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Banking Law Update

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REGULATORY DEVELOPMENTS

Prudential Regulation Authority (PRA)

Remuneration

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have issued new rules on remuneration including provisions on deferral and clawback of variable remuneration including in the form of bonuses. The measures apply to banks, building societies and PRA designated investment firms including UK branches of non-EEA headquartered firms. The objective is to align risk and reward, discourage irresponsible risk-taking and encourage more effective risk management. The provisions apply to all Material Risk Takers (MRTs) within firms including Senior Managers under the Senior Managers Regime (SMR) from 2016. Clawback and deferral provisions will apply from 1 January 2016 with the other measures from 1 July 2015. Senior managers under the SMR are subject to seven years' deferral with five years applying for risk managers under the regulatory technical standard (RTS) on identification of MRTs. All other MRTs will be subject to three to five year's deferral under the EU Capital Requirements Directive (CRD). The PRA had introduced a seven-year clawback provision from 1 January 2015 in the event of misconduct or failures in risk management with this also being incorporated into the FCA Handbook. This may be extended by a further three years to ten years where a firm has commenced its own internal inquiry into a possible material failure that could lead to clawback or the firm has been notified by a regulatory authority that an investigation has commenced. Concerns had been expressed with regard to the discounting of rewards, complexity, implementation and enforcement although the PRA and FCA determined that clawback would be extended up to ten years in respect of PRA-designated Senior Managers where internal or regulatory investigations were outstanding at the end of the seven-year clawback period. Variable remuneration would not be paid to the management of firms in receipt of exceptional government intervention under the CRD with the new rules clarifying that this would extend to all discretionary payments including payment for loss of office and discretionary pension benefits. In the event of buy-outs and staff moving, outright bans and maintaining unvested awards was rejected with the PRA and FCA to consider requiring buy-out awards to be held in a form permitting the application of malus rules by the previous employer. Firms would be required to calculate their pre-risk adjusted bonus pools by adjusting their fair value accounting profit as against the year-on-year change in the prudent valuation adjustment (PVA) figure, in particular, to remove the inclusion of unrealised profits in payments. Reliance on simple revenue or profit-based measures to determine remuneration at the aggregate or individual level would be prohibited as part of a larger balance and risk-adjusted scorecard in the PRA rules. Non-Executive Directors (NEDs) would not receive variable remuneration payments. The revised provisions are set out in PRA and FCA, *Strengthening the alignment of risk and reward: new remuneration rules* (June 2015) PS12/15, PRA, *Remuneration* (June 2015) SS27/15 and

FCA, *Senior Management Arrangements, Systems and Controls* (*Remuneration Code*) (*No 6*) *Instrument 2015*). This follows an earlier Consultation Paper in July 2014 (PRA CP15/14 and FCA CP14/14). The PRA has issued a separate updated Supervisory Statement on *PRA expectations regarding the application of malus to variable remuneration* (October 2013 and updated June 2015) SS2/13 and PRA, *Remuneration standards: the application of proportionality* (April 2013 and updated June 2015) LSS8/13.

PRA and FCA, 23.6.2015

Annual Report and Accounts

The PRA has published its *Annual Report and Accounts 2015* (June 2015). This includes financial statements for 2014–15, the PRA Strategy, *Business Plan* for 2015–16 and the Directors' Report. This is published under paragraphs 19(4) and 23(3) of Schedule 1ZB of the Financial Services and Markets Act 2000 (as amended). The Bank of England Governor and Chair of the PRA Board, Mark Carney, referred to the substantial progress made by the Bank in creating a single, unified institution under the One Bank plan that can exploit synergies across its policy functions with banks and insurance companies being regulated in concert with monetary and macroeconomic policymaking. Mark Carney referred to the PRA being at the heart of the Bank's future including through realisation of its judgement-based approach and embedding the PRA's contribution in the Bank's assessment of monetary and macroprudential stability. The PRA was considered to have established a reputation as an independent, proportionate and responsive regulator. Deputy Governor Prudential Regulation and PRA Chief Executive, Andrew Bailey, referred to the PRA as having established a clear identity and reputation over the last two years with the PRA prioritising forward-looking, preventative supervision. The PRA supervised around 1,700 firms and groups including 900 banks, building societies and credit unions and 700 insurers. The total PRA and FCA regulatory community was around 50,000. The UK banking system had grown to 450% of GDP by 2013 from 100% of GDP in 1975. The UK banking system included 52% of UK resident banks with 34% foreign branches and 14% foreign subsidiaries. Banks from 50 countries were representative in London with the PRA having 60 Memoranda of Understanding (MoUs) with non-BEA counterparts. The PRA adopted five categories of firm classification with its supervisory approach being judgement-based and forward looking having regard to its statutory objectives, Threshold Conditions and Fundamental Rules. The PRA's Strategy was to deliver a resilient financial sector by seeking an appropriate quantity and quality of capital, effective risk management, robust business models and sound governance including clear accountability of firms' management. Strategic priorities for 2015/16 included strengthening the PRA's approach to insurance firm supervision under Solvency II, ensuring an appropriate quantity quality of bank and investment firm capital under Basel III, promoting orderly resolution of major UK deposit-takers through structural reform, including ring-fencing, improving accountability of firms'

management and improving tools for dealing with bank crises under the EU Bank Recovery and Resolution Directive (BRRD) within the PRA's supervisory approach.

PRA, 15.6.2015

Solvency II

The PRA published a supervisory statement in respect of UK solo supervised insurance firms carrying on non-life business under the Solvency II Directive and Lloyd's Syndicates and Lloyd's internal models (PRA, *Solvency II: ORSA and the ultimate time horizon – non-life firms* (June 2015) SS26/15 following Consultation Paper 24/14). This explains how the PRA expects non-life firms to identify and manage long and short-term risks to their businesses and assess their ability to discharge obligations to policyholders in the event that the firm decides to cease writing business and to cover obligations in stressed conditions. Firms have to adopt a forward-looking assessment of own risks based on the Own Risk and Solvency Assessment (ORSA) principles. This should capture all known risks over a one year and medium to longer-term horizon. The format or content of the assessment would reflect the specific risk profile and governance mechanisms of each firm and group rather than be prescribed by the PRA. Firms have to be able to demonstrate that they have considered the total uncertainty and risk over the time horizon of the run-off of the firm's obligations to its policyholders including obligations relating to business planned to be written within the following 12 months referred to as the ultimate time horizon. Firms can use PRA templates to submit the relevant information. The PRA set out its expectations for firms using an internal model to calculate the solvency capital of requirement (SCR) in a separate Supervisory Statement on *Solvency II: regulatory reporting, internal model outputs* (June 2015) SS25/15. This would apply to Lloyd's Syndicates and Lloyd's internal model outputs. Relevant risks include reserving risk, premium risk, catastrophe risk and market risk.

PRA, 15.6.2015

Liquidity

The PRA has published a policy statement on *CRD IV: Liquidity* (June 2015) PS11/15. This contains final rules and supervisory statement with feedback responses following the European Commission's delegated act with regard to the liquidity coverage requirement (LCR) for credit institutions (2015/61 of 10 October 2014). The PRA would disapply the liquid requirements contained in BIPRU 12, including firms' individual liquidity guidance (ILG), with the LCR coming into effect on 1 October 2015 under CRD IV. The PRA would not require firms to be able to comply with daily reporting against the whole range of COREP liquidity returns and only cover a subset of returns. Third-country branches would not be required to provide whole firm liquidity information through the COREP returns and the period during which FSA returns would run in parallel with COREP LCR returns would be reduced and not required after 1 October 2015. The PRA published a

separate policy statement on *The PRA's approach to supervising liquidity and funding risks* (June 2015) SS24/15 in additional to PS11/15. This sets out how firms should comply with the requirements on the Internal Liquidity Adequacy Assessment Process (ILAAP), Liquidity Supervisory Review and Evaluation Process (L-SREP), Liquid Asset Buffers, collateral and daily reporting under stress. Firms must identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios consistent with their risk appetite under the ILAA rules and carry out an ILAAP in a proportionate manner having regard to the nature, scale and complexity of the firm's activities.

