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Being better informed
FS regulatory, accounting and audit bulletin

PwC FS Regulatory Centre of Excellence

August 2012

In this issue:

pwc

Executive summary

Welcome to this edition of "Being better informed", our monthly FS regulatory, accounting and audit bulletin, which aims to keep you up to speed with significant developments and their implications across all the financial services sectors.

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While we would usually expect July and August to be quieter with many key policymakers taking holidays, this summer regulatory developments have continued to move full steam ahead.

Over the past month we have seen significant progress in the push for increased consumer protection with draft Directives for IMD II and UCITS V and a draft PRIPs Regulation published at the beginning of the month. These releases were quickly followed by a *consultation* on UCITS VI at the end of the month, which proposes making changes to the UCITS' eligible assets and the rules for OTC derivatives and money market funds. So those going on holiday this month won't have any shortage of reading materials for the beach.

The *EBA's response* to the recent EU Green Paper on Shadow Banking also focused on money market funds. The EBA will have an influential position in the ongoing debate on regulating the shadow banking industry so the response provides a useful insight into its thinking and possible future policy positions.

The *EMIR final text* was published in the Official Journal of the European Union at the end of July, and comes into force on 16 August. Last month IOSCO and BIS jointly *consulted* on introducing margin/collateral standards for uncleared trades to align standards for cleared and uncleared trades. This consultation will influence global OTC trading developments, including EMIR in the EU.

At the beginning of August, it was finally acknowledged that CRD IV will be delayed. The trilogue discussions between EP, the Council and the EC did not complete before the European Parliamentary recess and therefore will need to recommence in September when the EP returns, with a vote scheduled for October. Given the delay, the legislation is now expected to come into force later in 2013 than 1 January, but the timing is still unclear. However, the extra time to complete technical work required to support CRD IV and CRR will be welcome. In July, the EBA continued to develop regulatory technical standards for CRD IV in July through consulting on the *credit valuation adjustment risk* and the *calculation of specific and general credit risk adjustments*, but there is much more work to be done.

We hope you all will have an opportunity to get away for a holiday and relax for a few days to enjoy the last of the summer. We have a very busy autumn ahead – a number of key EU initiatives will move forward quickly in the last few months of 2012, particularly EMIR, CRD IV and AIFMD.

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How to read this bulletin?

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EU short selling rules apply in November – What's in? What's not?

During the financial crisis, and more recently in the sovereign debt crisis, Member States have implemented disparate rules to address the volatility and systematic risks that markets encountered, which were magnified by short selling and uncovered CDS trading. The European legislative framework did not address short-selling, and thus Member States did not have to adopt consistent regulatory standards or a common approach to managing short selling issues.

The EC has acknowledged that short selling and CDS have economic benefits and contribute to the efficiency of EU markets, notably in terms of increasing market liquidity, more efficient price discovery and mitigating overpricing of securities. However, short selling and uncovered CDS trading also present transparency deficiencies, contribute to negative pricing spirals, and settlement failures resulting from uncovered short selling.

After spirited debate between industry representatives and policy makers, late last year the EU agreed rules which will ban firms from engaging in uncovered (naked) trading of CDS from 1 November 2012. This prohibition is part of the *Regulation on short selling and certain aspects of credit default swaps* (Regulation (EU) No 236/2012) (the Regulation), which also will restrict the short selling of bonds, shares admitted to trading on EU markets and CDS, the instruments which provide credit insurance on EU sovereign and other debt.

The Regulation will apply to all financial instruments admitted to trading on an EU trading venue. The Regulation also introduces EU-wide transparency requirements and harmonises regulators' powers to intervene in markets when serious threat to financial stability arise.

The Regulation broadly follows the EC's original 2010 short selling proposals, taking a four pronged approach to regulating short selling:

- increasing the transparency of short trades
- enhancing regulators' powers to intervene in volatile markets
- introducing buy-in requirements, applicable under certain market conditions
- banning naked short selling of CDS on EU government bonds

This year ESMA consulted on the delegated acts and technical standards required to implement the Regulation, including detailed requirements on: transparency, uncovered short sales and exemptions from disclosure requirements on significant net short share positions.

