)

Approved Persons

The FCA has produced a consultation paper on *Changes to the Approved Persons Regime for Solvency II firms* (November 2014) CP14/25. Changes are proposed to the FCA role in reviewing firms' assessment of the fitness and propriety of important individuals within firms. Regulators were given powers to apply Conduct Rules to individuals within FSMA authorised firms under the Financial Services (Banking Reform) Act 2013 with the PRA implementing separate revisions to the scope of its pre-approval regime.

FCA, 26.11.2014

Competition Authority

FCA Director of Communication, Deb Jones, has given an address on "The FCA's new competition powers: what do they mean for the financial services industry?" before the Scottish Financial Enterprise lunch hosted by Maclay Murray & Spens LLP, Edinburgh in November 2014. The FCA would assume new competition functions from April 2015 which would allow it to take action against breaches of the Competition Act and to refer markets to the Competition and Markets Authority (CMA) for investigation. The FCA had constructed a new Competition Department to secure its objective of promoting effective competition in the interests of consumers which function had not been exercised by the previous FSA. The FCA had already conducted a market study into general insurance add-on products, produced an interim report on its cash saving market study, launched new studies into retirement income and credit cards and published a call for inputs on the wholesale sector. The FCA has separately created a new Innovation Hub, as part of Project Innovate, to support the development of new ideas on the delivery of financial services. The FCA will assume new powers to conduct market studies and make market investigation reference under the Enterprise Act 2002 and enforce prohibitions on anti-competitive behaviour under the Competition Act 1998 and Treaty on the Functioning of the EU (TFEU). The FCA functions will be exercised concurrently with the CMA. The FCA would attempt to identify competition issues within other areas of activity considered by the FCA and combine legal, economic and investigatory skills with financial services knowledge in exercising its new powers.

FCA, 21.11.2014

Conduct Risk

Robert Taylor, FCA Head of Wealth Management & Private Banking, has given an address on "Conduct Risk Briefing". Robert Taylor specifically commented on conduct risk with regard to Politically Exposed Persons (PEPs), anti-money laundering and sustainability. These were referred to as some of the most important inherent risks that firms had to face. While firms had to use new technology and new products, they had to ensure that the

service provided to clients allowed them to build and maintain trust. Trust was referred to as the fundamental issue within the financial services industry.

FCA, 28.11.2014

Conflicts of Interest

The FCA has published the results of its review of conflicts of interest arising from wealth management and private banking firms' use of in-house investment products (IHPs) in retail discretionary and advisory investment portfolios (TR14/9). The FCA expected to maintain an embedded approach to deal with conflicts of interest. The review examined a sample of 18 firms managing £146 billion of retail customers' assets. The review confirmed that firms generally recognised the potential risks to their customers through conflicts of interests in using in-house investment products with a number of steps being taken to manage them. There was no evidence of remuneration structures distorting investment decisions with due diligence processes in investment product selection and monitoring generally being consistent between IHPs and third party products. Some concerns arose with regard to business model and strategy coverage, portfolio monitoring and customer communications.

FCA, 24.11.2014

Consumer Complaints

The FCA and financial industry have agreed on a number of measures to improve the way in which consumer complaints are handled. This follows a thematic review conducted by the FCA which examined the processes maintained by 15 large retain financial firms with a joint working group considering the results in cooperation with five other trade bodies. The objective was to identify barriers to effective complaint handling. Improvements had been made with senior management being more engaged and staff given additional discretionary powers to form judgments and act with empathy. Firms had still failed to consider consumer impact in designing and implementing processes and procedures, inconsistencies remained in redress amounts especially in terms of distress and inconvenience, the causes of complaints were always corrected and weaknesses remained in management information. Firms agreed to make appropriate changes with the FCA to consider specific amendments to its dispute resolution rules.

FCA, 17.11.2014

Credit Card Market Study

The FCA has published the terms of reference for its market study on credit cards. Thirty million consumers held credit cards containing £56.9 billion of outstanding debt. The FCA had identified a number of areas in April 2014 that may not be working in the best interest of consumers including with regard to over-borrowing, consumer selection and use, interest on balances,

credit limits and unsustainable debt accumulation. The study would specifically cover credit cards provided by banks, mono-line issuers and affinity or co-brand partners.

FCA, 25.11.2014

Financial Crime

The FCA has issued guidance consultation on *Proposed guidance on financial crime systems and controls* (November 2014) GC14/7. The objective is to update the regulatory guidance and provide examples of good practice following two thematic reviews on small banks' anti-money laundering and financial sanctions (TR14/6) and small commercial insurance brokers' anti-bribery and corruption, systems and controls (TR14/17). The guidance will also be clarified with regard to FCA expectations in areas where significant weaknesses continue.

FCA, 14.11.2014

Financial Culture

FCA Chief Executive, Martin Wheatley, spoke on "The commercial importance of culture to industry" before the FCA Enforcement Conference London at the beginning of December 2014. The principal theme of the event was described in terms of culture and governance. Continuing conduct crisis confirmed the need for urgent reform. UK current account switch rates had risen by 20% since 7-day guarantee switching was introduced. PWC also confirmed that any provider that could establish sufficient differentiation could obtain substantial market share very quickly with the FCA working to simplify authorisations. The FCA was stated to be aware of its dual responsibility to enforce and punish misconduct as well as to improve future conduct. Substantial changes had also been undertaken within firms including through the adoption of cultural change programmes and significant reforms in frontline reward incentives as well as in compliance structures. Compliance departments had been increased substantially in size with compliance increasing involved in product and service development. "Ethical flexibility" in career progression was nevertheless rejected and the possible need for a generation to allow change to take place as recommended by the New City Agenda and CASS to slow. Firms had to focus on the management of conduct and culture in all industries. It was accepted that it was very difficult to control the behaviour of every individual in large organisations although firms had to reduce the frequency and scale of the problems that had arisen. Tracy McDermott, Director of Enforcement and Financial Crime, spoke on 'Learning the lessons of the past as an industry' at the Conference. Tracy McDermott rejected statements based on misconduct only being carried out by a few individuals who had acted contrary to the standards of the firm, with lessons being learned and changes made and the future misconduct would not occur. Misconduct did not occur in a vacuum but operated in a culture that would excuse poor behaviour. Tracy McDermott also defended that size of recent fines with firms being stated to be responsible for corporate as well as individual failings. Firms had to improve

their systems and controls while proper individual accountability was maintained. Better conduct could also not be achieved through additional rules and guidance with guidance having increased by 27% between 2005 and 2008. The FCA Rulebook apparently measured 6'3′ with much of this being required by relevant EU measures. The FCA was separately working to ensure individual accountability as well as corporate liability.

FCA, 2.12.2014

Foreign Exchange Fines

The FCA has fined five banks £1,114,918,000 ($1.7 billion) for failing to control business practices in G10 spot foreign exchange (FX) trading operations. Separate fines may be imposed on Barclays Bank plc following further negotiations with regulatory authorities in the US and UK. The banks failed between 1 January 2008 and 15 October 2013 to maintain effective controls which allowed G10 spot FX traders to place the banks' interests ahead of clients, other market participants and the wider UK financial system with banks failing to manage obvious risks concerning confidentiality, conflicts of interest and trading conduct. Information was exchanged on client activity which should have been kept confidential with traders attempting to manipulate G10 spot FX currency rates in collusion with other firms to the disadvantage of clients and the market. UBS AG was fined £233,814,000 ($371 million), Citibank £225,575,000 ($358 million), HSBC £216,363,000 ($343 million), Royal Bank of Scotland plc £217,000,000 ($344,000), JPMorgan Chase Bank £22,166,000 ($352 million). The Swiss regulatory authority, FINMA, has disgorged CHF 134 million ($138 million) from UBS AG. The US Commodity Futures Trading Commission (CFTC) has separately fined the banks $1.4 billion with Citibank and JPMorgan Chase being fined $700 million by the Office of the Comptroller of the Currency (OCC). These represented the largest fines imposed by the FCA and the first occasion on which a group of banks were fined. The foreign exchange market is worth $5.3 trillion per day with 40% of the market being based in London. [The traders involved had referred to themselves as ′the players′, ′the three musketeers′, ′one team, one dream′, ′a cooperative′ and ′the A-team′.] Seventy enforcement staff had been involved in the investigation over 30 months. The original proposed fines had been reduced by 30% on early settlement.

FCA, 12.11.2014

Life Assurance Review

The FCA has published its response to the review conducted by Simon Davis, Clifford Chance, of the FCA's announcement of its proposed supervisory work on the fair treatment of longstanding customers and life insurance. Simon Davis made a number of criticisms of the FCA's handling of the launch of its *2014/15 Business Plan* especially with regard to the communications on the scope of the proposed thematic review. [The announcement of the review led to a £3 billion collapse in the stock market values of insurance companies with the FCA taking six and a half hours to confirm that the

enquiry was of limited scope.] The FCA Board accepts the findings of the review and formerly apologise for the mistakes made. A number of changes are to be made to FCA structure and operating model to deal with the issues raised. Davis considers that the FSA's strategy of providing an advanced briefing of the proposed review to The Telegraph newspaper was well intentioned although the strategy and manner in which this was carried out was stated to be ′high risk, poorly supervised and inadequately controlled′ with the FCA's subsequent reaction to events being ′seriously inadequate′ and falling ′short of the standards expected of those it regulates.′ A series of recommendations covering seven areas of systems, processes and ways of working are set out in Chapter 19 to the report. The FCA undertook a separate review of its strategy with a new structure being announced on Monday 8 December 2014. The Non-Executive Directors separately agreed that Chief Executive, Martin Wheatley, Director of Supervision, Clive Adamson, Director of Communications and International, Zitah McMillan, and Director of Markets, David Lawton, would not receive any bonus for 2013/14 with all other members of the Executive Committee bonus payments being reduced by 25%. Other disciplinary action was stated to have been completed as appropriate. The separate strategic changes announced included bringing the Authorisations and Supervision Divisions together with other specialist supervision functions including financial crime and client assets. A new Strategy and Competition Division would be established to develop competition capabilities and market based work supported by an enhanced data, intelligence and research capability. A new Risk Division would be created to provide a strategic approach to the management of internal and external risk with a separate Markets Policy and International Division focusing on FCA European work. A Market Oversight Division would be established incorporating UKLA and Market Monitoring functions. The changes would be implemented between January and April 2015.

FCA, 10.12.2014

MIPRU Simplification

A consultation paper has been issued on *MIPRU Simplification* (December 2012) CP14/28. This provides for the amendments of MIPRU 4 to incorporate relevant capital rules and guidance in BIPRU with regard to non-bank lenders (NBLs) following the Mortgage Market Review (MMR) and the initial revision of MIPRU carried out in April 2014. Simplified ′first phase′ rules are provided for calculating credit risk capital requirements for NBLs with the general policy position remaining the same. MIPRU 4 will be included as standalone chapter.

FCA, 8.12.2014

Multilateral Trading Facilities

The FCA has conducted a thematic review of the rulebooks of the operators of multilateral trading facilities (MTFs) with a ′Dear CEO Letter′ being sent out subsequently and FCA Good Practice Observations being provided in MAR 5 on MTF rulebooks. MAR 5.3.1 (Trading Process Requirements)

specifically requires that a firm operating an MTF must have transparent and non-discretionary rules and procedures for fair and orderly trading. All MTF operators were expected to be able to demonstrate compliance with the relevant requirements under MAR 5 and the Good Practice Observations.