PRA, 8.6.2015

Depositor and Policyholder Protection

The PRA has issued a consultation paper on *Depositor and policyholder protection – technical amendments* (June 2015) CP21/15. The rule amendments clarify arrangements to support depositor preference and the ability to 'look through' accounts to those absolutely entitled to deposits as well as to deal with other administrative changes. This follows earlier consultation papers on *Depositor protection* (CP20/14) and *Depositor, dormant account and policyholder protection* (CP4/15 and 15/15). Amendments are also made to the FEES transitional provisions and schedules within the PRA Handbook.

PRA, 2.6.2015

Solvency II Internal Model Reporting Codes

The PRA has issued a consultation paper on two draft supervisory statements covering internal model reporting codes and components and life product codes (CP20/15). The draft supervisory statement on internal model reporting codes and components explains how the PRA expects internal model and partial internal firms to derive the 'unique number of component' for each component of the internal model. The second supervisory statement sets out the list of codes which the PRA expects firms to use in reporting information on life business or annuities arising from non-life business at the product level and generally cover investment and savings, individual pensions, corporate pensions, protection and annuities.

PRA, 1.6.2015

Solvency II Volatility Adjustment

The PRA has issued a supervisory statement in respect of firms applying for permission to apply a volatility adjustment (VA) (SS23/15). This includes items that should be included within the application, use of the information provided to assess whether the statutory conditions for approval have been satisfied and how the VA approval process will work. VA applications are made under Regulation 43 of the Solvency II Regulations 2015.

PRA, 1.6.2015

Ring-Fencing

The PRA has issued a policy statement on *The implementation of ring-fencing: legal structure, governance and the continuity of services and facilities* (May 2015) PS10/15. This follows an earlier Consultation Paper 19/14 in October 2014. The policy statement covers the legal structure arrangements of banking groups subject to ring-fencing, governance arrangements within ring-fenced bodies and continuity of services and facilities to ring-fenced bodies. UK banks will be required to ring-fence their core activities where they have core deposits greater than £25 billion from 1 January 2019. The PRA has confirmed that it does not necessarily object to ring-fenced bodies (RFBs) owning entities undertaking activities that are not excluded or prohibited although this would be reviewed on a case-by-case basis. The PRA did not expect that an entity that undertakes excluded or prohibited activities should own rights in an FRB. Additional guidance is provided with regard to governance including in respect of corporate governance and financial reporting, RFB sub-groups, board membership and risk management functions, waivers and modifications of ring-fencing rules, personnel dependency, independence criteria, remuneration, public advertisements of independent NEDs disclosure, board audit committees and compliance. With regard to continuity, all deposit-takers (excluding credit unions) and PRA-designated investment firms will be required to demonstrate operational continuity in resolution and facility recovery and post-resolution restructuring (DP1/14) with the PRA issuing further consultation later in the year. The policy statement contains near final rules on *CRR Firms: Ring-Fenced Bodies Instrument* and near-final supervisory statement requirements on legal structure and continuity of services and facilities.

PRA, 27.5.2015

Contractual Stays

The PRA has issued a consultation paper on *Contractual stays in financial contracts governed by third-country law* (May 2015) CP19/15. The Bank of England has power to suspend, or stay, temporarily the termination rights of a party to a contract with a firm in resolution under the Banking Act 2009 provided that the UK institution continues to carry out its payment and other substantive obligations under the contract and temporary stay. Resolution and pre-resolution action by the Bank of England, PRA and FCA are stated not to trigger a counterparty's right to terminate a contract with a UK credit institution or investment firm or to exercise rights of collateral under a general stay. The effectiveness of a UK stay is automatically recognised under the EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD) although the position is unclear with regard to third country laws. A new rule is to be contained in the PRA Rulebook requiring the contractual adoption of UK resolution stays in certain financial contracts governed by the law of a non-EEA country. This would apply with regard to UK banks, building societies and designated investment firms and qualifying parent undertakings in respect of financial contracts (including derivatives, repo-reverse repo or securities financing transactions) governed by the non-EEA laws with firms

being prohibited from creating new obligations or materially amending existing obligations under financial contracts without the required counterparty agreement. The prohibition would apply unless the counterparty has agreed in writing to be subject to similar restrictions on termination, acceleration, close-out, set-off and netting as would apply as a result of the firm's entry into resolution or write-down or conversion of the firm's regulatory capital at the point of non-viability if the contract were governed by the laws of the UK. Firms would also be required to ensure that subsidiaries obtain agreement to the stay from counterparties where they trade in the products.

PRA, 26.5.2015

Impediments to Resolvability

The Bank of England has published a consultation paper on *The Bank of England's power to direct institutions to address impediments to resolvability* (May 2015). This follows conferment on the Bank of a new power of direction under the EU Bank Recovery and Resolution Directive (BRRD). The power of direction applies with regard to banks, building societies and investment firms (dealing as principal and holding initial capital of €730,000) authorised by the PRA or FCA, parent financial holding companies or mixed financial holding companies and PRA or FCA authorised financial institutions that are subsidiaries of such institutions or parent companies. The policy statement explains the Bank's approach to use of the power of direction for firms to take action to ensure that any impediments identified to effective resolution following the conduct of a resolvability assessment with a non-exhausted list of examples of directions being provided. Resolution planning includes gathering information to facilitate resolution, conducting resolvability assessments, developing resolution strategies and enhancing resolvability. The process for exercising the power of direction following a resolvability assessment is summarised in Figure 1 of the proposed policy statement. Directions may apply with regard to the amendment of group financial support agreements, critical function services, restriction on maximum individual and aggregate exposures, information provision, asset disposal, cessation of specified activities, cessation of new or existing business operations, legal or operational structural amendment, establishment of a financial holding company, maintenance of minimum own funds and eligible liabilities, and renegotiation of eligible liability or relevant capital instruments.

PRA, 22.5.2015

Depositor and Dormant Account Holder Protection

A revised supervisory statement on *Depositor and dormant account protection* (April 2015 and updated 20 May 2015) SS18/15 has been issued by the Bank of England and PRA. A separate policy statement has been issued on *Depositor and dormant account protection – further amendments* (May 2015) PS9/15. The revisions principally relate to continuity of access requirements with regard to overdrafts, dormant account scheme rules and the treatment of small local authorities. Specific areas covered include eligibility for deposit

protection, disclosure, marking eligible deposits and transitional issues, temporary high balances, Dormant Account Scheme (DAS) information requirements, levy calculation, Single Customer View (SCV), in-flight transactions and continuity of access.

PRA, 20.5.2015

Financial Conduct Authority (FCA)

Credit Unions

The FCA and PRA have issued a consultation paper on *Reform of the legacy Credit Unions Sourcebook* (June 2015) CP15/21. The PRA and FCA had adopted separate versions of the earlier Credit Unions Sourcebook (CREDS) with effect from 1 April 2013 with PRA changes to be introduced on the financial safety and soundness of credit unions with the FCA amending the way in which credit unions conduct business. The PRA is to delete CREDS with a new Credit Unions Rulebook Part with the FCA retaining CREDS to the extent required under its statutory functions.

FCA, 24.6.2015

Regulated Fees and Levies

The FCA has published rules on its 2015/16 regulatory fees and levies, the pensions guidance levy, the Financial Ombudsman Service general levy and the Money Advice Service. The FCA Annual Funding Requirement (AFR) had risen by 7.9% (£35.2 million) from £446.4 million to £481.6 million with this including a 6% (£27 million) increase in ongoing regulatory activities (ORA). Concerns had been expressed with regards to the increase in the AFR in excess of the rate of inflation and the need for greater transparency and accountability in addition to the FCA's value for money (VFM) strategy. The combined ORA of the FCA and PRA had increased 24% in 2013/14 as compared with the last operational year of the FSA which included the costs of establishing the new dual regulation regime. The FCA considered that the 6% increase in its ORA was necessary to meet its objectives as set out in its *Business Plan* for 2015/16.

FCA, 23.6.2015

Nominee Investment

A consultation paper has been published on *Investing in authorised funds through nominees* (June 2015) CP15/20. The FCA is to revoke the rules and guidance contained in COBS 14.4.1R – 9R with further work to be carried out with a discussion paper on improving firms' communications with customers and a market study on asset management. COBS 14.4 had been prepared by the FSA and was intended to come into effect on 31 December 2012 with this being set back until 31 December 2013 and then until 31 December 2015. COBS 14.4 requires nominee companies (intermediate unit holders) to notify the underlying beneficial owners of units in funds when the authorised fund manager or the depositary issues certain fund information or notifications about general meetings of unit holders.