On 5 July 2012, the EC adopted a *Delegated Act* (the Act) which sets out important technical rules needed to ensure the uniform application and enforcement of the Regulation. The Delegated Act specifies the circumstances in which sovereign CDS are considered to be covered, and therefore outside of the scope of the short selling ban.

Other technical standards will set out details for the reporting of short positions in shares and sovereign debt, and the thresholds that can trigger the temporary suspension of short selling in illiquid shares and other financial instruments.

Key elements of the EU rules

New transparency regime

The rules require traders to notify competent authorities of their short positions in shares which reach 0.2% or more of the company's issued share capital, and to notify the market when their short positions reach the 0.5% threshold. Persons executing orders must classify all short sale orders in shares as 'short' to trading venues, which must then publish a daily summary of short order volumes. The rules also require traders to notify competent authorities of significant net short positions in EU sovereign bonds, including notice of significant CDS positions in sovereign debt issuers.

To avoid market participants circumventing disclosure rules through off-exchange transactions, the transparency rules for EU shares and EU sovereign bonds require dealers to report net short position relating to the underlying shares or bonds.

Restrictions on certain short selling activities - shares

The Regulation includes certain measures to reduce the risks of settlement failure and to reduce the volatility associated with the uncovered short selling of shares and sovereign debt.

The Regulation prohibits short selling of shares admitted to trading, unless the seller has:

- borrowed the shares (or made arrangements with a similar legal effect)
- entered into an agreement to borrow the shares or another enforceable ownership claim for a corresponding number of shares of the same class, to effect settlement when due or
- has made other arrangements with a third party which give the seller a reasonable expectation that it can effect settlement when due

The Delegated Act states the detailed requirements to be met for these conditions. For futures, swaps, options and repo agreements, the lending agreement must be for at least the same number of shares which have been shorted, and that the contract must be entered into not later than the time of the short-sale.

Restrictions on certain short selling activities - CDS

The Regulation prohibits uncovered CDS short sales, a practice undertaken by speculators that can increase the likelihood of default of the underlying security's issuer. The RTS identify four permissible arrangements for short selling CDS predicated on sovereign debt:

A third party (broker) must confirm that the sovereign debt has been located, meaning that the third party considers that it can provide the underling sovereign debt by the settlement date.

For intra-day short selling, the short seller must confirm to the broker that it intends to settle the transaction; the third party (broker) then confirms to the short seller that it has a reasonable expectation that the sovereign debt can be purchased in the relevant quantity, taking into account the market conditions and other relevant information.

The short seller uses the services of a third party that participates in a structured arrangement, such as one organised by a central bank, that gives the third party unconditional access to the sovereign debt and for the amount required for settlement. Therefore the short seller has a reasonable expectation that settlement will be achieved.

A third party (broker) confirms that the sovereign debt which is the subject of the short sale is easy to purchase in the relevant quantity, taking into account market conditions.

National regulators have the option to lift the ban on a temporary basis if they believe believes that a sovereign debt market is not functioning properly. The suspensions must be for fixed periods, but can be rolled-over indefinitely. National regulators can grandfather existing CDS positions until they expire. To justify their actions, national regulators that invoke this right must submit evidence to ESMA of widening bond yield spreads, poor liquidity or exceptional market volatility. ESMA's decision on such actions will be non-binding, a legal status that disappointed the EP.

Improving settlement functions

The Regulation requires settlement arrangements for all short sales of shares and swaps. The types of contracts subject to this requirement are: futures, swaps, options, repurchase agreements, standing agreements or rolling facilities, agreements relating to subscription rights; and other claims or agreements that lead to the delivery of shares or sovereign debt for the purposes of short selling.

Settlement arrangements must provide for at least the number of shares or the amount of sovereign debt sold short, must be entered into prior to or at the same time as the short sale and must specify a delivery or expiration date that ensures settlement of the short sale can be effected when due. These settlement agreements must exist in a durable medium, whether in electronic or paper form, and are legally binding for the duration of the short sale.

Reduce settlement risks and other risks linked with uncovered short-selling

To enter a short-sale, an investor should have borrowed the instruments concerned, entered into an agreement to borrow them, or have an arrangement with a third party who has located and reserved them so that that they are delivered by the settlement date. This is known as a 'locate rule'.