FCA, 1.12.2014

Payment Systems Regulator

The FCA and Payment Systems Regulator (PSR) have issued a consultation paper on *A new regulatory framework for payment systems in the UK* (November 2014) PSR CP14/1. The PSR will regulate the £75 trillion payment industry from 1 April 2015. The PRA's objectives are to promote competition and innovation and to ensure that payment systems are developed and operated in the interests of service users. Payment systems provide for the spending and transfer of money and form an essential part of everyday financial activity. The PSR is to introduce a new approach to industry strategy setting with the establishment of a Payments Strategy Forum allowing for wide service user representation. The ownership, control and governance of payment systems is to be opened up to involve all service users outside proprietary systems owners. Fairer and more open direct access to payment systems operators is to be provided specifically on an objective, risk based, fair and open and publically disclosed basis. Greater transparency is to be provided for those seeking direct access to interbank systems with sponsor banks publishing information on access criteria and processes under a PSR approved Code of Conduct. High level behavioural expectations will be laid down by the PSR based on three principles of acting in an open and cooperative manner, being compliant and managing business and financial risks to ensure the smooth operation and management of payment systems.

FCA, 13.11.2014

Payment Systems Regulator

The Payment Systems Regulator (PSR) has published its first *Annual Plan 2014/15* (November 2014) which sets out its key aims and activities for the following year, in particular, with regard to people, processes and policies. The PSR is to become fully operational in April 2015 and will recruit 50 employees to cover its initial activities including industry experts, economists, lawyers and policy and communications professionals. Specific policy workstreams are outlined covering regulatory approach, governance and ownership of payment systems, access, competition and collaboration, innovation and infrastructure. Other issues include working with other regulatory and competition authorities, budget and cost recovery.

FCA, 25.11.2014

RBS, NatWest and Ulster Bank Fines

The FCA has fined RBS, National Westminster Bank and Ulster Bank Ltd £42 million for IT failures in June 2012 which prevented customers from accessing banking services. The banks had failed to put in place resilient IT

systems that could withstand, or minimise, the risk of IT failures. Over 6.5 million customers had been affected in the UK over a number of weeks. RBS Group Technology Services had installed upgraded software without testing whether it was compatible with the existing system in place which lead to systems failure and disruption. The FCA accepted that the RBS Groups spends over £1 billion annually to maintain IT infrastructure. The PRA separately fined the banks £14 million with this being the first joint enforcement action by the FCA and PRA.

FCA, 20.11.2014

Regulatory Fees and Levies

The FCA has published a consultation paper on *Regulatory fees and levies: policy proposals for 2015/16* (November 2014) CP14/26. This contains proposed policy changes to fee and levy collection for the FCA, the Financial Ombudsman Service, Financial Services Compensation Scheme (FSCS), Money Advise Service and the Payment Systems Regulator (PSR) from 2015–16. No note of total fees is provided for either in the press statement or consultation paper.

FCA, 27.11.2014

Retirement Income and Annuities

The Financial Conduct Authority (FCA) has published the results of a market study (MS14/3) into the provision of retirement income with recommendations on improving the manner in which firms communicate with customers on available options. The FCA has published the results of its thematic review on annuities sales practice (TR14/20). The FCA considered that the annuities market was not working properly in February 2014 and announced the carrying out of a market study. This was extended following the 2014 budget which contained new pension freedoms. The market study confirms that competition is not working as well as it should with many consumers losing higher income possibilities. Recommendations are made to improve customer communication to allow consumers to have trust and confidence in the products purchased.

FCA, 11.12.2014

Short Selling Ban

The FCA website contains a notice of the temporary ban on net short positions imposed by the Italian *Commissione Nazionale per le Società e la Borsa* (CONSOB) on shares and related instruments in the Banca Monte dei Paschi di Siena and the Banca Carige. The bans are imposed under Article 20(2)(b) of EU Regulation 236/2012 of 14 March 2012 on short selling and credit default swaps. The ban extends the original ban imposed on 24 October 2014.

FCA, 11.11.2014

Prudential Regulation Authority (PRA)

CP12/14 and PS10/14

The PRA has published a policy statement containing feedback and final rules and supervisory statements covering the CRD IV amendments with regard to credit risk mitigation, credit risk, governance and market risk set out in CP12/14 in June 2014. Supervisory statement SS17/13 is revised to require firms using own estimates of volatility adjustments to provide the PRA with confirmation that they comply with the relevant requirements set out in the CRR Articles 225(2) and (3). Supervisory statement SS13/13 on market risk is updated on the reporting of risks not within the VAR requirements in FSA005 and EBA common regulatory reporting framework (COREP). Stricter criteria are introduced under Credit Risk 4 of the PRA Rulebook posing a 50% risk weight on certain commercial real estate exposures in non-EEA countries. Guidance is provided in SYSC 4 on the PRA's interpretation of the CRD IV limits on directorships held by directors of significant firms who manage the consolidated group.

PRA, 27.10.2014

CRD IV Liquidity

The Prudential Regulation Authority (PRA) has published a consultation paper on *CRD IV: Liquidity* (November 2014) CP27/14. This includes provisions covering the draft rules and draft supervisory statement on the revised PRA liquidity regime following the coming into effect of the EU Capital Requirements Directive (CRD IV) Liquidity Coverage Requirement (LCR) on 1 October 2015. The provisions are set out in the EU delegated act to supplement EU Regulation 575/2013 of 10 October 2014. The LCR requirements are directly applicable and do not require separate legislative implementation. The measure applies to UK banks, building societies and designated investment firms as well as third country banks and investment firms and European Economic Area credit institutions with a branch in the UK. The consultation paper sets out relevant transitional arrangements including the disapplication of the current BIPRU 12 and phasing in of the LCR with maintenance of the current PRA regulatory returns and operation of modifications granted under the current regime. The LCR would be set at 80% from 1 October 2015, 90% from 1 January 2017 and 100% from 1 January 2018 as provided for under the CRR. Requirements on firms beyond complying with LCR are also discussed with additional matters not covered by relevant EU legislation including with regard to investment firms, UK branches of third country firms and LCR disclosure. The measures give effect to the LCR as originally proposed by the Basel Committee in 2013 and introduce a general 30 day liquidity requirement having regard to firms' High Quality Liquid Assets (HQLA) buffer.

PRA, 28.11.2014

Depositor Protection

A consultation paper on *Depositor Protection* (October 2014) CP20/14 has been published on the implementation of the recast EU Deposit Guarantee

Schemes Directive 2014/49/EU (DGSD) as well as on the Single Customer View (SCV) requirement and continuity of access provisions. Specific amendments are made under the DGSD to the Financial Services Compensation Scheme (FSCS) with regard to funding, eligibility, temporary high balances (THBs), disclosure and speed of payout. THB protection will be provided for up to six months covering £1 million on certain deposits including private property sale proceeds. FSCS payments are generally to be reduced from 20 to 7 days. Separate amendments are made on SCV with regard to removing the opt out, standardisation, time to produce the SCV file and in-flight transactions. With regard to continuity of access, firms are required to maintain separate accounts for covered and uncovered balances and prioritise balances across accounts where customers have more than £85,000 in multiple accounts.

PRA, 6.10.2014

Encumbered and Unencumbered Assets

The PRA has published a consultation paper on *CRD IV: compliance with the European Banking Authority's Guidelines on disclosure of encumbered and unencumbered assets* (September 2014) CP18/14. This sets out PRA expectation to ensure firm compliance with the EBA Guidelines. The supervisory statement sets out the conditions under which the PRA may waiver the EBA Guideline requirements with regard to the provision of liquidity assistance in emergency situations. The Guidelines permit authorities to waive the requirement to disclose template B in appropriate cases. Three specific criteria are provided for relating to on and off balance sheet size, the fair value of collateral received in debt securities not exceeding £100 billion and with the arithmetic mean of the fair value of collateral over the immediately preceding 12 months being less than £100 billion. Firms are not required to specifically apply for the waiver where their conditions are satisfied.

PRA, 24.9.2014

Loan to Income (LTI) Ratios

The PRA has issued a policy statement on *Implementing the Financial Policy Committee's recommendation on loan to income ratios in mortgage lending* (October 2014) PS9/14. This follows the earlier PRA consultation paper CP11/14 in June 2014. The Financial Policy Committee (FPC) had recommended that mortgage lenders limit their proportion of new lender at LTI ratios at or above 4.5 to no more than 15% of total new mortgage issuance. The objective is to limit the number of mortgages based on high loan to income multiples. A £100 million *de minimis* threshold exemption is provided for small lenders. The measures are set out in the PRA Housing Instrument 2014 within its Rulebook. The new requirements came into on 1 October 2014.

PRA, 1.10.2014

Operational Continuity

A discussion paper has been produced on *Ensuring operational continuity in resolution* (October 2014) DP1/14. This contains principles that firms' operational arrangements have to comply with to facilitate recovery actions, resolution and post resolution restructuring. This forms part of the PRA's wider resolution and resilience agenda. The objective is to ensure that firms maintain appropriate systems to ensure continuity of deposit taking and other functions critical to the economy in the event of failure. A distinction is drawn between critical economic functions, provided for third parties, and critical shared services, which support other group material entities or business units in carrying out critical economic functions. The framework is based on three design principles (covering restructuring capabilities, contractual service provision and financial and operational resilience) and eight assessment criteria (dealing with ownership structures, objective service agreements, charging structures, scale and scope, governance structures, ownership or continued access to operational assets, operational resilience and financial resilience).

PRA, 6.10.2014

PRA Rulebook

The PRA has issued a consultation paper on *The PRA Rulebook: Part 2* (November 2014) CP25/14. This constitutes the second series of revisions to transform the Financial Services Authority (FSA) Handbook into a final set of PRA rules only. Earlier measures were set out in chapter ten of CP8/13. The further measures cover status, disclosure, controllers, close link, notifications and systems and controls with four supervisory statements on aggregation of holdings in the prudential assessment of controllers, internal governance, exercising certain functions under the Building Societies Act 1986 and treasury lending activities as well as a policy statement on the PRA's approach to insurance business transfers.

PRA, 24.11.2014

Remuneration Data Collection

The PRA and FCA have issued a joint feedback statement following their earlier consultation on data collection on remuneration practices set out in PRA CP17/14 and FCA CP14/19. Remuneration data reporting applies to banks, building societies, designated investment firms and IFPRU investment firms. Responses agreed with the proposed approach to implementing the European Banking Authority's (EBA) Guidelines on High Earners Report and Benchmarking Report with the scope of PRA regulated firm coverage remaining unchanged. The new rules will be implemented through the Remuneration part of the PRA Rulebook and in Supervision manual Remuneration Reporting (SUP16/17) in the FCA Handbook. Earlier reporting requirements had been set out in the EU CRD III which were implemented in the UK under the Capital Requirements (Amendment) Regulations 2012 with revised reporting requirements being set out in Article 75 (1) and (3)

CRD IV. These were implemented under EBA ′Guidelines on the Remuneration Benchmarking Exercise′ (EBA/GL/2012/4) and ′Guidelines on the Data Collection Exercise Regarding High Earners′ (EBA/GL/2012/5). Firms submit a more general Benchmarking Information Report (BIR) and individual High Earners Report (HER). The new requirements will require disclosure of data on all employees earning €1 million or more in all subsidiaries and branches within a group based in the EEA or an EEA branch of a firm with its head office outside the EEA. The High Earners Report template provides for the collection of more detailed data with additional business areas to cover a wider range of categories of staff.