FCA, 22.6.2015

LBG Fine

Lloyds Banking Group (LBG) has been fined £117 million for failing to treat customers fairly in handling Payment Protection Insurance (PPI) complaints between March 2012 and May 2013. LBG had assessed £2.3 million policy related complaints with 37% being rejected. Complaint handlers had been instructed that the overriding principle in assessing complaints was that sales processes had been compliant and robust unless informed otherwise with handlers not being advised of known failings identified in the sales process. Complaint handlers had relied on this Overriding Principle to dismiss customers' accounts of what had happened during the PPI sale or not to investigate complaints fully with some customers not being able to provide any account. A significant number of customer complaints had accordingly been unfairly rejected. LBG had made significant process in handling complaints with £710 million being set aside to cover any redress due to customers. LBG had separately decided in February 2015 that the release of shares under its deferred bonus awards for 2012 and 2013 would be frozen for all members of the Group Executive Committee and certain other senior executives following FCA Enforcement Investigation. The fine represented the largest ever retail fine imposed by the FCA. The original fine of £167,758,035 was reduced by 30% on early settlement.

FCA, 5.6.2015

Unauthorised CIS Convictions

Eight individuals have been convicted for their involvement in the operation of an unauthorised collected investment scheme which led 110 investors to lose over £4.3 million. The defendants had been involved between July 2008 and November 2011 in a scheme involving three companies, Plott Investments Ltd, European Property Investments (UK) Ltd and Sterling Alexander Ltd. Salesmen had cold-called potential investors to sell agricultural land that the companies had purchased for minimal amounts as well land that they did not own with sales scripts, misleading promotional material and high-pressure sales techniques being used to sell the land at inflated values. Scott Crawley was sentenced to eight years' imprisonment, Dale Walker five and a half years, Daniel Forsyth two years (with 15 months for lying to the FCA in a compelled interview), Brendon Daley 15 months' imprisonment suspended for two years and an electronically monitored curfew for four months, Aaron Petrou five years' imprisonment, Ross Peters five and a half years' imprisonment, and Ricky Mitchie four months' imprisonment suspended for 18 months. Adam Hawkins was later sentenced to six years and nine months.

FCA, 4.6.2015

Regulated Benchmarks

A consultation paper has been published on *Fair, reasonable and non-discriminatory access to regulated benchmarks* (June 2015) CP15/18. This

contains the FCA proposals on fair, reasonable and non-discriminatory (FRAND) access to regulated benchmarks by benchmark administrators. This follows PS15/6 and the Fair and Effective Markets Review (FEMR) and relevant Treasury consultation. Respondents had been concerned with the unconstrained ability of administrators to set the prices of benchmarks with additional provisions to be included within MAR 8. PS15/6 set out the regulatory and supervisory regime for the additional seven benchmarks to be brought within regulatory scope. FRAND requirements are to be set out in MAR 8 to limit the ability of benchmark administrators to exploit market power in a way that might limit effective competition.

FCA, 3.6.2015

Personal Investment Firms

The FCA has issued a consultation paper on *Capital resources requirements for Personal Investment Firms* (*PIFs*) (May 2015). The paper sets out revised capital requirements to be imposed in respect of PIFs, following earlier FSA proposals, with their objective being to ensure that a proportionate level of capital resources is applied to allow PIFs to absorb routine losses and legitimate redress claims against them as well as allow sufficient time to make appropriate arrangements in the case of market exit. This is to ensure that PIFs are able to deliver on their longer-term commitments. The paper sets out the proposed changes to the current rules with the other alternatives considered. This follows the earlier Retail Distribution Review (RDR) which was intended to improve standards in the retail investment market.

FCA, 28.5.2015

Bank for International Settlements (BIS)

Net Stable Funding Ratio

The Basel Committee on Banking Supervision has published a paper on *Net Stable Funding Ratio disclosure standards* (June 2015). The Net Stable Funding Ratio (NSFR) disclosure requirements have been developed to improve transparency of regulatory funding requirements, reinforce the Committee's 2008 *Principles for sound liquidity risk management and supervision, strengthen market discipline and reduce uncertainty on NSFR implementation*. The paper contained specific requirements with regard to scope of application, implementation date and frequency of reporting and disclosure requirements with the NSFR common disclosure template being explained in annex 1 and instructions for completion of the template in annex 2. The Committee's work on liquidity is intended to both promote the short-term resilience of banks' liquidity risk profiles by ensuring that they have sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for 30 days and to reduce funding risk over a longer-term time horizon by requiring banks to fund their activities with sufficiently stable sources of funding to mitigate the risk of future funding stress. Thirty day cover is provided for under the Liquidity Coverage Ratio (LCR) with longer-term protection being provided under the NSFR. The NSFR is to be implemented

by 1 January 2018 and initially set at a 100% ratio on an ongoing basis. The template generally provides for disclosure of Available Stable Funding (ASF) and Required Stable Funding (RSF) items. The LCR and NSFR disclosure requirements will be incorporated into the Basel III Pillar 3 framework.

BIS, 22.6.2015

Basel III Implementation

The Basel Committee has published implementation reports on risk-based capital and the Liquidity Coverage Ratio (LCR) for India and South Africa. These form part of its continuing Regulatory Consistency Assessment Programme (RCAP). Both assessments were favourable with amendments having been implemented to the capital and LCR rules within both countries.

BIS, 15.6.2015

International Conference of Banking Supervisors

Chile is to host the 19th *International Conference of Banking Supervisors* (ICBS) in 2016. The ICBS has been held every two years since 1979 to bring senior bank supervisors and central bankers together from over 100 countries with other representatives from international financial institutions.

BIS, 12.6.2015

PFMI Implementation

The Committee on Payments and Market Infrastructures (CPMI) and International Organisation of Securities Commissions (IOSCO) have published the second update to the Level 1 assessments on the extent to which national jurisdictions have completed the process of adopting the legislation, regulations and other policies necessary to implement the 2012 24 *Principles for financial market infrastructures* (PFMIs) and five responsibilities following G20 direction. The CPMI and IOSCO Steering Group set up a standing working-level Implementation Monitoring Standing Group (IMSG) to design, organise and carry out implementation monitoring. This consists of three phases with Level 1 assessing legislative regulation and policy adoption, Level 2 assessing the content of the legislation, regulation and policy and Level 3 examining whether there is consistency in the implementation outcomes. The update contains a number of key observations and summary statement of implementation within national jurisdictions. Participating jurisdictions had made progress in Level 1 implementation with further improvements in implementation of the principles in addition to the earlier achievements with regard to the responsibilities. Principles with regard to central securities depositories (CSDs) and securities settlement systems (SSSs) nevertheless lag behind other FMI areas.

BIS, 11.6.2015

Macroprudential Policies

The BIS has published a working paper on ‘Comparative assessment of macroprudential policies’ (June 2015) WP no 502 by Valentina Bruno, Ihyock

Shim and Hyun Song Shin. This assesses the effectiveness of macroprudential policies in 12 Asia-Pacific economies using databases of domestic macroprudential systems and capital flow management (CFM) policies. Banking sector CFM policies and bond market CFM policies were effective in slowing down banking inflows and bond inflows with evidence of spillover effects. Macroprudential policies were more successful when they complemented monetary policy by reinforcing monetary tightening rather than when they acted in opposite directions.

BIS, 11.6.2015

Exchange Traded Derivatives

The BIS has released its latest Exchange Traded Derivatives statistics to March 2015. Total notional futures outstanding was $25.526 trillion with options outstanding $41.352 trillion. The statistics have been compiled since 1986 from various market sources. The BIS publishes separate semi-annual OTC derivatives statistics. The BIS has released separate international debt securities for the first quarter of 2015 with domestic and total debt securities for the last quarter of 2014. Debt securities for all maturities and in all countries amounted to $20.890 trillion with $1.418 trillion being issued by international organisations. The BIS has prepared a *Handbook on Securities Statistics* with the European Central Bank (ECB) and the International Monetary Fund (IMF) following a request by the Working Group on Securities Databases (WGSD). The Handbook was released on 12 May 2015. The latest semi-annual OTC derivatives statistics at end-December 2014 were released on 30 April 2015.