To deter settlement failures, trading venues should ensure that there are adequate arrangements in place to buy shares or sovereign debt if parties fail to settle a transaction, as well monitoring firms' compliance and prohibiting the late settlement of any short sales.

Key exemptions

The Regulation exempts vital market participants such as market makers and primary market operators (dealers who provide liquidity to sovereign debt issuers and for the purposes of stabilisation schemes under the Market Abuse Directive).

For shares that are traded both in and outside the EU, the Regulation requires ESMA to determine the shares' principal trading venue and ESMA must publish a list of exempted dual-traded shares.

EU supervisors are tasked with establishing cooperation agreements with third country supervisors to encourage adherence to the rules, but the Regulation does not extend to a full 'third country regime' which would impose the ban outside EU trading venues.

Extraterritorial effects

The Regulation applies to short selling activities of non-EU persons and to shares of non-EU entities if the principal trading market for such shares is an EU trading venue.

While the Regulation exempts short sales of shares whose principal markets are outside of the EU, EU market participants are required to notify the relevant competent authority of significant net short positions in sovereign debt and uncovered positions in sovereign CDS. This notification requirement only applies to sovereign debt issued by a Member State or by an EU institution (such as the European Investment Bank).

Will it work?

The Regulation's effectiveness in mitigating contagion remains controversial. EU lawmakers view the Regulation as fortifying ESMA's arsenal to police short selling and sovereign debt speculation. Michel Barnier, EU Financial Services Commissioner, believes that these measures will ensure that market participants use sovereign CDS for hedging against the risk of sovereign default, without putting the proper functioning of sovereign-debt markets at risk, will further increase borrowing costs for the sovereign governments most at risk. However, critics argue that prohibiting traders from buying sovereign CDS as a 'straight bet', and limiting its use to insuring against risk exposure. The measure is likely to further increase borrowing costs for the sovereign governments most at risk. As the eurozone crisis continues to rumble on, the more fragile sovereigns may find this trade-off painful.

Cross Sector Announcements

In this section:

Regulation

Capital and liquidity

EBA consults on credit valuation adjustment risk RTS

The EBA continues to develop the detailed RTS required for implementing the CRR/CRD IV regime, despite the Council, EC and EP ('trilogue') failing to agree on the CRR/CRD IV text before the summer recess.

The EBA published *Draft Regulatory Technical Standards (RTS) for credit valuation adjustment (CVA) risk on the determination of a proxy spread and the specification of a limited number of smaller portfolios* (EBA/CP/2012/09) on 11 July 2012. This consultation discusses the calculation of the CRR own funds requirements for CVA risk. It also provides details for firms to determine a proxy spread and to specify a limited number of smaller portfolios under the CVA capital charge. The consultation closes on **15 September 2012**.

In addition, the EBA published *Draft Regulatory Technical Standards on the specification of the calculation of specific and general credit risk adjustments according to Article 105(4) of the draft Capital Requirements Regulation (CRR) (EBA/CP/2012/10)* on 17 July 2012. This consultation discusses the CRR credit risk adjustment accounting for:

- the treatment of expected loss amounts (Article 155)
- the determination of default (Article 174)
- exposure values (Articles 106, 241 and 261)

The consultation closes on **30 September 2012**.

While all draft RTS are subject to change, the further trilogue negotiations on CRD/CRR this autumn are not expected to introduce significant changes to the proposed standards. The CRD/CRR legislation requires the EBA to submit both RTS to the EC for endorsement by 1 January 2013, the date the CRD IV regime comes into force. However the delay in agreeing final Level 1 texts may lead to a delay in this implementation date.

CRD III's procyclical impacts cause concern

In its *Second Report on Effects of Directives 2006/48/EC and 2006/49/EC (CRD III) on the Economic Cycle* issued on 17 July 2012, the EC found that national supervisors believe that risk-sensitive bank capital requirements under CRD III may amplify business cycle fluctuations.

Minimum capital requirements (MCRs), like those in CRD III, are increasingly driven by the probability of default. Therefore these inputs are likely to rise during an economic downturn. When a borrower's creditworthiness deteriorates, a bank is forced to increase its capital positions - contracting credit in the economy and further exacerbating borrowers' position.