PRA, 7.11.2014

Ring Fencing

The PRA has issued a consultation paper on *The implementation of ring-fencing: consultation on legal structure, governance and the continuity of services and facilities* (October 2014) CP19/14. The PRA is required to implement policy to secure the ring fencing of core UK services and activities within banking groups with core deposits greater than £25 billion. Ring fencing is to come into effect from 1 January 2019 with further PRA publications to be produced in 2015 and 2016. CP19/14 covers legal structure arrangements of banking groups subject to ring fencing, governance arrangements within ring fenced bodies and requirements to ensure continuity of services and facilities to ring fenced bodies. The PRA's general safety and soundness objective was amended with regard to ring fencing under the Financial Services (Banking Reform) Act 2013 to ensure the continuity of the provision of core services to protect the resilience of a ring fenced body and to ensure orderly resolution without disruption to the continuity of core service. Excluded and prohibited activities are defined in the Excluded Activities and Prohibitions Order 2014. In terms of legal structure, ring fenced bodies will generally be required to adopted a "sibling structure" and be able to take independent decisions, not be adversely affected by acts or omissions by other members of the group and be able to carry on core activities in the event of the insolvency of other members. The PRA is separately required under the 2013 Act to make rules on ring fenced body board membership, risk management, remuneration policy and human resources policy. To ensure continuity of services, the PRA is to impose additional restrictions on intragroup service arrangements and service arrangements with non-group entities which may be affected by the financial position of a group entity.

PRA, 6.10.2014

Bank for International Settlements (BIS)

Asian Pacific Bond Markets

The Bank for International Settlements (BIS) has published a working paper on ′Correlations across Asia-Pacific bond markets and the impact of capital flow measures′ (December 2014) WP472 by Pornpinun Cantapacdepong and

Iihyock and Shim. This examines the impact of bond inflow measures on cross-market correlations of weekly bond fund flows and daily bond returns in 12 Asia-Pacific economies between 2004–2013 allowing for global, regional and local factors.

BIS, 9.12.2014

Basel Implementation

The Basel Committee has provided an update *Progress report on adoption of the Basel regulatory framework* (October 2014) covering Basel II, Basel 2.5 and Basel III. This assesses the status of domestic rule making processes in ensuring that the standards are properly transformed into national law and regulation in accordance with relevant timeframes. This uses information provided under individual country RCAP results and covers risk-based capital requirements, GSIBs and DSIBs, the leverage ratio and liquidity cover ratio (LCR).

BIS, 3.10.2014

The Basel Committee has published an update document on *Implement of Basel standards* (November 2014) addressed to the G20 Leaders following its earlier report in August 2013. This reviews work taken to ensure that member jurisdictions properly implement the Basel III requirements with certain implementation related challenges being identified. Specific comment is made with regard to consistency of capital regulations in Australia, Brazil, Canada and China with upcoming RCAP assessments being listed in Annex 2.

BIS, 12.11.2014

Consolidated Banking Statistics

The BIS published updated *Consolidated Banking Statistics* on October 2014 which provides quarterly data on banks' foreign claims by country of residence of counterparty, maturity and sector. Total assets have risen to $34.438 trillion by June 2014 up from $33.505 trillion in December 2012. This represented $20 trillion claims on banks and $14.381 trillion of claims on non-banks. The data includes consolidated and locational statistics. International banking activity had expanded for the second quarter following an earlier contraction in 2012 and 2013. The BIS published separate effective exchange rate (EER) indices for 61 economies include broad and narrow indices.

BIS, 20.10.2014

Corporate Governance

The Basel Committee has published revised *Guidelines – Corporate governance principles for banks* (October 2014) which build on its earlier *Principles for enhancing corporate governance* (2010). The purpose is to strengthen guidance on risk governance, including risk management by business units, risk management teams and internal audit and control functions (referred to as the three lines of defence) and supporting sound risk culture. Additional

guidance is provided on the role of the board of directors in overseeing the implementation of effective risk management systems, board collective competence, board member and senior management selection and compensations and incentive systems. The paper includes 13 specific principles on board overall responsibilities, qualifications and composition, structure and practices, senior management, governance of group structures, risk management, risk identification, monitoring and controlling, risk communication, compliance, internal audit, compensation, disclosure and transparency and the role of supervisors.

BIS, 10.10.2014

Cyber Resilience

The Committee on Payments and Market Infrastructures (CPMI) has published a report on *Cyber Resilience in financial market infrastructures* (November 2014). This assesses the relevance of cyber security issues for financial market infrastructures (FMIs) and their overseers with specific reference to the CPMI *Principles for Financial Market Infrastructures*. The paper considers threats to security systems in worse case scenarios with an integrated approach being recommended and further comments made on specific sector wide considerations. The CPMI had set up a separate working group to examine cyber security issues. This conducted a stocktaking exercise through interviews with FMIs, participants, providers and other relevant stakeholders. This confirmed that cyber security had become a priority with more systems attempting to maintain a two hour recovery time objective (2h-RTO) in response to extreme events. The work was conducted on the assumption that FMIs had to be able to recover operations quickly and settle activities, at least, by end of day even in extreme scenarios.

BIS, 11.11.2014

Default Risk

The BIS has published a working paper on 'Managing Default Risk' (October 2014) no 467 by Anna Zabi. Default risk is decomposed into separate solvency and coordination risk components with fiscal policy being examined to manage policy changes. Managing default risk is more effective through interest rate movements rather than using non-contingent fiscal targets.

BIS, 8.10.2014

Emerging Market Implementation

The Basel Committee has published a working paper on *Impact and implementation challenges of the Basel framework for emerging market, developing and small economies* (November 2014) no 27. This assesses the potential impact and challenges of specific standards issued by the Committee with practical recommendations being made to assist jurisdictions implement global standards and enhance their supervisory approaches. This follows the findings of the Basel Consultative Group (BCG) which attempts to enhance understanding of supervisory and regulatory issues worldwide following the

G20 and Financial Stability Board (FSB) request that the Committee monitors such issues. The paper specifically examines the Basel III capital and liquidity frameworks, OTC derivative market reforms, sovereign exposures, domestic systemically important banks (DSIBs) and cross-border supervisory colleges.

BIS, 14.11.2014

EU and US Capital Regulations

The Basel Committee has published two reports on *Assessment of Basel III regulations – European Union* (December 2014) and the separate report on *Assessment of Basel III regulations – United States of America* (December 2014). The assessments were conducted as part of the Committee's Regulatory Consistency Assessment Programme (RCAP) which examines the consistency and completeness of country standards adoption with any significant regulatory deviations being highlighted. The objective is to promote full and consistent adoption of Basel III within member countries and with regard to all internationally active banks. The EU assessment specifically examined the regulatory impact of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) 4. The Committee concluded that eight of the 14 components assessed met the minimum provisions of the Basel standards with the EU being assessed compliant. Four components were considered largely compliant with the Internal Ratings-based (IRB) approach to credit risk being graded materially non-compliant in connection with the treatment of small and medium sized enterprise (SME), corporate and sovereign exposure treatments. The exception from the credit valuation adjustment (CVA) capital charge for certain derivatives exposures under the counterparty credit risk framework was deemed non-compliant. A separate nine party team examined the US final capital rule that came into effect on 1 January 2014. The US system was considered largely compliant with material deviations being identified in terms of the securitisation framework and standardised approach for market risk being deemed materially non-compliant. The securitisation deviation allowed certain US core banks to produce materially lower securitisation RWA outcomes than provided for under the Basel rules with the market risk standardised approach incorporating a transitional measure as a permanent rule. The assessment grades are set out in the Committee's *Basel III Regulatory Consistency Assessment Programme* (*RCAP*) (October 2013) paper. The 14 assessment components generally relate to scope of application, transitional arrangements, Pillar 1 capital buffers (conservation and countercyclical), standardised approach, IRB, securitisation framework, counterparty credit risk framework, market risk standardised measurement method (SMM), market risk internal models approach (IMA), operational risk basic indicator and standardised approaches, operational risk advanced measurement approaches (AMA), Pillar 2 supervisory review and Pillar 3 market discipline.

BIS, 5.12.2014

Financial Deregulation

The BIS has published a working paper on 'The redistributive effects of financial deregulation: Wall Street versus Main Street' (October 2014) no 468. This constructs a model comparing financial sector benefits through risk taking and greater expected returns with the increased incidents of large losses resulting in credit crunches and imposing negative externalities on the real economy. Efficiency in the financial sector supported by deregulation is balanced against efficiency in the real economy strengthened by tighter regulation and a more stable credit supply. Financial innovation, asymmetric compensation schemes, concentration and bailout expectations encourage greater risk taking and allocated greater surplus to Wall Street as against Main Street.

BIS, 8.10.2014

Financial Inclusion

The BIS Financial Stability Institute hosted the second G20 Global Partnership for Financial Inclusion (GPFI) Conference on 'Standard-setting in the changing landscape of digital financial inclusion' in October 2014. An estimated 2.5 billion people had no access to formal financial services including payments, credit, insurance and savings with the conference examining the implications for regulators, supervisors, standard-setting bodies and customers for the development of innovative, low cost, digital transaction platforms to facilitate financial inclusion. Representatives attended from the Basel Committee, CPMI, Financial Action Task Force (FATF), International Association of Deposit Insurers (IADI) and International Association of Insurance Supervisors (IAIS) with the International Organisation of Securities Commissions (IOSCO) attending for the first time. The opening remarks were made by BIS General Manager, Jaime Caruana.

BIS, 31.10.2014

FMI Recovery

The CPMI and IOSCO published a paper on *Recovery of Financial Market Infrastructures* (October 2014). This provides guidance on the development of plans by FMIs, including central counterparties (CCPs) to recover from threats to viability and financial strength that may otherwise prevent them from providing critical functions with supporting guidance to authorities in approving recovery plans. This builds on the *Principles for financial market infrastructures* published by the CPSS and IOSCO in April 2012 and is consistent with the FSB *Key attributes of effective resolution regimes for financial institutions*. The paper includes specific sections on recovery planning, recovery tools and specific recovery tools for FMIs.

BIS, 15.10.2014

Global Bond Market

The BIS has issued a working paper on 'Benchmark tipping in the global bond market' (October 2014) no 466 by Lawrence L Kreicher, Robert N

McCauley and Philip Wooldridge. The paper examines the turnover of fixed income derivatives in seven currencies to determine the extent to which market participants increasingly use contracts based on private rather than government rates to hedge and take positions. Private benchmarks had replaced government benchmarks in the US dollar money market with evidence suggesting that private interest rate swaps were increasingly being used as benchmarks as against government bond futures in bond markets.

BIS, 6.10.2014

Global Debt

Deputy General Manager of the BIS, Hervé Hannoun, gave an address on 'Central banks and the global debt overhang' before the 50th SEACEN Governors' Conference, Port Moresby, Papua New Guinea on 20 November 2014. Sovereign debt had risen to record levels in many countries and was still rising seven years after the beginning of the global financial crisis. It was difficult to determine when debt became excessive although a number of signs indicated that debt had passed safe levels within many advanced economies with market participants being complacent with regard to the risks concerned. Emerging market economies were in a more stable position but still exposed to debt levels elsewhere. The paper examines the build-up of debt levels and its causes, possible solutions for resolving the debt overhang and continuing central bank dilemmas in responding to the issues concerned. BIS General Manager, Jaime Caruana, gave a separate speech on 'Debt trouble comes in threes' before the International Finance Forum Annual Global Conference, Beijing on 1 November 2014. Caruana specifically referred to debt arising from the build-up of leverage, overinvestment in specific sectors and the inability to identify distortions and weaknesses within the economy due to feel good effects during credit booms.