BIS, 8.6.2015

BIS Quarterly Review

The BIS has published its latest *Quarterly Review* for the period to June 2015. Global cross-border claims had increased by $11.6 billion between end-September and end-December 2014 on an exchange rate-adjusted basis with 5% year-on-year growth including 7% non-bank borrower as opposed to 3% bank claim growth. Cross-border claims in China had contracted by $51 billion reducing year-on-year growth to 21% with China being the eighth largest borrower worldwide with £1 trillion of claims on Chinese residents. Real residential property prices had continued to increase substantially in most of the advanced economies in 2014.

BIS, 8.6.2015

Interest Rate Risk

The Basel Committee has published a consultation document on *Interest rate risk in the banking book* (June 2015). The Committee issues *Principles for the management and supervision of interest rate risk* in 2004 with interest rate risk in the banking book (IRRBB) being included within the Pillar 2 supervisory review process of Basel III. The Committee has proposed amendments to IRRBB framework to ensure that banks have appropriate capital to cover

potential interest rate losses, especially in low interest rate environments, and to limit incentives for capital arbitrage in trading and banking books and between banking book portfolios subject to different accounting treatments. This is specifically necessary with the enhancements to the capital treatment of positions in the trading book under the Committee's continuing *Fundamental Review of the Trading Book* (FRTB). The Committee is proposing the use of either a standardised Pillar 1 approach or enhanced Pillar 2 IRRBB approach. Under the Pillar 1 option, an economic value of equity (EVE) measure is used to calculate interest rate risk against several interest rate shock scenarios (including parallel up and downwards shifts in the yield curve, steepening, flattening and short-term up and down interest rate shocks). Nine separate principles are developed under the alternative approach covering corporate and risk governance as well as disclosure of IRRBB exposures and capital as well as earnings supplemented by three additional principles applicable to supervisors covering reporting, data-gathering, assessment and capital review.

BIS, 8.6.2015

International Journal of Central Banking

The BIS has published the latest edition of its *International Journal of Central Banking* (IJCB). This contains articles on central bank theory and practice including research on monetary and financial stability. Specific papers are included, for example, on 'Capital Regulation in a Macroeconomic Model with Three Layers of Default', 'Did the EBA Capital Exercise Cause a Credit Crunch in the Euro Area?', 'The Road to Financial Stability: Capital Regulation, Liquidity Regulation, and Resolution' and 'Systemic Risk and the Solvency-Liquidity Nexus of Banks'.

BIS, 1.6.2015

Regulatory Change and Monetary Policy

The Committee on the Global Financial System (CGFS) has published a paper on 'Regulatory change and monetary policy' (May 2015) no 54. The report examines the combined impact of key new regulations on monetary policy using information included in central bank case studies and interviews with private sector market participants. It was expected that the new financial regulations on financial institutions and markets would have only limited and manageable effects on monetary policy operations and transmissions. Central banks should be able to make necessary adjustments within their existing policy frameworks in ways that preserve effectiveness subject to local jurisdictional circumstances.

BIS, 20.5.2015

Foreign Exchange Standards

The BIS Governors have welcomed current initiatives of the foreign exchange committees to strengthen code of conduct standards and principles in foreign exchange markets. The statement was issued by Agustin Carstens, Chairman

of the Economic Consultative Committee (ECC) and the Global Economy Meeting (GEM) following a meeting in Basel on 10–11 May. The BIS Governors have agreed to set up a working group under the Markets Committee to take these issues forward and facilitate the establishment of a single global code of conduct standards and principles, promote greater adherence and provide input into wider Financial Stability Board market conduct work. The ECC is an informal group supporting the GEM which includes all Governors participating in the BIS Board and BIS General Manager. The GEM consists of the Governors from 30 BIS member central banks in major advanced and emerging market economies accounting for around four fifths of global GDP. The GEM monitors and assesses developments, risks and opportunities in the world economy and global financial system and provides guidance on the Basel based central bank committees including specifically the CGFS, CPMI and Markets Committee.

BIS, 11.5.2015

Working Papers

The BIS has released other working papers including on 'Leverage dynamics and the real burden of debt' (May 2015) no 501, 'Prolonged reserves accumulation, credit booms, asset prices and monetary policy in Asia' (April 2015) no 500 and 'Currency carry trades in Latin America' (April 2015) no 81.

BIS, 4.5.2015

Financial Stability Board (FSB)

NBNI G-SIFIs

The FSB and IOSCO have published the public responses to the second consultative document on Non-Bank Non-Insurer (NBNI) Global Systemically Important Financial Institutions (G-SIFIs) Assessment Methodology released in March 2015. This contained the revised proposals on the assessment methodologies for identifying NBNI G-SIFIs and extend the SIFI framework from banks and insurers to other financial institutions. This included a high level framework with detailed sector specific methodologies including in respect of finance companies and market intermediaries and asset managers. The FSB and IOSCO have also undertaken work to identify financial stability risks associated with market liquidity in fixed income markets and asset management activities as well as longer-term structural financial stability issues.

FSB, 12.6.2015

Correspondent Banking and Financial Inclusion

FSB Chairman, Mark Carney, has published an article on 'Correspondent banking and financial inclusion' with Bertrand Badre which was published in the Financial Times on 3 June 2015. Certain emerging market economies had been damaged by the withdrawal of banks from conducting correspondent banks with local respondents following the imposition of regulatory penalties

in connection with the handling of criminal and illicit funds. The result was that communities and businesses were finding it difficult to send or receive money from abroad including charities and other companies. The FSB had asked the World Bank Group and others to carry out further studies on the extent and consequences of a decrease in correspondent banking activity. Authorities had to ensure that they provide a clear and consistent interpretation and enforcement of relevant international standards and work with the financial industry to establish appropriate technical measures including the global Legal Entity Identifier (LEI) system to standardise identification as well as Know Your Customer (KYC) platforms to avoid duplication of due diligence work. The authorities were concerned with the possible abandonment of whole groups of customers and possible countries.

FSB, 2.6.2015

RCG Americas

The Regional Consultative Group (RCG) for the Americas had met in Cancun, Mexico hosted by the Banco de México. The FSB's work plan and policy priorities were reviewed with vulnerabilities in the global financial system and regional financial stability issues being discussed. This included the economic and financial impacts of the decline in oil prices and potential financial stability risks arising from the current low interest rate environment in advanced economies. Other matters examined included the draft Total Loss Absorbing Capacity (TLAC) standard, work of the Basel Committee and FSB programme on market based finance and asset management activities. The RCG Europe met in Berlin, Germany on 6 May 2015 and the RCG Mena (Middle East and North America) in Bahrain on 27 April 2015.

FSB, 28.5.2015

SIB Supervisory Frameworks and Approaches

The FSB has published a *Thematic Review on Supervisory Frameworks and Approaches for SIBs* (26 May 2015). This assesses progress in enhancing supervisory frameworks and approaches with regard to systemically important banks (SIBs) following the global financial crisis. The work had been carried out in cooperation with the Basel Committee. National authorities had taken significant steps to enhance supervisory effectiveness within their institutional frameworks and were using a wider and more sophisticated range of supervisory tools which contributed to the adoption of a more forward-looking supervisory approach capturing current and emerging risks. The scope of supervision had also been expanded to incorporate macroprudential and resolution issues. Thirteen Global SIBs had also been surveyed as part of the review which specifically identified increased supervisory intensity in connection with capital and liquidity. More work was nevertheless required to improve and assess supervisory effectiveness with further recommendations being made in this regard.

FSB, 26.5.2015

International Organisation of Securities Commissions (IOSCO)

Credible Deterrence

The International Organisation of Securities Commissions (IOSCO) has published a report on *Credible Deterrence in the Enforcement of Securities Regulation* (June 2015). The paper attempts to identify and promote awareness of factors that may credibly deter misconduct in securities and investment markets which had profound and far-reaching consequences. Deterrence was considered credible where wrongdoers perceived that the risks of engaging in misconduct outweighed the rewards with non-compliant attitudes and behaviours being discouraged. Persons had to be dissuaded from engaging in misconduct due to an expectation of detection and rigorous investigation, prosecution and punishment including through the application of robust and proportionate sanctions. Deterrence had to be considered with ensuring that firms were subject to effective authorisation, supervision, surveillance and compliance requirements. Authorities had to enhance the quality of legal and regulatory frameworks to ensure legal certainty, detect misconduct by being well connected and obtaining the correct information, cooperate and collaborate in eliminating safe havens, rigorously and swiftly investigate and prosecute misconduct, impose sanctions that were effective, proportionate and dissuasive, send strong messages and promote public understanding and transparency as well as evaluate and revise enforcement governance, strategy, priorities and tools.