This sequence of events creates a vicious circle of downgrading and credit restriction. Similarly, during an economic upturn when prices steadily rise and defaults decrease, banks may reduce capital requirements based on a perception that risks have reduced. This scenario allows banks to increase lending, boosting the economy further.

In a study based on Basel II's MCRs and drawing from quantitative data on the Spanish banking sector (1987-2008), *Repullo et al.* (2009) pointed to "very significant cyclical variation of the Basel II capital requirements when they are calculated with point-in-time default probabilities". The authors calculated a variability of 57% in Basel II capital requirements from peak to trough, contrasting sharply with the flat Basel I 8% requirement.

Using different data, underlying approach and time period, the EC arrived at a different answer, estimating that the cyclical effects at portfolio level seem to be mitigated by the MCR's affects. These mitigating effects are probably due to banks adjusting the size and composition of their portfolios.

The answer is probably somewhere in between. MCRs are procyclical by their very nature. However it is difficult to mathematically model individual bank behaviours that may mitigate these effects.

Greek bonds disqualified as Eurosystem collateral

The ECB published a *statement* on 20 July 2012 that it has temporarily disqualified Greek bonds as eligible collateral for ECB regular operations.

This announcement follows the expiration on 25 July 2012 of an ECB supported €35 million Greek bond buy-back scheme. This temporary disqualification will force Greek banks to turn to the Greek central bank for more expensive liquidity assistance. However, the ECB said it will continue to allow banks in Cyprus, Portugal and Italy to use Greek bonds as collateral.

The ECB's announcement places more pressure on the newly formed Greek government to comply with its EU/IMF bailout conditions. The ECB will assess the further eligibility of Greek sovereign debt after the ECB, IMF and EC finish their review of the Greek government's progress in implementing its second bailout programme.

Dodd-Frank Act

SEC and CFTC approve key derivative contract definitions

The SEC approved joint *rules and interpretations* with the CFTC on key derivatives product terms on 9 July 2012. The CFTC is expected to approve these shortly. These rules further define the terms 'swap' and 'security-based swap' and identify whether a particular instrument is a 'swap' regulated by the CFTC or a 'security-based swap' regulated by the SEC.

The rules also address 'mixed swaps', which are regulated by both agencies, and 'security-based swap agreements', which are regulated by the CFTC but over which the SEC has authority.

The final rules will become effective 60 days publication in the Federal Register.

CFTC reopens consultation on margin for uncleared swaps

The CFTC published an *announcement* on 6 July 2012 of a second public consultation on margin standards for uncleared derivative transactions. The CFTC consulted previously between 28 April 2012 and 11 July 2012, but noted that the Basel Committee-IOSCO's Working Group on Margins released its consultation on margin for uncleared trades this month and wanted to run another US consultation in parallel.

The CFTC contributed to the Basel Committee-IOSCO Working Group on Margins and the CFTC's current views are found in the Basel Committee-IOSCO proposals. The CFTC's consultation closes on **14 September 2012**.

CFTC defers CPO and CTA registrations

The CFTC issued a temporary *no-action relief letter* on 10 July 2012, allowing commodity pool operators (CPOs) and commodity trading advisers (CTAs) to defer CFTC registration and compliance requirements until 31 December 2012.

CFTC defers large trader reporting for non clearing swap dealers

The CFTC issued a temporary *no-action relief letter* on 18 July 2012, allowing non-clearing member swap dealers relief from CFTC large trader reporting requirements for physical commodity swaps and swaptions.

The temporary relief is intended to provide sufficient time for non-clearing member swap dealers to transition to fully compliant reporting. The relief will extend for 60 days after the CFTC's deadline for swap dealers registration. Firms are required to notify the CFTC and must comply with other conditions to qualify for the relief.

CFTC designates DTCC-SWIFT as provider of interim LEI codes

The CFTC issued an *order* announcing that it had selected the Depository Trust and Clearing Corporation (DTCC) and SWIFT to provide the LEI system which will be used by participants to report swap data to the CFTC. The CFTC will call this system Interim Compliant Identifiers, or CICIs, until a global LEI system is established. The FSB has established an international working group to implement a global LEI system, which it intends to launch in March 2013.