BIS, 20.11.2014

Global Financial Cycle

Deputy BIS General Manager, Hervé Hannoun, has spoken on 'The global financial cycle and how to tame it' before the International Symposium of the Banque de France on 'Central banking: the way forward?', Paris, November 2014. The 2014 *BIS Annual Report* refers to the financial cycle as the self-reinforcing interactions between perceptions of risk, risk taking and financing constraints which interactions lead to booms and busts spanning ordinary cycles. The global financial cycle is examined in terms of gross capital flows, credit creation and asset prices by Professor Hélène Rey. While global market liquidity had been bank driven between 2003–2008, this had shifted to being bond market driven since 2010. Excessive elasticity international monetary system prevented it from containing the build-up of financial imbalances with the de facto global anchor of the system simply consisting of the aggregate of domestic monetary policies of the major reserve currencies. Spillovers from unconventional monetary policy in advanced economies had specific impacts in emerging economies such as with the 'taper tantrum' following the anticipated withdrawal of quantitative

easing in the US in mid 2013. Global and national cycles could not be constrained alone by short-term policy rates with a wide range of macroprudential tools having to be considered. Monetary and macroprudential policies had specifically to be exercised in the same direction.

BIS, 7.11.2014

Global Liquidity Indicators

The BIS has been publishing updates on indicators for global liquidity conditions since October 2013 with updates to be published twice annually. The principal global liquidity indicators were based on credit aggregates with supplementary indicators covering monetary liquidity, funding liquidity and risk appetite. Liquidity risk appetite had increased with the loosening in credit conditions in the spring and summer 2014 with conditions favouring growth in debt issuance over bank-intermediated cross-border funding although some market nervousness returned by September especially with regard to the US Federal Reserve's withdrawal from QE. The US dollar rose against a wide range of currencies with equity markets and commodity prices falling. Exposures may arise as quantities and prices adjust to shifts in underlying monetary conditions and macroeconomic outlook.

BIS, 8.10.2014

GSIB Methodology

The Basel Committee has published a paper on *The G-SIB assessment methodology – score calculation* (November 2014) which supports the revised list of G-SIBs published by the FSB. This includes a technical summary explaining the methodology and denominators used to calculate the scores for banks in the end-2013 exercise and the cut-off score used to identify the revised list of G-SIBs. This also lists the thresholds used to allocate G-SIBs to buckets to calculate specific higher loss absorbency (HLA) requirements. The FSB and Basel Committee published the updated list of G-SIBs on 6 November 2014 with one bank being added to increase the total number from 29 to 30. Bucket 4 (2.5%) included HSBC and JPMorgan Chase, bucket 3 (2%) consisted of Barclays, BNP Paribas, Citigroup and Deutsche Bank with bucket 2 (1.5%) being made up of Bank of America, Credit Suisse, Goldman Sachs, Mitsubishi UFJ FG, Morgan Stanley and RBS. The other banks were included in bucket 1 (1%) including Santander and Standard Chartered. Basel Committee Chairman, Stefan Ingves, spoke on 'Basel III implementation: Progress, pitfalls, and prospects' before the High-Level Meeting for the Americas, Lima, Peru on 3–5 November 2014.

BIS, 6.11.2014

International Journal of Central Banking

The Quarterly *International Journal of Central Banking* (*IJCB*) provides features on central bank theory and practice specifically relating to monetary and financial stability. The December 2014 issue included specific articles on monetary and labour interactions in a monetary union, financial stability and

central bank governance, aggregate demand effects of short and long-term interest rates, funding liquidity risk in a macro stress testing framework, counterparty risk within the US CHAPS following the collapse of Lehman Brothers, bank market power and monetary policy transmission, Nowcasting Norway and housing boom bust cycles and monetary policy.

BIS, 1.12.2014

Lender of Last Resort

The BIS has published a series of papers following a workshop on ′Re-thinking the lender of last resort′ attended by academics, policy advisers and former and active central bankers at the BIS on 15 May 2014. The central bank LLR function was important due to the unique ability of central banks to create liquid assets through central bank reserves, their responsibility for the payment system and the need to ensure macroeconomic stability. The provision of LLR was nevertheless highly risky, created significant moral hazard, exposed central banks to significant financial risks and confused the boundary with fiscal policy with individual liquidity provision being unpopular and creating separate reputation risks. The workshop considered a number of issues including balancing benefits and risks, certainty and ambiguity in the provision of support and the possible need for clearly articulated ex ante policy communication.

BIS, 15.9.2014

Leverage Ratio

The Basel Committee has published a series of ′Frequently asked questions (FAQs) on the Basel III leverage ratio′ which responses are updated regularly to promote consistent global implementation. The responses specifically cover interpretation questions received since the publication of the leverage ratio framework in January 2014.

BIS, 7.10.2014

The BIS has published a working paper on ′The leverage ratio over the cycle′ (November 2014) no 471 by Michael Brei and Leonardo Gambacorta. The paper examines how the Basel III leverage ratio behaves over the cycle using a test for the cyclical properties of bank capital ratios allowing for structural shifts in Banks' behaviour during the global financial crisis and subsequently. This confirms that the leverage ratio is significantly more countercyclical than the risk-weighted capital ratio which generally acts as a tighter constraint during booms and a looser constraint in recessions.

BIS, 14.11.2014

Liquidity

The Basel Committee on Banking Supervision has published a consultative document on *Net Stable Funding Ratio Disclosure Standards* (December 2014). The purpose is to improve the transparency of the net stable funding ratio (NSFR), strengthen market discipline, reduce uncertainty and reinforce

the Committee's separate *Principles for Sound Liquidity Risk Management and Supervision* (September 2008). Internationally active banks will publish their NSFR figures using a common template set out in para 14 of the consultation document with explanatory material provided in Annex I and completion instructions in Annex II. The objective is to ensure that banks maintain sufficient high quality liquid assets (HQLA) with the template separately listing Available Stable Funding (ASF) and Required Stable Funding (RSF) items. ASF items principally consist of capital (regulatory capital and other capital instruments), retail deposits and small business deposits (including stable and less stable deposits), wholesale funding (including operational deposits and other wholesale funding), liabilities with matching interdependent assets and other liabilities (including net derivative liabilities and all other liabilities and equity not previously included). RSF items are listed in terms of total HQLA, deposits held at other financial institutions for operational purposes and performing loans and securities (including performing loans to financial institutions secured by level 1 HQLA, non-level 1 HQLA loans, loans to non-financial corporate clients, retail and small business customers and sovereigns, central banks and public sector entities, performing residential mortgages and securities not in default and not qualifying as HQLA such as exchange traded equities). The RSF also includes assets with matching interdependent liabilities and other assets (physical traded commodities, including gold, net derivative assets and all other assets not previously included) as well as off-balance sheet items. Banks are separately required to hold 30 day liquidity cover under the Liquidity Coverage Ratio (LCR).

BIS, 9.12.2014

Liquidity Regulation

The BIS has published a working paper on 'The impact of liquidity regulation on banks' (October 2014) no 470 by Ryan Banerjee and Hitoshi Mio. This examines the effect of liquidity regulation on bank balance sheets which examines the different impacts of the FSA requirements on banks required to hold a sufficient stock of high quality liquid assets (HQLA) against two stressed funding conditions and those banks that were not. Banks adjusted both their asset and liability structures by increasing their share of HQLA and funding from more stable UK non-financial deposits at the same time as reducing short-term intra-financial loans and short-term wholesale funding. There was no material impact on the overall size of bank balance sheets or any detrimental effects on lending through reduced supply or higher interest rates. Banks replaced claims on other financial institutions with cash, central bank reserves and government bonds which reduced interconnectedness within the banking sector without affecting the real economy.

BIS, 21.10.2014

Market Making and Proprietary Trading

The Committee on the Global Financial System (CGFS) has published a paper on *Market-making and proprietary trading: industry trends, drivers and*

policy implications (November 2014) no 52. The paper was prepared by a Study Group set up to assess changes in the supply of and demand for market making services and their impact on fixed income markets including monetary policy and financial stability implications. The report reveals increased liquidity bifurcation and fragility with market activity concentrating in the most liquid instruments and deteriorating elsewhere with drivers being conguncturai (combine elements) and structural. Market making was important in providing liquidity which supported market efficiency and functioning. Market making activity would be encouraged through the strengthening of liquidity risk management, improving market transparency and monitoring or adjusting incentive schemes for market makers as well as providing liquidity through central banks in the last resort.

BIS, 21.11.2014

Net Stable Funding Ratio

The Basel Committee has published final rules for the Net Stable Funding Ratio (NSFR) which will be implemented by 1 January 2018. The NSFR proposals were originally released in 2009 and included within the Basel III agreement in December 2010. The Committee published a revised standard recalibrated to focus on the riskier types of funding profile in January 2014 which was also better aligned with the Liquidity Coverage Ratio (LCR) and with ′cliff effects′ being reduced in the measurement of available and required stable funding (ASF and RSF). The final rules include stable funding for short-term exposures to banks and other financial institutions, derivatives and assets posted as initial margin for derivative contracts.

BIS, 31.10.2014

Operational Risk

The Basel Committee has published a consultation paper on *A revised standardised approach for measuring operational risk capital* (October 2014). The Committee has proposed the establishment of a new unitary standardised approach to replace the existing non-model based approaches with the Basic Indicator Approach (BIA) and Standardised Approach (TSA) and variant Alternative Standardised Approach (ASA). The key input is to be based on a Business Indicator (BI) rather than gross income. The Committee has published a separate review of banks' implementation of the *Principles for the Sound Management of Operational Risk* (2011) which covered 60 systemically important banks (SIBs) within 20 jurisdictions. Implementation varied substantially with further work being required. Specific difficulties arose with regard to operational risk identification and assessment, change management, operational risk appetite and tolerance and disclosure.

BIS, 6.10.2014

OTC Derivatives

The BIS has published a report on *Regulatory reform of over-the-counter derivatives: an assessment of incentives to clear centrally* (October 2014). This

was prepared by the OTC Derivatives Assessment Team set up by the OTC Derivatives Coordination Group to assess incentives for the central clearing of OTC derivatives including by direct CCP members and indirect clearers using CCP members. The results of the work conducted confirm that direct clearers had incentives to clear centrally with the results being less obvious for indirect clearers which included banks and other institutions with different trading and clearing patterns. Some indirect clearers may have incentives to clear centrally while others may not although the bulk of clearing would be conducted through direct clearing members.

BIS, 3.10.2014

The BIS published its statistical release for *OTC derivative statistics at end-June 2014* (November 2014) which confirmed that total notional outstanding contracts fell by 3% from $711 trillion end-2013 to $691 trillion end-June 2014. Gross market values fell 7% from $19 trillion to $17 trillion end-2013 and 14% from $20 trillion end-June 2013. Total credit default swap (CDS) trades with central counterparties increased from 23% to 27% by end-June 2014. Bilateral netting agreements reduced the net market value of outstanding CDS contracts to 23% of gross market value figures.

BIS, 6.11.2014

Payment, Clearing and Settlement Statistics

The CPMI has published annual data on payments and payment, clearing and settlement systems within CPMI member countries. This includes comparative and country tables. This updates the data provided in 2013.