IOSCO, 17.6.2015

Reducing Reliance on CRAs

IOSCO has published a final report on *Good Practices on Reducing Reliance on CRAs in Asset Management* (June 2015). Credit rating agencies (CRAs) played a prominent role in global financial markets although concerns had arisen with regard to over-reliance and with the FSB publishing a report on *Principles for Reducing Reliance on CRA Rating* in 2010. IOSCO had launched a number of new mandates within its policy committees to implement the 2010 FSB *Principles* with the IOSCO Policy Committee on Investment Management (Committee 5) developing a set of good practices for consideration by market participants and regulators in relation to the use of CRA ratings in the asset management industry. IOSCO has accordingly issued a set of Good Practices for use by national regulators, asset managers and investors with specific practices being identified to reduce any potential over-reliance on external credit ratings in the asset management areas. The Good Practices are set out in Appendix A to the document.

IOSCO, 9.6.2015

Credit Risk Within Large Intermediaries

IOSCO has published a consultation report on *Sound Practices at Large Intermediaries: Alternatives to the Use of Credit Ratings to Assess Creditworthiness* (May 2015). The report contains 30 Sound Practices for large market

intermediary firms to use in implementing their internal credit assessment policies and procedures. The objective is to develop suitable alternatives to credit ratings in assessing credit risk and reduce potential overreliance and in so doing increase investor protection and contribute to market integrity and financial stability.

IOSCO, 7.5.2015

Anti-Fraud Messaging

IOSCO has published the results of its survey on *Anti-Fraud Messaging* which sets out strategies used by securities market authorities to educate individual investors to protect themselves against investment fraud. This includes information and examples used in IOSCO member jurisdictions to educate investors concerning investment fraud following a fact-finding survey conducted by IOSCO's Committee on Retail Investors. Matters covered included types of fraudulent securities offerings and investment schemes, common characteristics, common victims, message content, communication channels and efforts to assess the effectiveness of anti-fraud strategies.

IOSCO, 6.5.2015

Emerging Capital Markets

IOSCO's Growth and Emerging Markets (GEM) Committee has held a roundtable dialogue with leading global industry players and international organisations at the three day Annual Meeting and Conference in Cairo in April 2015. Global emerging capital market regulators confirmed their commitment to maintaining market resilience and accelerate the sustainable growth and development of emerging capital markets. The roundtable examined risks and vulnerabilities in global capital markets and how authorities could respond with the GEM collaborating with the Toronto Centre to strengthen collective regulatory capacity in crisis preparedness and contingency planning. The GEM Committee approved a policy report on *SME Financing through Capital Markets* and discussed priority areas and the Committee's future work programme following a membership review.

IOSCO, 29.4.2015

International Association of Insurance Supervisors (IAIS)

Stakeholder Dialogues

The International Association of Insurance Supervisors (IAIS) held its eighth *Annual Global Seminar on Stakeholder Dialogues* in June 2015 in Basel. The event was attended by over 200 members and stakeholders and was open to the public. The objective is to allow supervisors and stakeholders to discuss globally significant matters affecting the insurance sector and understand current and planned IAIS activities. Matters covered included IAIS *Core Principle* (*ICP*) *revisions*, ComFrame, the development of capital standards, implementation of IAIS supervisory material, financial stability

and disaster risk. A number of presentations were made during the events which were made available on the IAIS website.

IAIS, 24.6.2015

Financial Inclusion

The Executive Committee of the IAIS has released two papers for public consultation on *Conduct Business in Inclusive Insurance* and *Issues in Regulation and Supervision in Microtakaful* (Islamic Microinsurance). The Financial Inclusion Working Group (FIWG) had prepared the issues paper as part of its work plan included within the 2013–14 Roadmap. The paper provides an overview of conduct of business issues in inclusive insurance markets affecting the extent to which customers are treated fairly before contract entry and contract performance. The second paper was prepared by a joint working group of the IAIS and the Islamic Financial Services Board (IFSB) with the objective of providing an overview of the issues that arose in connection with microtakaful and its role in enhancing financial inclusion.

IAIS, 22.6.2015

Insurance Core Principles

The IAIS has proposed revisions to the Insurance Core Principles (ICPs) and supporting key Glossary definitions. These include ICP 4, 5, 7, 8, 23 and 25 following membership experience in implementing the ICPs since 2011 and following Self-Assessments and Peer Reviews undertaken on the ICPs. Other regulatory initiatives were also taken into account. The revisions would be finalised at the General Meeting in November 2015.

IAIS, 22.6.2015

Secretary General

The Executive Committee of the IAIS has agreed to extend the contract of current Secretary General, Yoshihiro Kawai, to the end of 2017 to allow Mr Kawai to oversee the completion of a number of high priority projects including the adoption of Higher Loss Absorbency (HLA) and Version 1 of the Insurance Capital Standard (ICS). Mr Kawai had joined the IAIS as deputy Secretary General in 1998 and appointed Secretary General in 2003.

IAIS, 19.6.2015

Multilateral Memorandum of Understanding (MMoU)

The National Bank of Slovakia and Belgium Financial Services and Markets Authority (FSMA) became members of IAIS's MMoU in June 2015 with Gibraltar, Delaware and Malaysia and Quebec joining in May 2015. The MMoU acts as a global framework for promoting cooperation and information exchange between insurance supervisors with minimum standards being established to which signatories must adhere with all applicants being subject to review and approval by an independent team of IAIS members.

IAIS, 5.6.2015

Joint Forum

The Joint Forum has published a report on *Developments in credit risk management across sectors: current practices and recommendations* (June 2015). This reviews current supervisory requirements with regard to credit risk, credit risk management within firms and the implications for the supervisory and regulatory treatment of credit risk. This follows a survey conducted by the Joint Forum with supervisors and firms in the banking, securities and insurance sectors globally. Fifteen authorities and 23 firms in Europe, North America and Asia responded to the survey conducted. Four specific recommendations are made. Supervisors had to be cautious about over-relying on internal models for credit risk management and regulatory capital. Authorities had to be aware of the growth of risk-taking behaviours and the need for firms to have appropriate risk management processes in the current low interest rate environment and possible 'search for yield'. Authorities had to be aware of the growing need for high-quality liquid collateral to cover margin requirements in the OTC derivatives area with appropriate action being taken as necessary. Authorities had also to consider whether firms were accurately capturing central counterparty exposures within their credit risk management processes.

JF, 2.6.2015

International Swap Derivatives Association (ISDA)

The International Swaps and Derivatives Association (ISDA) has set up an EU Bank Recovery and Resolution Directive (BRRD) Implementation Monitor covering all EU/EFTA/EEA member states which identifies implementing legislation in each country. The BRRD came into effect on 1 January 2015 except with regard to the bail-in resolution tool which will apply from 1 January 2016. Eleven industry associations have published a letter supporting the ISDA Data Reporting Principles to ensure consistency in regulatory reporting standards in the derivatives area. A licensing programme has been set up for ISDA's proprietary and patent pending Standard Initial Margin Model (SIMM) for non-cleared derivatives which is intended to create a single model to exchange collateral in compliance with relevant margin requirement rules. US and European regulatory authorities continue to attempt to agree clearing house rules to establish an EU equivalent decision for US central counterparties (CCPs) with difficulties remaining with regard to differences in futures margin methodologies. ISDA and Markit have launched a European Market Infrastructure Regulation (EMIR) Clearing Classification Tool on ISDA's online Amend service which allows derivatives users to identify to their counterparties whether they are subject to clearing obligations imposed by the European Securities and Markets Authority (ESMA) in respect of interest rate derivatives.