CFTC approves phase in of clearing requirements

The CFTC approved *final regulations* which phase in compliance with the new clearing requirements promulgated under the Dodd-Frank

Act. The implementation schedule commences when the CFTC issues a final clearing determination.

The first implementation deadlines will apply to category 1 entities (swap dealers, security based swap dealers and others). These firms must commence clearing within 90 days of publication of the final determination.

Category 2 entities (commodity pools, private funds under 1940 Investment Advisers Act and others) must comply within 180 days, and category 3 entities (including those providing third-party subaccounts, regulated retirement plans, and those not excepted from the clearing requirement) must comply within 270 days.

CFTC identifies first derivatives contracts subject to clearing

The CFTC published *proposals* on 24 July 2012 identifying certain CDS and interest rate swaps as the first derivative contracts subject to Dodd-Frank Act mandatory clearing rules.

The Dodd-Frank Act amends the Commodity Exchange Act to prevent market participants from engaging in a swap that is required to be centrally cleared, unless that person submits the swap for clearing to derivatives clearing organisation (DCO). The proposed rule requires a DCO to post a list of all swaps that it will accept for clearing on its website, and to indicate which contracts are subject to mandatory clearing. The proposed rule has 30 day consultation period.

CFTC defers position limits rule

The CFTC published a *no-action relief letter* on 24 July 2012, allowing firms alternative means to comply with the CFTC's 2011 Position Limits for Futures and Swaps rule. This deferral also allows the CFTC to time to coordinate the proposed aggregation rules (30 May 2012) (Aggregation Notice) with the implementation of the position limit rules.

In the interim, firms can comply with the r the position limit rules by either: 1) complying as if the rules were in force as proposed in the Aggregation Notice or 2) in accordance with the dis-aggregation criteria specified in the no-action letter. Firms may rely on the no-action relief until 31 December 2012, subject to filing a notice with the CFTC and meeting other conditions.

Enforcement

EC proposes criminalising benchmark manipulations

The EC adopted two *amended proposals* on market manipulation on 25 July 2012, in response to the UK's LIBOR scandal. The EC proposes making benchmark manipulation a criminal offence by widening the scope of MAD and MAR to include benchmarks. The proposals would amend the definition of "market manipulation" to capture benchmark manipulation and amend the criminal offence of 'inciting, aiding and abetting and attempt' to include these behaviours in relation to the benchmarks.

The EC is not proposing to set the minimum types and levels of criminal sanctions at this stage, but wants each Member State to include criminal sanctions for benchmark manipulation in their national laws.

Eurozone integration

ECB studies monetary policy and macroprudential regulation

The ECB reviewed the complex relationships between monetary policy and macroprudential regulation in its staff working paper *Monetary and Macroprudential Policies* released in July. The EBA based its findings on the results from its tests using macroeconomic models created to study the interaction of these topics. Like all quantitative models, the results should be taken with a pitch of salt, but raise some interesting findings.

The paper concluded that under normal conditions (when the economic cycle is driven by supply shocks) macroprudential policy generates only modest benefits for macroeconomic stability in relation to the benefits generated by monetary policy. If a macroprudential authority does not coordinate its policies with its relevant central bank, macroeconomic policy may even conflict with policies, which would undermine results. This finding suggests that an EU macroprudential regulator's policies must be closely aligned with the ECB policies.

The benefits of macroprudential policy tend to be sizeable when financial shocks, which affect the supply of loans, are important drivers of an economy. In these cases a cooperative central

bank will "lend a hand" to the macroprudential authority; the central bank will work toward broader objectives than just price stability, to improve overall economic stability.

The results do not seek to rank either monetary policy or macroprudential policy but do highlight the important effects of both supply and financial shocks.

Financial crime

FATF reports on corruption-related money laundering risk

The FATF published a report on *Specific Risk Factors in the Laundering of Proceeds of Corruption* on 3 July 2012 (dated June 2012), to assist reporting institutions in analysing specific risk factors to better identify corruption-related money laundering.