BIS, 29.9.2014

Post-Crisis Reform

Banking supervisors and central bank authorities representing over 100 jurisdictions met in Tianjin, China in September 2014 to discuss policy measures relating to the Basel Committee's post-financial crisis reform agenda. The event was hosted by the China Banking Regulatory Commission (CBRC) and included a meeting of the Basel Committee and 18th International Conference of Banking Supervisors (ICBS). The Committee's membership had been extended to include the European Central Bank's Single Supervisory Mechanism (SSM) and Indonesia's Financial Services Authority with representatives also attending from Chile, Malaysia and the United Arab Emirates. The meetings specifically discussed initiatives dealing with globally systemically important banks, approving the net stable funding ratio final rules, revising corporate governance guidance, securitisation and improving consistency in bank capital ratios.

BIS, 25.9.2014

Quarterly Review

The BIS *Quarterly Review* examines international banking and financial market developments with markets remaining buoyant despite mid-October's

spike in the volatility of most asset classes and with international banking activity extending for the second consecutive quarter between April and June 2014 recovering some of the slow growth in 2012 and 2013. A number of special features are examined including currency movements and reserve composition, tranching and uncertainty in securitisations, bank business models and non-financial corporations in emerging market economies and capital flows.

BIS, 7.12.2014

Regulatory Implementation

The Chairman of the Basel Committee, Stefan Ingves, has spoken on 'Implementing the regulatory reform agenda – the pitfall of myopia' for the Federal Reserve Bank of Chicago. The significant reforms that had been adopted since the financial crisis were reviewed and an assessment made of the extent to which vulnerabilities revealed by the crisis had been adequately addressed with any further adjustments being required. The post-crisis response were described as having creating an unprecedented leap forward in terms of global banking regulation especially with the strengthening of capital, liquidity and leverage requirements for global systemically important banks (G-SIBs). Ingves considered that the regulatory agenda had not gone too far with commentators focusing on short term costs and pains as against longer term benefits. GSIB total assets had grown 12 fold between 1993–2008 from $2.6 trillion to $30 trillion with capital only having increased by seven times from $125 billion to $890 billion which represented an average decline in risk weights from 70% to under 40% with no corresponding reduction in the risk to the banking system. The post-Lehman liquidity pressures confirmed that 'markets function the worst when you need them the most'. The total costs of government recapitalisation, asset purchases and guarantees between 2007–2011 in a sample of countries representing 50% of world GDP amounted to almost $5 trillion or 16% of domestic GDP or $5000 per citizen (L Laeven and F Valencia, 'Systemic Banking Crises Database' *IMF Economic Review* [2013] 225–270). Total costs in terms of loss of productive output were substantially higher between 20–30% in advanced economies. Whilst substantial work had been achieved in developing Basel III, further efforts remained in ensuring that GSIBs had sufficient capacity to absorb losses in resolution (referred to as total loss absorbing capacity or T-LAC) and avoid taxpayer support. Work also continued on national assessments with 200 adjustments being made in member jurisdiction systems. The Committee has also been assessing the accuracy of risk disclosures by banks in its thematic assessments. Work continued on implementation, implementation monitoring and calibration of the framework as a whole.

BIS, 6.11.2014

Securitisations

The Basel Committee on Banking Supervision has published a consultative document on *Criteria for Identifying Simple, Transparent and Comparable Securitisations* (December 2014) with the International Organisation of

Securities Commissions (IOSCO). The objective is to identify and compare basic securitisations and to assist firms conduct due diligence. Separate criteria is provided with regard to simplicity, transparency and comparability with the criteria being mapped to the principal types of securitisation risk including asset risk (underlying asset pool), structural risk (transparency around the securitisation structure) and fiduciary and servicer risk (party governance). A modular approach is adopted with the criteria being supplemented or extended as necessary.

BIS, 11.12.2014

Variability in Capital Ratios

The Basel Committee has published a report on *Reducing excessive variability in banks' regulatory capital ratios* (November 2014) in advance of the G20 Leaders' Summit in Brisbane on 15–16 November 2014. This includes a number of measures to improve consistency and comparability in bank capital ratios and restore confidence in risk-weighted ratios. These include revision of the standardised (non-modelled) approaches to create a capital floor base with modelling choices being reduced in determining IRB estimates of credit, market and operational risk-weights assets. Further measures are referred to in connection with disclosure, implementation monitoring and additional analytical and other policy work in progress. The Committee published a separate list of national discretions used in implementing relevant standards in a separate document in advance of the Summit.

BIS, 12.11.2014

Financial Stability Board (FSB)

Bank of England – Chairman

Mark Carney, Governor of the Bank of England, has been reappointed of the FSB for a second term of three years. Mark Carney had succeeded Mario Draghi and was formerly Governor of the Canadian Central Bank.

FSB, 7.11.2014

Compensation

The FSB has published its third progress report on the implementation of its *Principles for Sound Compensation Practices* and supporting Implementation Standards. Domestic implementation had been substantially completed although some jurisdictions continued to refine their regulatory rules or guidance. While some implementation challenges remained, the results had generally led to more prudent risk-taking behaviour within the banking industry.

FSB, 4.11.2014

Effective Resolution Regimes

The FSB has issued an updated paper on *Key Attributes of Effective Resolution Regimes for Financial Institutions* (15 October 2014). This contains

additional guidance on specific Key Attributes concerning information sharing and sector specific guidance on the application of the key attributes to insurers, financial market infrastructures (FMIs) and the protection of client assets in resolution. These build on the original October 2011 Key Attributes with the text of the 12 attributes remaining and additional guidance incorporated as annexes.

FSB, 15.10.2014

Emerging Market and Developing Economies

The FSB has published a study with the International Monetary Fund (IMF) and World Bank on the extent to which regulatory reforms may have unintended consequences in emerging market and developing economies (EMDEs). A first follow-up monitoring report on EMDE implementation was published in September 2013 with the most recent paper covering FSB workstream and RCG discussions. Issues covered include Basel III capital and liquidity, GSIFI measures and resolution regimes, OTC derivatives and structural banking reform initiatives.

FSB, 12.11.2014

Exchange Benchmarks

The FSB has published a final report on *Foreign Exchange Benchmarks* (30 September 2014). This includes recommendations to reform the foreign exchange markets and benchmark rates used including, in particular, the WM/Reuters (WMR) 4pm London fix produced by the WM Company. The recommendations cover the calculation methodology of the WMR benchmark rates, IOSCO review of the WM fixes, publication of reference rates by central banks, market infrastructure in the execution of fix trades and the behaviour of market participants around the timing of the major benchmark fixings.

FSB, 30.9.2014

G20 Brisbane Summit Report

The FSB published a series of documents in advance of the G20 Leaders Brisbane Summit in November 2014. These included a letter from the FSB Chair, Mark Carney, to the G20 Leaders, a review on the structure of FSB representation, a progress report setting out the FSB's approach to transforming shadow banking into resilient market based financing and a comprehensive overview report on progress in the implementation of financial reforms to strengthen financial stability. The FSB Chairman specifically referred to the need to agree measures to correct the fault lines that had caused the global financial crisis, endorsement of proposals to end TBTF, the need to consider new and evolving risks and vulnerabilities and a request for G20 support to promote a system based on mutual trust and cooperation to maintain an open global financial system. The FSB had conducted a review of its structure of representation especially to strengthen emerging market and developing economy (EMDE) opinion while preserving the effectiveness

of its decision taking process. Five EMDE jurisdictions (Argentina, Indonesia, Saudi Arabia, South Africa and Turkey) that had a single seat in the Plenary were given a second Plenary seat each, non-member authorities would increasingly be involved in FSB work within the flexibility provided for under its Charter with the FSB extending a standing invitation to attend Plenary meetings to non-FSB member co-chairs of its RCGs.

FSB, 14.11.2014

Global Securities Financing

The FSB has published a consultation report on *Standards and Processes for Global Securities Financing Data Collection and Aggregation* (November 2014). This follows the policy recommendations contained in its report on *Policy Framework for Addressing Shadow Banking Risks in Lending and Repos* (August 2013). The FSB accepted the importance of securities financing transactions including securities lending and repurchase agreements (repos) in supporting price discovery and secondary market liquidity. They may nevertheless also result in higher leverage and liquidity and maturity transformation. The recommendations are intended to allow authorities to obtain more timely and comprehensive information on trends and developments in these markets. Six specific recommendations are addressed to national and regional authorities to ensure consistency in national and regional data collection, quality of global aggregates and the efficiency of the reporting framework.

FSB, 13.11.2014

Information Gaps

The FSB has published with the IMF a *Fifth Progress Report on the Implementation of the G20 Data Gaps Initiative* (September 2014). This assesses implementation of the 2009 recommendations to close key information gaps under the Data Gaps Initiative (DGI). Substantial progress had been achieved although further work was required with strong policy support and peer pressure being identified as key drivers. DGI data was important in enhancing policy analysis and surveillance and in providing a better understanding of domestic and international interconnectedness.

FSB, 23.9.2014

Information Sharing

The FSB has issued a consultative document on Cooperation and Information Sharing with Host Authorities of Jurisdictions not Represented on CMGs where a G-SIFI has a Systemic Presence (17 October 2014). This specifically considers the process for identifying non-Crisis Management Group (CMG) host jurisdictions where a firm has a systemic presence with the need to clarify the responsibilities of the home and host authorities. Specific guidance is provided on the identification of non-CMG host jurisdictions, assessment of the systemic nature of the GSIFI presence, cooperation and information sharing arrangements and classes of information to be shared between home authorities and non-CMG host jurisdictions.

FSB, 17.10.2014

Non-Centrally Cleared Securities Financing

The finalised rules on the haircuts to apply to non-centrally cleared securities financing transactions have been released including the numerical floors following the earlier FSB consultative responses. A new proposed measures also included on haircuts for non-bank-to-non-bank transactions backed by collateral other than government securities. The FSB has published a separate background document on the procyclicality of haircuts on non-centrally cleared securities financing transactions and their relevance to the global financial crisis using data collected from the first stage quantitative impact study (QISI).

FSB, 14.10.2014

OTC Derivatives Markets

The FSB has published its eighth progress report on implementation of OTC derivatives market reforms. Progress had continued to be made with further progress expected in 2015 although the extent of domestic implementation varied. Most substantial progress had been achieved in connection with implementing higher capital requirements for non-centrally cleared derivatives and trade reporting requirements. Progress least substantial in the area of promoting trading on exchanges or electronic trading platforms.

FSB, 7.11.2014

Panama City RCG Meeting

The seventh meeting of the Financial Stability Board (FSB) Regional Consultative Group (RCG) for the Americas was held in Panama City, Panama hosted by the Superintendency of Banks of Panama in November 2014. Members examined current global regulatory issues including progress on building resilient financial institutions, ending too big to fail (TBTF), shadow banking and financial derivatives. Vulnerabilities in the global financial system and regional impact stability issues were referred to.

FSB, 24.11.2014

Resolution

The FSB has published a report to the G20 on progress in the reform of resolution regimes and resolution planning for GSIFIs. A number of priorities have been identified by the FSB for 2015 covering finalisation of the common international standard on total loss absorbing capacity (TLAC), adoption of contractual recognition of temporary stays on early termination and cross-default rights in financial contracts with finalisation of FSB guidance on effective cross-border recognition, additional guidance on resolution planning by home and host authorities especially in terms of funding arrangements and operational continuity of core critical services and promoting full implementation of the FSB requirements on resolution regimes and resolution planning outside the banking sector. The FSB had also

reported on the results of the launch of its Resolvability Assessment Process (RAP) which examines individual GSIFIs with the results confirming that good progress had been achieved in resolution planning although material legal, operational and financial barriers remained with regard to the feasibility and credibility of resolution plans.