IAIS, 5.6.2015

EUROPEAN DEVELOPMENTS

Banking structural reform and Capital Markets Union

On 19 June 2015 the European Council agreed its negotiating position on the proposed banking structural reform regulation. As explained in a previous update, this is aimed at protecting the deposit-taking business of the largest and most complex EU banks from potentially risky trading activities. The Council's proposed text, would apply the regulation to global systemically important institutions or to entities with total assets of at least €30 billion over the last three years and trading activities of at least €70 billion or 10% of their total assets. These banks would be allocated into two tiers, depending on whether the sum of their trading activities during the last three years exceeds €100 billion or not. Stricter reporting requirements, a more thorough risk assessment, and different supervisory actions would apply to banks exceeding the threshold.

The Council text then provides two options for addressing excessive risk stemming from trading activities: national legislation requiring core retail activities to be ring-fenced, or measures imposed by competent authorities in accordance with the regulation.

At the same meeting the Council also endorsed the Commission's plan for the development of a capital markets union in the EU, in respect of which the Commission is expected to publish an action plan in the autumn.

Guidelines on contributions and payment commitments to deposit guarantee scheme

On 28 May 2015 the EBA published its final Guidelines on contributions to deposit guarantee schemes and on payment commitments. Both Guidelines seek to ensure consistent application of the new funding mechanisms provided for in the new Deposit Guarantee Schemes Directive (DGSD).

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

Guidelines on triggers for resolution

On 26 May 2015 the EBA published its final Guidelines on the circumstances under which an institution should be considered as 'failing or likely to fail' – the trigger for resolution under the Bank Recovery and Resolution Directive (BRRD). These Guidelines aim at promoting convergence of EU supervisory and resolution practices in relation to how resolution should be triggered. They list all the relevant objective elements for determining whether an institution is failing or likely to fail.

These Guidelines also provide additional guidance on the consultation and exchange of information between authorities when deciding if an institution is failing or likely to fail.

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

Guidelines on triggers for the use of early intervention measures

On 8 May 2015 the EBA published its final Guidelines on triggers for the use of early intervention measures under the BRRD. These Guidelines establish a link between the ongoing supervision conducted by the Competent Authorities according to the Capital Requirement Directive and the early intervention powers set out in the BRRD.

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

ISLAMIC FINANCE DEVELOPMENTS

The IFSB Council Adopts Guidance Note on Quantitative Measure for Liquidity Risk Management (GN-6)

Effective management of liquidity risk is fundamental to the effective functioning of financial institutions, including institutions offering Islamic financial services (IIFS). During the financial crisis of 2007–8, inadequate liquidity risk management in financial institutions resulted in substantial liquidity outflows and strain on profitability, which led to problems of viability and insolvency of certain institutions in extreme cases. To manage liquidity risk effectively, a financial institution needs to have, among other things, adequate liquid assets of a high quality, stable funding sources, proper asset–liability maturity balance and well-managed off-balance sheet (OBS) exposures. Due to the strong interlinkages between the domestic, regional and international financial systems in our increasingly interconnected world, liquidity stress at one institution could affect the performance of other institutions. In extreme cases, the disruption in liquidity markets could affect the whole intermediation process and the real economy if it is not managed effectively at an early stage. The significance of this subject in ensuring the systemic stability and resilience of financial systems has resulted in a number of developments in the global regulatory landscape in recent years.

The banking sector plays the most significant role in the financial intermediation process in the global financial system, especially in emerging markets due to its high market share in the domestic financial systems and its deposit-taking capabilities. Therefore, a major focus of global financial reforms in recent years has been the banking sector. At the global level, the Basel Committee on Banking Supervision (BCBS) issued its Principles for Sound Liquidity Risk Management and Supervision in September 2008. For the Islamic financial services industry (IFSI), the Islamic Financial Services Board (IFSB) issued IFSB- 12: Guiding Principles on Liquidity Risk Management for IIFS in March 2012, which provides a set of 23 principles for the robust management of liquidity risk by IIFS and its vigorous supervision and monitoring by their supervisory authorities. Besides providing guidance on prudential aspects related to liquidity risk management in IIFS, IFSB-12 outlined necessary elements of effective liquidity risk management in the IFSI.

In order to further strengthen the regulatory regime for the liquidity risk management of banking institutions, the BCBS issued Basel III in December 2010. A major component of this reform package was the issuance at the same time of International Framework for Liquidity Risk Measurement, Standards and Monitoring, which proposed the introduction of new regulatory standards – namely, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) – as a complement to the capital adequacy regulations. This document also suggested five liquidity monitoring tools – namely, contractual maturity mismatch, concentration of funding, availability of unencumbered assets, LCR by significant currency, and market-related monitoring tools. After the observation phase and further calibration and monitoring of the initial parameters, the BCBS issued final rules for LCR in January 2013 in the document entitled Basel III: Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools, and for NSFR in October 2014 in the document entitled Basel III: The Net Stable Funding Ratio. Significant adjustments to the components of LCR and NSFR were made in these documents. The LCR document also introduced a protracted timeline for the adoption of LCR. Although January 2015 was maintained as the initial application date of the LCR as a regulatory requirement, the level of LCR required was set at 60% initially. With an increase of 10% every year, the LCR was expected to reach the desired 100% level by early 2019. The NSFR document, on the other hand, is planned to be adopted later with implementation in 2018 according to the timeline specified in the 2010 Basel III publication.

In response to these developments the IFSB has prepared a new guidance note (GN) for IIFS based on the Basel III liquidity standards, which aims to provide a level playing field for the IIFS and their supervisory authorities in the application of global liquidity standards. This GN was prepared with the following objectives:

- to complement other prudential standards issued by the IFSB, as well as to support the harmonised application of the international regulatory regime in the area of liquidity risk management, by providing guidance on the application of global liquidity standards for the IIFS, especially the LCR and NSFR at the current stage, with suitable adjustments based on the specific operational characteristics;
- to provide guidance to supervisory authorities on the application of the LCR and NSFR in their jurisdictions and on their role in assessing the discretionary items specified in this GN, including application of the alternative liquidity approaches (ALA);
- to delineate the disclosure requirements required alongside the application of liquidity standards; and
- to present the templates of the LCR and NSFR, which need to be considered in the planning and monitoring of liquidity risk.

The new liquidity regulatory regime is expected to promote better liquidity risk management in banking institutions, including IIFS, in a number of

ways, including: (a) the improvement of banks' liquidity buffers and the placing of limits on maturity transformation at the micro level; and (b) reducing excessive interconnectedness in the financial system and mitigating systemic liquidity risk at the macro level.

The Islamic Financial Services Board 02.04.15

www.ifsb.org/

The Islamic Development Bank Raises Sukuk Issuance Ceiling from US$10 Billion to US$25 Billion

The 305th session of the Board of Executive Directors (BED) of the Islamic Development Bank (IDB) held in Maputo, Mozambique, in conjunction with the 40th Annual Meeting of the Board of Governors of the IDB Group in the Mozambican capital, under the chairmanship of H.E. Dr. Ahmad Mohamed Ali, Chairman of the IDB Group, approved raising the current limit of the Bank's medium term Sukuk issuance program from US$10 billion to US$25 billion.

On this occasion the BED commended the success recorded by the Sukuk Issuance Program since it began in 2003. The Board stated that this is a reflection of the high status and confidence that the Bank continues to enjoy in the international financial arena, in which IDB has been rated more than 12 consecutive years with "AAA" , the highest international credit rating available, by the three major international credit rating agencies – Standard & Poor's, Fitch and Moody's. This is in addition to the designation of the IDB as "Zero-Risk Weighted" Multilateral Development Bank by the Basel Committee on Banking Supervision in 2004 and by the European Commission in 2007.

The US$10 billion so far raised as part of the IDB's Sukuk program have been utilized to finance various development programs in member countries, particularly infrastructure projects. This is at a cost much lower than that of the beneficiary countries if they had raised the funds themselves from the international markets.

During the meeting, the Board approved participation in several development projects in member countries and some Muslim communities in non-member countries for US$450 million.

Islamic Development Bank 15.06.15

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

The IFSB Announces the Release of Prudential and Structural Islamic Financial Indicators (PSIFIs) for 15 Member Countries

The Islamic Financial Services Board (IFSB) announced the release of a set of indicators on the financial soundness and growth of the Islamic banking systems in 15 member countries. This initiative is in line with Article 4 of the

IFSB Articles of Agreement, which mandates the IFSB to establish a global database of the Islamic financial services industry.