This publication supplements the FATF 2011 report on *Laundering the Proceeds of Corruption*, which discussed the interrelationship between corruption and money laundering and the most common methods used by criminals.

Under the new *FATF Recommendations* published last February, reporting entities are required to have 'appropriate' risk management systems and take 'reasonable measures' to identify Politically Exposed Persons (PEPs).

Reporting entities carry out a risk assessment to determine whether measures are 'reasonable' and 'appropriate', and what level of enhanced due diligence is necessary. In addition, reporting entities should be able to effectively assess corruption risk across a range of customers and relationships, regardless of whether or not the situation involves a PEP.

FATF sets out a list of factors to be evaluated in assessing corruption-related money laundering risks:

- Customer risk factors, including PEPs and other public officials, legal persons and legal arrangements, and issues relating to the economic sector involved.
- Country and geographic factors, with an examination of the international anti-corruption framework, specific anti-corruption measures, internationally recognised AML standards and corruption indexes.

FATF offers 17 case studies and also highlights 'patterns of behaviour common to money laundering associated with other criminal activities', e.g. the use of corporate vehicles and trusts, nominees, family members and cash.

FATF publishes financial investigations guidance

The FATF published *Operational Issues – Financial Investigations Guidance (June 2012)* on 11 July 2012. The guidance addresses law enforcement's role in the context of AML/CFT, and financial investigations. It discusses operational frameworks, terrorist financing, finding sources of information, law enforcement collaboration with financial intelligence units, investigative techniques, training and international cooperation.

The FATF guidance states that the purpose of 'financial investigations' (i.e. enquiries into financial affairs related to criminal conduct) is to identify transactions that provide information and evidence of criminal activities. The guidance focuses on strengthening AML/CFT operational framework and law enforcement standards, one of FATF's objectives under the revised Recommendations.

To effectively implement FATF's Recommendations, countries need a comprehensive legal framework that underpins the requirements, because investigative techniques can only be applied if they are permitted within the country's domestic legal system. The guidance contains examples, concepts and tools for different types of legal systems and frameworks.

EP harmonises market abuse sanctions

The EP's Committee on Civil Liberties, Justice and Home Affairs (LIBE) released a *statement* on 10 July 2012 disclosing that it had voted on proposals to strengthen and further harmonise Member States' sanctions for market abuse.

The proposals will establish criminal sanctions with a greater deterrent effect and introduce standardised sentences for market abuse offences. The LIBE noted examples of Member States' inconsistent penalties, for instance that the minimum sentence for insider dealing is 15 days in Slovenia but three

years in Slovakia. These variances incentivise defendants to forum shop.

To prevent perpetrators from evading prosecution, the LIBE recommends giving national supervisors new powers to prosecute offences even if only part of the offence is committed in their territory or the accused resides in other Member States.

Policy makers need to balance the need for tougher enforcement and harmonised sentencing standards with the protection of fundamental rights. To ensure legal certainty, LIBE recommends that Member States adopt precise definitions of the offences and that they fully protect the rights of the accused in criminal proceedings. The LIBE further recommends that market abuse sanctions are widely promoted, to help inform the public and to deter such behaviour.

The LIBE and ECON share responsibility for developing market abuse legislation. ECON will now review and vote on the proposals.

EC proposes rules to protect public finances

The EC published *Memo/12/544* on 11 July 2012, proposing a directive to protect the EU's public finances. It would replace the 1995 Convention on the Protection of the European Communities' Financial Interests, which provides criminal sanctions and protections relating to EU finances.

Currently Member States have divergent rules and sanction against crimes such as fraud, corruption and money laundering involving public sector funds. The EC believes that the EU can better protect taxpayers' money by creating a stronger system for deterring, investigating and prosecuting these crimes.

As well as outlining current Member State regimes, the memo provides an overview of the EC's proposals on:

- offences
- minimum sanctions
- a sanction system for fraud and misappropriation
- time limit for legal proceedings to take place

The proposal forms part of a wider suite of criminal law measures designed to protect the EU budget. Other examples include the Framework Decision on the European Arrest Warrant, the Directive on the Prevention of Money Laundering and Terrorist Financing and several framework decisions on the confiscation of crime-related proceeds.