FSB, 12.11.2014

Resolution Action

The FSB has released a consultation document on *Cross-border recognition of resolution action* (29 September 2014). The objective is to produce policy proposals on the enhancement of legal certainty in cross-border resolution following a G20 commitment at the St. Petersburg Summit in 2013. The paper proposes policy measures and guidance on the elements that countries should consider including in statutory cross-border recognition frameworks to support the effective cross-border resolution of major firms. It also includes measures covering contractual approaches to cross-border recognition especially where this is critical to orderly resolution either where temporary restrictions or stays are required on early termination and cross-default rights in financial contracts and bail-in requirements on debt instruments are governed by laws of a country other than the issuing entity.

FSB, 29.9.2014

Shadow Banking

The FSB has published the results of its fourth annual shadow banking monitoring exercise for end-2013 which covers 25 jurisdictions, including the Euro area as a whole, and 80% of global GDP and 90% of global financial system assets. The monitoring was principally conducted through a 'macro-mapping' exercise based on balance sheet data of national financial accounts examining all non-bank financial intermediation. This provides a conservative estimate of possible bank related risks with a separate narrower measure of shadow banking being provided constructed through the filtering out of non-bank financial activities without any direct relation to credit intermediation or that are separately prudentially consolidated within banking groups. A comprehensive data set has also been provided on a jurisdiction and aggregate level for the first time.

FSB, 4.11.2014

Structural Reform

The FSB has prepared a report on the potential cross-border financial stability implications of national structural banking reform initiatives in cooperation with the IMF and Organisation for Economic Cooperation and Development (OECD). Structural reform was specifically being considered under the US Volcker Rule (including the Swaps 'Push-out Rule' and Foreign Banking Organisation requirements), UK Independent Commission on Banking (ICB) and EU Liikanen Report. Separate measures were being considered on France, Germany and Switzerland. The initiatives adopted are

reviewed with concerns raised by other jurisdictions referred to. The FSB would continue to monitor developments in the area.

FSB, 27.10.2014

Systemically Important Insurers

The FSB has issued a consultative document on *Recovery and Resolution Planning for Systemically Important Insurers* (16 October 2014). The FSB has been working with the IAIS in the application of its *Key Attributes* to systemically important insurers (SIIs) and global SIIs (GSIIs). The paper includes specific sections on taxonomy, critical function framework, critical functions (including principally insurance coverage, payments, investment, counterparty activities and risk pooling), critical shared services framework and finance and operational critical shared services.

FSB, 16.10.2014

Total Loss Absorbing Capacity

The FSB has issued a consultation policy proposal containing a set of principles and detail term sheet on the adequacy of loss absorbing and recapitalisation capacity for GSIBs. The measures were developed with the Basel Committee and are intended to establish a new minimum standard for total loss absorbing capacity (TLAC) which would allow home and host authorities to be confident that GSIBs had sufficient capacity to absorb losses before and during resolution and to allow authorities to implement a resolution strategy that minimised financial instability and protected the continuity of critical economic functions. The calibration and composition of firm specific TLAC requirements would be determined in consultation with relevant Crisis Management Groups (CMGs) subject to review within the FSB RAP.

FSB, 10.11.2014

International Organisation of Securities Commissions (IOSCO)

Credit Default Swaps

IOSCO has issued a consultation document on *Post-Trade Transparency in the Credit Default Swaps Market* (November 2014). The report is based on an examination of the work of international standard setting bodies and academic literature as well as publically available transaction level post-trade data on CDS transactions before and after the introduction of mandatory post-trade transparency in specific CDS markets in the US. The preliminary results indicate that the introduction of mandatory post-trade transparency has not had a substantial impact on market risk exposure or market activity with the additional levels of transparency assisting market participants and with IOSCO recommending other jurisdictions to adopt similar measures. CDS contracts provide for the transfer of credit risk of a reference entity or

instrument from a buyer of credit protection to a seller with total notional CDS outstanding at end-2013 being around $21 trillion.

IOSCO, 17.11.2014

Cross-Border Regulation

The International Organisation of Securities Commissions (IOSCO) has published a consultation paper on *IOSCO Task Force on Cross-Border Regulation* (November 2014). The report examines three types of cross-border regulatory 'tool' consisting of National Treatment, Recognition and Passporting. The meaning of each of the key terms is examined with regulatory objectives and example regimes. National treatment provides for the common treatment of foreign persons, entities and products in the same manner as domestic ones regardless of foreign regulatory regime. With recognition, a domestic regulator accepts that a foreign regulatory regime is sufficiently comparable to allow for reliance on the foreign jurisdictions supervision and regulation. Recognition can either be carried out on a unilateral or mutual basis. Passporting operates on the basis of a single authorisation or registration system that allows for the provision of services under the supervision of a home authority. The paper was prepared a Task Force on Cross-Border Regulation set up to examine cross-border regulatory issues and to assist respond to the challenges that arise.

IOSCO, 25.11.2014

Financial Benchmarks

IOSCO has published its Review of the Implementation of IOSCO's Principles for Financial Benchmarks by WM in respect of the WM/Reuters 4 p.m. Closing Spot Rate (September 2014). This sets out the findings of IOSCO's assessment of implementation of its Principles for Financial Benchmarks by The World Markets Company PLC (WM) as administrator of the WM/Reuters 4 p.m. London closing spot rate. The review was undertaken by the Foreign Exchange Benchmarks Group (FXBG) which was set up as a subgroup of the Official Sector Steering Group (OSSG) established by the FSB on 24 June 2013. The OSSG consists of regulators and central banks to recommend global standards for reference rate benchmarks and to conduct standards reviews. The FSB Plenary agreed in February 2014 to extend the work on financial benchmarks to include global foreign exchange benchmarks with the FXBG being set up to review relevant systems. IOSCO was asked by the FXBG to conduct a formal review of the closing spot rate with a Review Team being set up made up of members of the IOSCO Task Force on Financial Benchmarks and its Assessment Committee. The review specifically examines the closing spot rate for two Trade Pairs (the USD/CAD (Trade Pair 1 and EUR/CHF (Trade Pair 2)) and a single Quote Pair (USD/IDR). The systems were specifically examined in terms of governance, benchmark quality, methodology quality and accountability.

IOSCO, 30.9.2014

Investor Education and Financial Literacy

IOSCO has published a final report on *Strategic Framework for Investor Education and Financial Literacy* (November 2014). This sets out IOSCO's role and strategic approach in promoting investor education and financial literacy. Investor education is considered a key tool in enhancing investor protection, promoting investor confidence and facilitating investor engagement in financial planning and decision-making which acts as a complementary tool to regulation, supervision and enforcement. This is recognised in IOSCO's guiding principles for securities regulation.

IOSCO, 4.11.2014

OTC Derivatives Central Clearing

IOSCO has published an update of its information repository for central clearing requirements for OTC derivatives contracts which provides consolidated information on clearing requirements in different jurisdictions. The objective is to assist authorities in rulemaking and participants comply with relevant regulations. The repository provides information on a product by product level with any relevant exemptions. This was first published in August 2014.

IOSCO, 28.10.2014

Securities Markets Risk Outlook

IOSCO has published the second of its *Securities Markets Risk Outlook 2014–15* (October 2014). This identifies and assesses potential systemic threats from securities markets and the stability of the financial system as a whole. This is based on data collection and analysis, the construction of quantitative systemic risk indicators, market intelligence interviews, risk roundtables, expert surveys, academic and regulatory analysis and risk reports and expert presentations. The report was prepared by the IOSCO Research Department with the assistance of the Committee on Emerging Risks. The review examines trends, developments and potential vulnerabilities (including bank lending to the economy increasing, corporate reliance on securities markets, financial firm funding, growing size of the asset management industry, asset market valuations and fragmentation, derivatives growth and central clearing, emerging market capital flows, real estate vulnerability and global macro-economic policy impacts), potential sources of systemic risk (search for yield (SFY) and return of leverage (ROL), SFY and volatility in emerging markets, central clearing risk, increased use of collateral and risk transfer and firm governance and culture) and other risk and risk identification work (including currency rates, CCP Global Policy Work, CCP market calculations and CEO compensation).

IOSCO, 1.10.2014

International Association of Insurance Supervisors (IAIS)

Annual Conference and General Meeting

The IAIS concluded its *21st Annual Conference and General Meeting* at the end of October 2014 which had been held in Amsterdam and hosted by De Nederlandsche Bank. The theme of the Annual Conference had been 'Enhancing Policyholder Protection and Financial Stability through Governance and Risk Management'. A number of panels had examined relevant issues including in connection with developments and challenges in insurance supervision, the Insurance Capital Standards (ICS) and Basic Capital Requirements (BCR), financial inclusion, governance, low interest rate environment and recovery and resolution planning. A number of papers were adopted during Committee and General Meetings. These included *A new Strategic Plan and Financial Outlook* (*SPFO*) *for 2015–19, 2013–14 Annual Report, Allocation Paper on Approaches to Conduct of Business Supervision, Application Paper on Supervisory Colleges, Issues Paper on Combating Bribery and Corruption, Issues Paper on Approaches to Group Corporate Governance* and *Aggregate Report from IAIS Self-Assessment and Peer Review* (*SAPR*).

IAIS, 27.10.2014

Capital Requirements

The IAIS confirmed at its Annual Conference and General Meeting that it had concluded the development of a global insurance capital standard, referred to as the Basic Capital Requirements (BCR), for GSIIs with the BCR being endorsed by the FSB. The IAIS had published its assessment methodology and policy measures for GSIIs in July 2013 which included a requirement for Higher Loss Absorption (HLA) capacity with the BCR being developed to apply to all GSII group activities including non-insurance activities. The BCR is calculated by dividing Total Qualifying Capital Resources (TQCR) by Required Capital (RC) derived from a comparable market adjusted valuation approach using estimates of insurance liabilities. The TQCR is calculated on a consolidated group basis for all financial and material non-financial activities and classified as either core or additional capital. A 'factor based' approach is used with 15 factors identified to define segments within the principle categories of GSII activity including traditional life insurance, traditional non-life insurance, non-traditional insurance, assets and non-insurance. The consolidation is extended to include all holding companies, insurance legal entities, banking legal entities and other companies within the group although individual non-financial entities may be excluded where risks are negligible. BCR figures are to be reported from the beginning of 2015 to authorities on a confidential basis and shared with the IAIS to refine the BCR requirement. IAIS will work on the development of HLA requirements for GSII in 2015 with a final global Insurance Capital Standard (ICS) being produced in 2015 to come into effect with regard to Internationally Active Insurance Groups (IAIGs) from 2019 with Basel III.

IAIS, 23.10.2014

Operational Review

The International Association of Insurance Supervisors (IAIS) has published Revised Draft Procedures on Meeting Participation and the Development of Supervisory and Supporting Material and Draft Policy for Consultation of Stakeholders (November 2014). This is issued as part of IAIS's review of its strategic goals, financial outlook and resources to improve structures, operations and allocation of resources. These have been considered as IAIS's role has extended including specifically with regard to assisting in the designation of global systemically important insurers (GSIIs) and developing global insurance capital standards. The objective of the reforms is to increase the effectiveness of its activities, ensure adequate coordination of standard setting, standard implementation and financial stability work and improve the process for obtaining and enhancing the quality of stakeholder input. An original consultation was produced in July 2014 which was revised and reissued in November 2014.