The indicators, called *Prudential and Structural Islamic Financial Indicators* (*PSIFIs*), are the first set of internationally comparable measures of the soundness of Islamic banking systems. The PSIFIs capture information on the *size, growth and structural features* of Islamic banking systems and on their *macro prudential condition* by looking at measures of their capital, earnings, liquidity, and exposures to various types of risks. They also cover the indicators on capital adequacy and liquidity based on newly issued IFSB Standards to complement international regulatory reforms under the Basel III regime.

The indicators are part of an international effort involving the IFSB and other organisations to construct a comprehensive picture of activity in the Islamic financial services industry. Due to rapid growth and significance of Islamic finance in many jurisdictions, such information is increasingly needed to understand the structure, soundness, and growth of the Islamic finance component within the entire financial systems.

The PSIFIs thus provide statistics that are useful to financial sector supervisors and policy-makers; fund providers and investors; academics and researchers; international financial press and media as well as the general public. Many of the PSIFIs are parallel to the widely used IMF Financial Soundness Indicators (FSIs) on the strength or vulnerabilities of financial systems, but are customised to the specific characteristics of Islamic banking. As such, they will serve to highlight the role of Islamic banking within national economies and permit comparisons between the conventional and Islamic banking systems.

PSIFIs cover aggregated data of Islamic banking institutions at the country level, compiled by the regulatory and supervisory authorities (RSAs) of the participating countries. The data are separately provided on stand-alone Islamic banks and Islamic windows of conventional banks in jurisdictions where available.

The PSIFIs will be regularly collected on a quarterly basis from the participating countries. This press release covers data from 15 of the 16 countries that have agreed to participate in the data compilation exercise. These countries are: Afghanistan, Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Jordan, Kuwait, Malaysia, Nigeria, Oman, Pakistan, Saudi Arabia, Sudan, and Turkey.

The PSIFI Database currently represents PSIFI data as of December 2013. Data are provided for various types of "prudential indicators" (PIFI) covering capital adequacy, leverage, nonperforming financing, earnings, liquidity, and foreign currency exposure as well as "structural indicators" (SIFI) focusing on items such as number of branches, employees, and size of total assets, funding and financing portfolios. The database also includes "metadata" which provides information on the design and specifications of data elements.

"The launching of the IFSB database represents an important milestone in the ongoing transformation of Islamic finance into a globally significant undertaking", said the Secretary General of the IFSB, Mr. Jaseem Ahmed. He further added, "I am pleased to acknowledge that the IFSB PSIFIs project has benefitted from the Technical Assistance from both the Islamic Development Bank and Asian Development Bank (ADB) over the years". The current phase of the project is being undertaken with a Technical Assistance from the ADB.

The Islamic Financial Services Board 27.04.15

www.ifsb.org/preess_full.php?id=296&submit=more

INTERNATIONAL DEVELOPMENTS

EU and IMF sign an Agreement for a €8 million Fiscal Reforms Program in Southeastern Europe

The European Union (EU) and the International Monetary Fund (IMF) signed a grant agreement for a €8 million (US$9 million) capacity development program on fiscal reforms in Southeastern Europe (SEE).

IMF Deputy Managing Director Carla Grasso made the following statement:

> "We are extremely grateful for the EU's support for this program, which will benefit Albania, Bosnia and Herzegovina, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro, and Serbia. The IMF's engagement with these countries since the beginning of their transition process has included technical assistance on public financial management and domestic resource mobilization in particular revenue administration, both by IMF headquarters staff and short- and long-term advisors in these countries. Partnering with the EU will provide the IMF with more resources to respond to the capacity development needs of the region, thus helping governments to better implement policies and manage their budgets in a more efficient and effective manner to benefit their citizens."
>
> "Strengthening public financial management (PFM) is one of the core priorities of the EU's strategy on enlargement. It is essential to deliver macro-economic stability, improve transparency and effectiveness in managing public funds and delivering better services to citizens, and is a pre-condition for sustainable growth. Given the IMF's expertise and track record on economic governance, I am delighted to team up with them under this program. This cooperation will enable us to achieve our joint objectives and further help the countries in the region as they seek EU membership," Johannes Hahn, Commissioner for Neighbourhood Policy and Enlargement Negotiations, said.

Supporting macroeconomic and public finance institutions and policies in member and partner countries has long been a common objective of the IMF and the EU. The EU/IMF partnership has intensified in the last five years

with the organizations supporting each other's work. Both organizations engage in regular consultations at the staff and management levels, and recent collaborations include the development of an EU exogenous shocks facility and the Tax Administration Diagnostic Assessment Tool.

The International Monetary Fund 11.06.15

www.imf.org/external/np/sec/pr/2015/pr15270.htm

HKEx Launches Innovative New WeChat Account Packed with Real Time Stock Connect Trading Information

Hong Kong Exchanges and Clearing Limited (HKEx) released a new account on WeChat (Weixin), a social network and messaging platform with a large user-base in Mainland China, to provide easy access to real-time trading information about Shanghai-Hong Kong Stock Connect for Mainland investors.

The account provides stock prices along with real-time trading turnover data, quota balances and index tracking. At the end of each trading day, it will also list the most actively traded companies by turnover. Adding to the account's functionality is the ability to look up company announcements, HKEx news releases, as well as the Stock Connect's trading calendar and investor education materials.

"This new account is part of our broader outreach efforts in Mainland China, designed to help educate the market about how the Hong Kong securities market works and how to find the information they need," said Mao Zhirong, Co-head of HKEx's Mainland Division. "The app is very easy to use and is perfect for getting quick updates on market performance or looking deeper into listed company announcements right from your phone or tablet."

The account carries information about Shanghai-Hong Kong Stock Connect, and it will cover information about Shenzhen-Hong Kong Stock Connect upon its debut.

The account can be accessed by scanning the QR code or searching for the account name "gangjiaosuo" from within the WeChat mobile application.

This is the third account launched by HKEx on WeChat, following the launches last year of HKEx Pulse and LME Pulse, which share information about HKEx and LME events. HKEx also actively engages on other social media channels worldwide on Twitter, LinkedIn, and YouTube.

Hong Kong Exchanges and Clearing Limited 03.06.15

www.hkex.com.hk/eng/newsconsul/hkexnews/2015/1506034news.htm

Dubai International Financial Centre Set to Triple in Size by 2024, as part of Centre's Newly Announced 2024 Strategy

Dubai International Financial Centre (DIFC) is poised to grow three-fold over the next 10 years through the integration of a four-pronged strategy that includes deepening core client synergies, enhancing infrastructure, increasing the availability of skilled staff, and stepping up access to the South-South trade corridor.

His Highness Sheikh Maktoum bin Mohammed bin Rashid Al Maktoum, Deputy Ruler of Dubai and President of DIFC, underlined the ambitious plans of DIFC in expanding and reinforcing its position as an international financial hub, and said: "DIFC's ambitious 10-year strategy reflects a clear understanding of the future, inspired by the wisdom and insightful vision of the UAE's leadership. It consolidates the accomplished successes of the past, and builds on the achievements, to live up to the aspiration of the UAE's people. This strategy will mark a new beginning and the initiation of an innovative phase, with a focus on opportunities that strengthen our nation's position as an important link and regional centre of significance, to create an impact on the world economic map.

His Highness noted that the experience and confidence gained by DIFC over the past decade qualifies the Centre today to offer new dimensions to the legislative, financial and investment ecosystem in order to sustain the growth and prosperity of the national economy, as well as local and international partners.

His Highness said: "In our strategy for the next 10 years, we look forward to stimulating and driving our collective aspirations to enter a new phase of leadership, in a way that puts us at the forefront of financial centres on the global landscape."

The announcement was made at a media briefing headlined by His Excellency Essa Kazim, Governor of DIFC.

The strategy outlines goals and opportunities that the centre aims to achieve in the next decade, through continuing to expand its physical and legislative infrastructure, to keep pace with targeted growth, and to ensure that DIFC ranks within the top 10 financial centres globally.

DIFC also aims through its 10-year strategy to align its goals and Dubai Plan 2021, to reinforce its position as an international centre for legislative and Islamic financial services.

Key highlights of DIFC's 2024 strategy include the following core areas:

- DIFC expects to increase the number of active domiciled financial firms to 1,000 by 2024 in comparison to 362 in 2014.
- Align a broader human skill-base with the substantial development of infrastructure. The combined workforce of DIFC-registered companies is set to grow from 17,860 to 50,000 over the next decade.

- Consolidate net additional 5.5 million sq. ft. commercial office space, as against 2.5 million sq. ft. in 2014.
- To encourage robust best-practices, DIFC will further develop services and business capabilities that ensure the delivery of quality growth in the coming years.
- Overall assets under management of fund managers and financial institutions are expected to rise to an estimated US$250 billion by 2024, up from a total of US$10.4 billion in 2014.
- In addition, DIFC anticipates financial firms to strengthen their balance-sheet by an estimated value of US$400 billion, compared to US$65 billion in 2014, through enhancing liquidity to fuel future growth.

Dubai International Financial Centre 10.06.15

www.difc.ae/news/dubai-international-financial-centre-set-triple-size-2024-part-centre%E2%80%99s-newly-announced-2024

Europe's Recovery Is Strengthening, albeit Slowly and with Significant Risks

Economic growth is expected to continue to pick up across Europe, from zero in 2013 and 1.3 percent in 2014, to 1.8 percent and 2.0 percent in 2015 and 2016 respectively. Central and eastern European countries (EU-CEE) will continue to grow above the European average, with growth expanding over 2.4 percent in 2015, based on robust consumer demand, the gradual return of investment, and continued export growth, says the new World Bank *EU Regular Economic Report* launched (28 May) in Brussels.

The pick-up in 2014 was particularly strong in Germany, Hungary, Ireland, Poland, and the United Kingdom, while southern European countries finally returned to growth following significant financial and economic restructuring, and despite growing concerns about financial strains in Greece and generally weak global trade.

"Exports have been the main driver of growth in many EU-CEE countries, such as Poland, Bulgaria, and Romania," said Mamta Murthi, World Bank Country Director for Central Europe and the Baltic Countries. *"That has been partly due to foreign direct investment (FDI) helping countries integrate into global value chains and 'push' exports. However, as FDI has declined following the crisis, there is greater need for countries to focus on improving business environments, developing skills, encouraging innovation, investing in infrastructure, and reducing regulatory barriers to encourage renewed FDI and export growth."*

According to the report, strengthening economic growth and improvements at the labour market will help to limit the share of people at risk of poverty and social exclusion. Since 2008, the EU-CEE share of people at risk of poverty increased to over 23 percent, as slower growth resulted in job losses, especially among the young and less skilled, pushing them below the poverty

line. Going forward, the report says that economic recovery and reduction in unemployment rates, along with increased fiscal space for social expenditures in some EU-CEE countries, will lead to the gradual decline in poverty.

While the growth outlook for Europe is moderately optimistic, fuelled by the one-off fall in oil prices and ECB quantitative easing, the report says that several risks need to be carefully managed, including: (1) the potential increase in financial market volatility as the US and EU implement divergent monetary policy; (2) fresh pressure on public finances from the combination of low inflation and modest growth; (3) the limited availability of new lending for investment, due to low returns and incomplete bank reforms; and (4) the potentially negative impact on confidence stemming from ongoing financial strains in Greece or ongoing geopolitical tensions in Ukraine.

According to Theo Thomas, Lead Economist in the World Bank's Europe and Central Asia region and Team Leader of the *EU RER*, *"The medium and long term challenge in many countries is to shift policy from fiscal and macroeconomic adjustment towards structural measures to promote growth and competitiveness. Structural reforms include continuing to reduce labor market rigidities, enhancing the business environment, reducing barriers to trade* (*including in services within the EU*)*, and promoting the skills needed for dynamic job creation and innovation. This will need to be combined with affordable social policies that help to protect the most vulnerable, while promoting greater social and labor market inclusion."*

The World Bank 28.05.15

www.worldbank.org/en/news/press-release/2015/05/28/world-bank-europe-recovery-is-strengthening-albeit-slowly-and-with-significant-risks

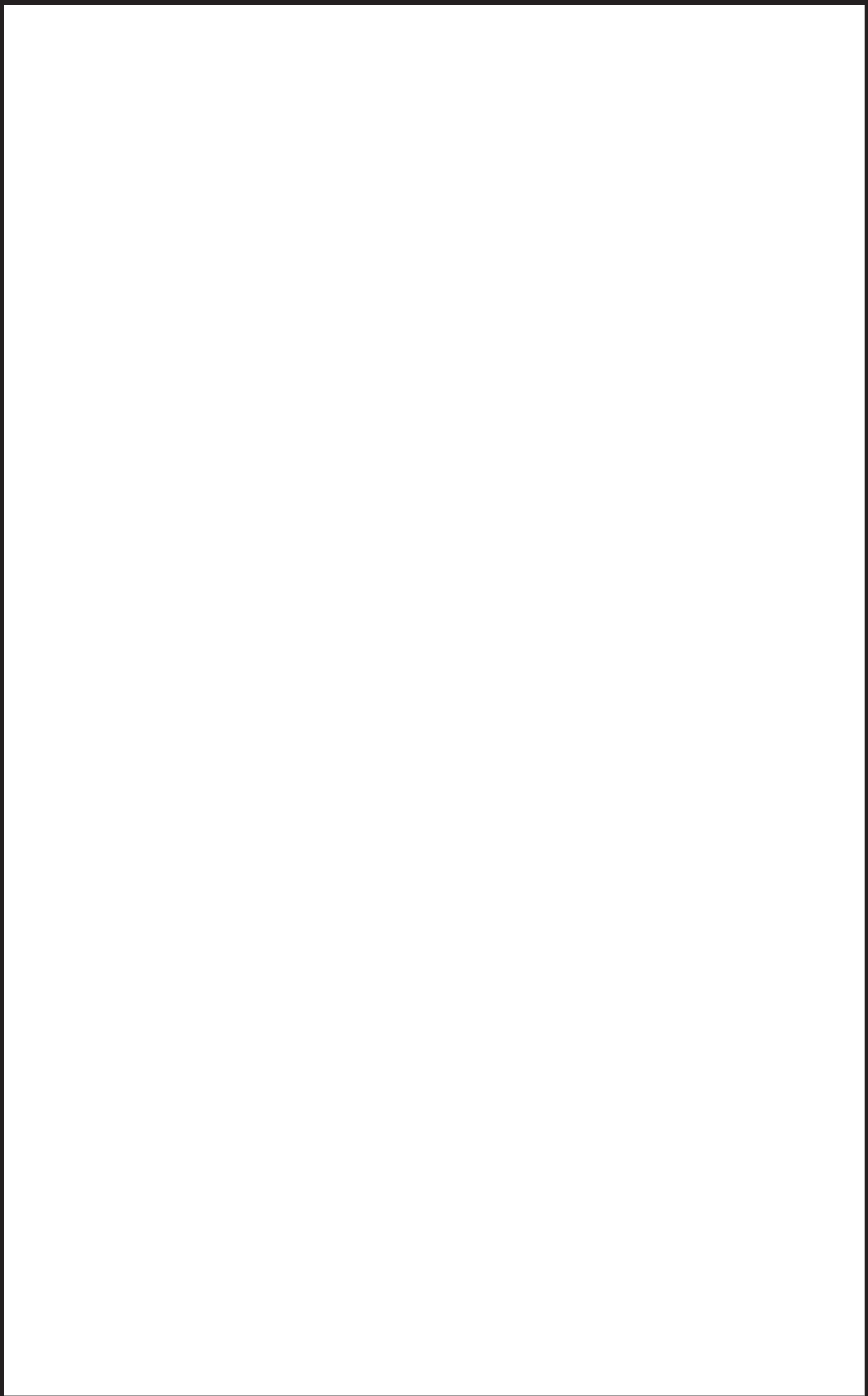
Luxembourg Included in Pilot RQFII Program

With the approval of the State Council, the pilot RMB qualified institutional investors program (pilot RQFII program) was expanded to include Luxembourg. Luxembourg was assigned an initial investment quota of 50 billion yuan.

The inclusion of Luxembourg in the expanded pilot RQFII program is an important manifestation of bilateral financial cooperation and will help broaden the channels of RMB investment for overseas investors, further open up the domestic capital market, and facilitate bilateral trade and investment activities.

The People's Bank of China 05.05.15

www.pbc.gov.cn/publish/english/955/2015/20150505105813032379772/20150505105813032379772_.htmlb



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