IAIS, 17.11.2014

International Swap Derivatives Association (ISDA)

Eric Litvack, Managing Director and Head of Regulatory Strategy at Société Générale, has been appointed the new Chairman of International Swaps and Derivatives Association (ISDA) following Stephen O'Connor's retirement. ISDA has published a set of *Principles on CCP Recovery* (November 2014) covering the adequacy and structure of central counterparty (CCP) loss absorbing resources and CCP recovery and resolution. Derivatives clearing houses have become of systemic importance with the increased use of standardised OTC derivatives clearing, in particular, under the US Dodd Frank Act and EU Market Infrastructure Regulation. The objective of the principles is to ensure that the risk of CCP's reaching a point of non-viability is minimised with supporting recovery plans ensuring that public money exposure is limited. The principles respond to the key issues identified including with regard to ensuring transparent risk management standards, practices and methodologies, mandatory, standardised and transparent stress testing, risk management, effective recovery and default management processes (DMP) and clearing service termination or resolution if necessary. ISDA has published a separate 2014 *Resolution Stay Protocol* which is open for adherence with 18 major banks signing at the launch. This has been developed with the FSB with the US bankruptcy component in the Protocol to come into effect once the relevant US rules have been issued. The Protocol provides for the adherence by parties to existing and future special resolution regimes including creditor protection safeguards and stays to allow authorities time to resolve a troubled bank. Restrictions on credit of contractual rights are also included where a US financial holding company becomes subject to US bankruptcy proceedings with a stay on cross-default rights to restrict the counterparty of a non-bankrupt affiliate from immediately terminating derivative contracts with their affiliate. ISDA has separately confirmed that trading using its new 2014 *Credit Derivatives Definitions* for most standard credit default (CDS) contracts was expected to begin on 6 October 2014.

ISDA, 10.12.2014

EUROPEAN DEVELOPMENTS

EBA and ESA Joint Committee latest published guidelines

Guidelines on disclosure requirements for the EU banking sector

On 23 December 2014 the EBA published three sets of final Guidelines related to the information that institutions in the EU banking sector should disclose under Pillar 3. These Guidelines, condensed into a single document, cover how institutions should apply the concepts of materiality, proprietary nature and confidentiality in relation to the disclosure requirements, as well as how they should assess the frequency of disclosures. These Guidelines aim at enhancing consistency in disclosure practices across the EU and are part of the EBA's work to ensure transparency in the EU banking sector.

The guidelines can be viewed through the EBA website http://www.eba.europa.eu/

Guidelines on security of internet payments across the EU

On 19 December 2014 the EBA published its final Guidelines on the security of internet payments, which set the minimum security requirements that Payment Services Providers in the EU will be expected to implement by 1 August 2015. Concerned about the increase in frauds related to internet payments, the EBA determined that the implementation of a more secure framework for internet payments across the EU was needed. These Guidelines are based on the technical work carried out by the European Forum on the Security of Retail Payments (SecuRe Pay).

All competent authorities across the EU are expected to comply with these Guidelines by incorporating them into their supervisory practices and amending their legal framework or their supervisory processes accordingly.

The guidelines can be viewed through the EBA website http://www.eba.europa.eu/

Guidelines on SREP methodologies and processes

On 19 December 2014 the EBA published its final Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP). These Guidelines seek to forge a consistent supervisory culture across the Single Market and provide a common framework for the work of supervisors in the assessment of risks to banks' business models, their solvency and liquidity. These Guidelines will be a key component of the EU Single Rulebook, which aims at improving the functioning of the internal market, including a sound, effective and consistent level of regulation and supervision in the banking sector.

The Guidelines will apply from 1 January 2016 and are addressed to all competent authorities across the Union, including the SSM, who are

expected to comply by incorporating them into their supervisory practices, thus amending their respective legal frameworks or their supervisory processes accordingly.

The guidelines can be viewed through the EBA website http://www.eba.europa.eu/

Joint Guidelines on the convergence of practices aimed at ensuring consistency of supervisory coordination arrangements for financial conglomerates.

On 22 December 2014 the Joint Committee of the three European Supervisory Authorities published Joint Guidelines on the convergence of practices aimed at ensuring consistency of supervisory coordination arrangements for financial conglomerates. These are the first Guidelines developed jointly by the three ESAs in relation to the FICOD (Financial Conglomerates Directive) and aim to clarify and enhance cooperation between national competent authorities on cross-border groups that have been identified as financial conglomerates.

The Joint Guidelines focus on how authorities should cooperate in order to achieve a supplementary level of supervision of financial conglomerates. They seek to address loopholes in the present legislation, as prescribed by the FICOD.

The guidelines can be accessed through the ESMA website: http://www.esma.europa.eu/

ISLAMIC FINANCE DEVELOPMENTS

Economic Secretary announces further steps to cement Britain's position as Western hub for Islamic finance

The Economic Secretary to the Treasury, Andrea Leadsom, set out further steps to cement Britain's position as the Western hub for Islamic finance, including announcing that UK Export Finance (UKEF) expects to be able to provide Sharia compliant support for British exporters in the next few months, as she addressed the World Islamic Economic Forum in Dubai.

UKEF expects to provide a Sharia compliant guarantee for a Sukuk issued by an Airbus customer. This will be the first time UKEF has provided a Sharia compliant Sukuk guarantee, and it will be the first Sukuk issued for the aviation sector that has benefited from an Export Credit Agency's support.

The Economic Secretary also welcomed the Bank of England's announcement that it will look at establishing Sharia compliant liquidity facilities to help Britain's Islamic banking sector grow. A longstanding challenge faced by Britain's Islamic banking sector is its ability to ensure its banks have sufficient liquidity due to the limited stock of assets Islamic banks can hold which are both high quality and Sharia compliant.

Having access to the Bank of England's liquidity facilities is a potential way to solve this problem, but unlike other banks, Islamic banks are currently unable to use these facilities because they involve interest, which is not Sharia compliant.

The Bank of England will therefore assess the feasibility of establishing Sharia compliant facilities to help Britain's Islamic banks meet their liquidity obligations and expand the services they can offer customers.

This builds on the progress the government has already made in cementing Britain's position as the western hub for Islamic finance.

In October 2013 London hosted the first World Islamic Economic Forum to be held outside of the Islamic world. And following the Prime Minister's announcement at that forum, in June this year Britain became the first country outside of the Islamic world to issue sovereign Sukuk, the Islamic equivalent of a bond.

The government sold £200 million of Sukuk, maturing on 22 July 2019, to investors based in the UK and in the major hubs for Islamic finance around the world. Britain's first sovereign Sukuk received very strong demand, with orders totalling around £2.3 billion. Allocations have been made to a wide range of investors including sovereign wealth funds, central banks and domestic and international financial institutions.

The Economic Secretary to the Treasury Andrea Leadsom said:

> "A key part of the government's long term economic plan is making Britain the western hub for Islamic finance and the undisputed centre of the global financial system.
>
> "The UK has already created one of the most attractive regulatory and tax systems for Islamic finance anywhere in the world, and the huge success of the UK's sovereign Sukuk earlier this year was a significant milestone in the development of the global Islamic finance industry.
>
> "I'm delighted to build on this success today by announcing that the Bank of England will look at the case for establishing a Sharia compliant facilities, and that UK Export Finance will soon move into the Sukuk market."

HM Treasury 28.10.14

https://www.gov.uk/government/news/economic-secretary-announces-further-steps-to-cement-britains-position-as-western-hub-for-islamic-finance

The Islamic Financial Services Board consults on its Standard on Core Principles for Islamic Finance Regulation

The main objective of the Core Principles for Islamic Finance Regulation (CPIFR) is to provide a set of Core Principles – along with associated assessment methodology – for the regulation and supervision of the Islamic financial services industry (IFSI), taking into consideration the specificities

of the institutions offering Islamic financial services (IIFS) in the banking segment, the lessons learned from the financial crisis, and complementing the existing international standards, principally the Core Principles for Effective Banking Supervision issued by Basel Committee on Banking Supervision. In particular, the objectives of the CPIFR include:

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

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

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

d) ensuring that IIFS act in accordance with their fiduciary responsibilities in all their operations, especially in regard to investment account holders.

The CPIFR are neutral with regard to different approaches to supervision of IIFS, so long as the over-arching objectives (as set out above) are achieved. They are not designed to cover all the needs and circumstances of every banking system. Instead, specific jurisdiction circumstances should be more appropriately considered in the context of the assessments and in the dialogue between assessors and jurisdiction authorities.

The CPIFR deal with a comprehensive range of issues which are:

1) Responsibilities, objectives and powers; 2) Independence, accountability, resourcing and legal protection for supervisory authorities; 3) Cooperation and collaboration; 4) Permissible activities; 5) Licensing criteria; 6) Transfer of significant ownership; 7) Major acquisitions; 8) Supervisory techniques and tools; 10) Supervisory reporting; 11) Corrective and sanctioning powers of supervisors; 12) Consolidated supervision; 13) Home-host relationships; 14) Treatment of investment account holders (IAHs); 15) Corporate governance; 16) Sharia governance framework; 17) Risk management process; 18) Capital adequacy; 19) Credit risk; 20) Problem assets, provisions and reserves; 21) Concentration risk and large exposure limits; 22) Transactions with related parties; 23) Country and transfer risks; 24) Equity investment risk; 25) Market risk; 26) Rate of return risk: 27) Liquidity risk; 28) Operational risk; 29)Internal control and audit; 30) Financial reporting and external audit; 31) Transparency and market discipline; 32) Islamic "windows" operations; 33) Abuse of financial services.

The CPIFR are primarily intended to guide the firm-level supervision of full-fledged (i.e. separately incorporated) banking IIFS with due consideration to "proportionality" taking account of their size, sophistication and complexity, and references to IIFS should be read in that light. These IIFS include, but are not limited to, commercial banks, investment banks and

other fund mobilising institutions, as determined by the respective supervisory authorities, that offer services in accordance with Sharia rules and principles.

Islamic "windows" (ie units that are not separately incorporated) are present in a majority of the IFSB member jurisdictions where Islamic finance is operating, and the supervisory practices for regulating them – in particular, relating to capital requirements – vary considerably across jurisdictions. This diversity of windows' operations raises a number of issues on supervision which may not be substantially the same as those raised by full-fledged IIFS, in particular from a governance perspective. The CPIFR set out a specific principle, CPIFR 32, for supervisory authorities having Islamic "window" operations within their jurisdictions. This principle covers aspects of regulation and supervision specific to "windows", but the other CPIFR will also apply to "windows", subject to recognising their branch status (which affects governance, etc.) and to materiality. An important aim in this respect is to avoid regulatory arbitrage within the jurisdiction.

The CPIFR strengthen the requirements for supervisory authorities, the approaches to supervision, and supervisory authorities' expectations of IIFS. This is achieved through a greater focus on effective risk-based supervision and the need for early intervention and timely supervisory actions. Supervisory authorities should assess the risk profile of IIFS in terms of the risks they run, the efficacy of their risk management, and the risks they pose to the banking and financial systems. This risk-based process targets supervisory resources where they can be utilised to the best effect, focusing on outcomes as well as processes, moving beyond passive assessment of compliance with rules.

It is envisaged that these Core Principles will be used by jurisdictions as a benchmark for assessing the quality of their regulatory and supervisory systems and for identifying future work to achieve a baseline level of sound regulations and practices for Islamic finance. The CPIFR will promote further integration of Islamic finance with the international architecture for financial stability, while simultaneously providing incentives for improving the prudential framework across jurisdictions so that it is harmonised and consistently implemented across the globe.

The consultation period closed on 5th January 2015 and the CPIFR should be implemented by supervisory authorities within the legal framework of their respective jurisdictions. The IFSB will expect its members to apply this set of Core Principles from January 2016 (or later where the relevant application date of an underlying IFSB standard is later), meaning that by this date the guidance should be transposed into national supervisory guidelines and be reflected in the national supervisory manuals/handbooks, where applicable, and implemented in supervisory practices.

The Islamic Financial Services Board 31.10.14

http://www.ifsb.org/

The Islamic Development Bank "Aaa" credit rating was reaffirmed with a "Stable" outlook by Moody's

The reaffirmation of the "Aaa" credit rating of the Islamic Development Bank ('IsDB') by Moody's reflects its assessment of the Bank's strong shareholder support and preferred creditor status, strong capital base and prudent financial and risk management policies, and solid liquidity levels.

Moody's also highlighted that IsDB is more strongly capitalised than other MDBs, with a lower leverage level, a key support to its Aaa standing. The "Stable" outlook reflects Moody's assessment that the downward pressure on the "Aaa" ratings is highly unlikely.

The IsDB 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.

IsDB is a Multilateral Development Bank established in 1973G with the purpose of fostering economic development and social progress of its Member Countries and Muslim Communities in non-member countries in accordance with the principles of Islamic Finance.

Dr. Ahmed Mohamed Ali, President of the IsDB Group, congratulated all Member Countries, IsDB Board Members and the staff for this important achievement. He renewed IsDB's pledge to further the goals of this noble institution and affirmed its commitment to continue its Reform efforts in order to realize the objectives of the 2020G Vision and aspirations of its constituents.

Islamic Development Bank 23.10.14

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

INTERNATIONAL DEVELOPMENTS

Dubai International Financial Centre Authority announced the enactment of its Netting law

Dubai International Financial Centre (DIFC) Authority announced that His Highness Sheikh Mohammed bin Rashid Al Maktoum, in his capacity as the Ruler of Dubai, has enacted the Netting Law, DIFC Law No. 2 of 2014 (the 'Netting Law').

The enactment of the Netting Law will provide legal certainty in the DIFC as to the enforceability of close-out netting in the case of insolvency. Close-out netting is a legal mechanism which reduces exposure and therefore risk between two counterparties.

Close-out netting is not currently statutorily underpinned in the UAE, as a result there is some uncertainty as to the enforceability of derivative transactions where a counterparty located in the UAE is under insolvency. The

Netting Law statutorily underpins close-out netting in the DIFC and enables DIFC firms to benefit from this important risk mitigating technique.

The Netting Law is based on the International Swaps and Derivatives Association (ISDA) model law. The ISDA model law provides example text for a netting law, and has been the model used in a number of countries that have introduced netting.

Approximately forty five jurisdictions worldwide have enacted specific netting legislation, while netting in a number of other jurisdictions applies as a general principle of law. There are approximately sixty jurisdictions worldwide where the netting analysis is positive, however, to date, no jurisdiction in the GCC region has obtained a positive netting opinion. The Netting Law is the first legislation of its kind in the Middle East.

Dubai International Financial Centre14.12.14

http://www.difc.ae/news/difc-authority-announces-enactment-difc-netting-law

Fresh Progress in China-Australia Financial Cooperation

The People's Bank of China (PBC) signed a Bilateral Local Currency Swap Agreement with the Reserve Bank of Australia, and agreed to extend the pilot scheme of RMB Qualified Financial Institutional Investor (RQFII) to Australia with an initial quota of 50 billion yuan. Subsequently, a RMB clearing bank will be designated in Sydney.

The above arrangement signifies fresh progress in China-Australia financial cooperation. It will promote the use of RMB by enterprises and financial institutions in cross-border transactions, and promote facilitation of bilateral trade and investment.

The People's Bank of China 25.11.14

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

HKEx Launches Incentive Programmes for RMB Currency Futures Amid Record Trading Volumes

RMB currency futures contracts have proven themselves as an effective risk management tool for market users amid increased USD/CNH volatility, and Hong Kong Exchanges and Clearing Limited (HKEx) is introducing additional measures to solidify the development of the RMB currency futures market.

Turnover and Participation

Turnover in HKEx's RMB currency futures product reached an eight-month high on 9 December 2014 at 4,608 contracts with a notional value of RMB2.8 billion. Trading volumes of the product in the After Hours Futures Trading (AHFT) session also continue to grow, having reached 7.8 per cent of the volume in the day session. RMB Currency Futures were introduced into

AHFT on 7 April 2014 and turnover of the product reached an all-time record high of 6,318 contracts on 19 March 2014.

'We have seen steady growth in our RMB currency futures product since its launch in 2012, and especially recently because of higher volatility,' said Romnesh Lamba, Co-head of HKEx's Global Markets. 'The RMB was long seen as a one-way bet, and its movement in both directions this year has attracted more investors who are using it as an effective hedging tool to manage risk. We expect these new incentive programmes to make the product even more widely traded in 2015.'

More Exchange Participants (EPs) are also taking part, with two new EPs trading the contract in early December. Their participation brings the total number of EPs who have traded the product to 79.

Market Makers

HKEx is also welcoming two new market makers for RMB currency futures. Bank Sinopac Hong Kong Branch will join as a market maker effective Friday 19 December 2014, while Celestial Commodities Limited joined on Monday 25 August 2014. HKEx is continuing to work on recruiting new market makers for RMB currency futures.

Active Trader and Spread Enhancement Programmes

HKEx's wholly owned subsidiary, The Hong Kong Futures Exchange (HKFE), is also implementing two new initiatives for trading RMB currency futures starting on 2 January 2015.

The Active Trader Programme will provide a trading fee rebate for trading RMB currency futures to a limited number of traders approved by HKFE. The trading fee rebate for Active Traders who meet the specific threshold will be RMB6 per contract.

To be eligible for the rebate, an Active Trader will be required to meet a minimum volume threshold of an average daily volume of 30 RMB currency futures contracts during a given month during the programme period, which concludes on 31 December 2015.

Meanwhile, in order to enhance market liquidity, a Spread Enhancement Programme is also open for application and for market makers of RMB currency futures only. A 100 per cent trading fee rebate and certain sponsorship for trading RMB currency futures will be available for Spread Enhancement Programme participants who meet certain quoting requirements. This programme is also valid from 2 January 2015 to 31 December 2015.

HKEx 15.12.14

http://www.hkex.com.hk/eng/newsconsul/hkexnews/2014/141215news.htm

International Monetary Fund Launches the Special Data Dissemination Standard Plus

Ms. Christine Lagarde, Managing Director of the International Monetary Fund, welcomed the announcement by nine countries to formally commit to higher standards of economic and financial statistical data by adhering to the institution's Special Data Dissemination Standard (SDDS) Plus – the highest tier of the Fund's Data Standards Initiatives. "The Fund welcomes the support that this first cluster of countries has shown toward the institution's Data Standards Initiatives, and looks forward to other countries joining them soon," Ms. Lagarde said, addressing the Second IMF Statistical Forum in Washington, D.C.

Over the next 90 days, France, Germany, Italy, the Netherlands, the Philippines, Portugal, Spain, Sweden, and the United States will disseminate more comprehensive and internationally comparable data that will foster deeper understanding of risks in the financial sector, cross-border-financial linkages, and vulnerabilities of their economies to shocks.

With this action, the authorities in all these countries have reiterated a strong commitment to transparency. Sveriges Riksbank Governor Stefan Ingves said: "Adhering to SDDS Plus is in line with Sweden's views on openness and transparency, as well as the importance of good quality statistics that are internationally comparable. The fact that Sweden is a country with a large financial sector makes it natural for us to follow the IMF's recommendation for systemically-important countries to adhere to SDDS Plus.′

The announcement marks the formal launch of the SDDS Plus that was established in 2012 to reinforce and supplement the Fund's Data Standards Initiatives. It builds on the SDDS and its purpose is to assist member countries with regard to the publication of comprehensive, timely, accessible, and reliable economic and financial statistical data in a world of continuing economic and financial integration.

The Data Standards Initiatives were established in the mid-1990s to enhance member countries' data transparency and to promote the development of sound statistical systems. The need for data standards was highlighted by the financial crises of the mid-1990s and again in the late-2000s, when information deficiencies were seen to play a role. The Data Standards Initiatives also include the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS).

International Monetary Fund 18.11.14

http://www.imf.org/external/np/sec/pr/2014/pr14523.htm

The World Bank and Islamic Development Bank Sign Memorandum of Understanding on Islamic Finance

The World Bank and Islamic Development Bank today signed a Memorandum of Understanding (MoU) to set out a framework for collaboration

between the two parties and lend support to global, regional and country efforts in the development of Islamic Finance.

President of the Islamic Development Bank Group Dr. Ahmad Mohamed Ali and World Bank Managing Director Dr. Mahmoud Mohieldin signed the memorandum on behalf of their institutions with the common objectives of fostering, encouraging, and studying the expansion of Islamic finance globally.

The MoU adopts the following principals:

- **Knowledge Sharing** to identify and disseminate sound practices in the Islamic financial services industry.
- **Cross fertilization of ideas** that would foster the development of Islamic finance that is critical for growth, efficiency and financial inclusion.
- **Encourage research and promote awareness** of appropriate risk management framework for Islamic financial institutions in particular and the Islamic finance industry in general; and
- **Capacity building in the Islamic financial services industry** with a view to fostering financial stability and promoting increased access to Islamic financial services in markets around the world.

World Bank Managing Director Dr. Mahmoud Mohieldin stressed the importance of the memorandum for increased capacity-building and knowledge-sharing between the two organizations. ′The MoU signed today between the IDB and WB will help us deepen our understanding of Islamic finance and build capacities to develop institutions and instruments to support sustainable inclusive growth and help societies to achieve their development goals with emphasis on poverty alleviation and shared prosperity," he said.

′The signing of today's MoU between the World Bank and IDB aims to forge a strategic partnership between our two institutions in the area of Islamic finance to support inclusive growth, including greater access to finance for the poor, and financial stability in our mutual member countries. We expect to do this by expanding our knowledge base as well as our ability to support our member countries' efforts to build resilient institutions and develop instruments to achieve greater financial inclusion and sustainable development,′ said President of the Islamic Development Bank Dr. Ahmad Mohamed Ali Al Madani.

The core tenant of Islamic Finance is a system which promotes risk-sharing and the avoidance of interest and leverage. Global Islamic Financial assets have increased significantly over the past three decades, crossing US$1 trillion in 2010 and estimated to have exceeded US$1.2 trillion in 2011, up from about US$5 billion in the late 1980s. Islamic finance could account for a substantial share of financial services in many countries in the coming years. Through the MoU, the World Bank and Islamic Development Bank will explore Islamic Finance as a potential tool supporting the efforts of countries to reach their development goals.

The World Bank 13.10.14

http://www.worldbank.org/en/news/press-release/2012/10/14/world-bank-islamic-development-bank-sign-memorandum-of-understanding-islamic-finance

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