Parliament and the Council will now consider the proposal. The EC plans to propose another directive next year on the harmonisation of procedural criminal law.

EC publishes annual report on public sector fraud

The EC announced its *2011 annual report on the protection of the EU's financial interests* (i.e. money the EU receives from custom duties, VAT and Member State contributions to its budget) on 19 July 2012 (see *press release (IP/12/809)* and a *memo (MEMO/12/577)*.

The EC's annual report assesses whether or not Members States have effective measures to counter fraud affecting EU funds. The report details levels of suspected and confirmed fraud against EU funds The EU uses its findings to help identify risk areas and determine target actions to reduce and combat fraud at both EU and national levels.

In 2011, fraud affected €295 million of EU funds (0.2% of the EU budget), a 35% fall from the prior year. The EU has improved recovery of defrauded funds reclaiming €2 billion in recovery in 2011.

The EC sets out recommendations to help reduce the current level of fraud. In addition, the EC recently proposed new rules to protect taxpayers' money by using criminal law against fraudsters (see *IP/12/767* and *MEMO/12/544* published on 11 July 2012), measures expected to help recover funds and deter fraudsters.

Market infrastructure

FSB calls for LEI working group members

At the G20 Los Cabos summit in June, the G20 approved the FSB's proposals for the development of a global LEI regime. The FSB's report to the G20, '*A Global Legal Entity Identifier (LEI) for Financial Markets*' released on 8 June 2012, set out recommendations

for developing a global system to identify counterparties to financial transactions. Every counterparty will be assigned a unique LEI. In crisis situations this system will help regulators and markets to identify risks and market participants' exposures in an effective and timely manner. The FSB propose to launch the LEI regime by March 2013.

In July the FSB invited interested parties from the private sector to join its LEI Private Sector Preparatory Group (LEI Group), to support the implementation of the LEI regime.

The LEI Group will help the FSB develop:

- options for the structure of the LEI system's Central Operating Unit
- the legal structure to provide funding via a not-for-profit LEI foundation
- criteria to establish the Board of Directors of the LEI foundation
- processes for the adoption of the LEI by the private sector

Ben Higgin and Chris Pullano from PwC have joined the group. The first meeting of the LEI Group took place in New York City on 25 July 2012.

BIS and IOSCO consult on margin/collateral standards for uncleared trades

The BIS/IOSCO Working Group on Margining Requirements released its Margin requirements for non-centrally cleared derivatives in July, which will influence G20 countries' policies, in particular the EU's EMIR margin and collateral requirements for uncleared trades.

The proposals are designed to reduce systematic risk and to make margin standards for OTC trading equivalent to cleared standards. Regulatory margin standards will impact all entities regulated under net capital rules, because such rules require entities to deduct all assets that cannot be readily converted into cash from regulatory capital calculations and adjust the value of liquid assets by haircuts.

The proposals are set out under seven categories:

1. Instruments in scope: there is still no consensus on whether FX and other short dated contracts (less than one year) should be subject to margin rules.
2. Entities in scope: the paper proposes that the rules should apply only to financial firms and systematically important entities, but not to non-financial firms. The paper sets out three options for applying margining: two-way margining with zero thresholds, two-way margining with a single threshold, and two-way margining with three threshold triggers.
3. Minimum baseline amounts and methodologies for initial and variation margin: the paper does not set out calculations for particular classes of OTC transactions, but includes general discussions including considerations around hedging.
4. Eligible collateral for margin: recognition that market conditions and asset availability differ across jurisdictions. The paper proposes that national supervisors develop their own lists.
5. Treatment of margin: initial margin should be exchanged on a gross basis, and held under legally secure arrangements to protect the posting party from counterparty insolvency. The proposals advise against the reuse or re-hypothecation of cash and non-cash collateral collected as initial margin.
6. Treatment of transactions with affiliates: national supervisors should be free to set their own policies for posting initial margin, but this CP proposed mandatory posting of variation margin between affiliates.
7. Interaction of national regimes in cross-border transactions: margin rules should be set by the country where a legal entity (for locally established firms, including subsidiaries) is located.

The BIS will conduct a quantitative impact statement (QIS) during the consultation to examine the proposals' impact on non-centrally cleared OTC derivatives. The consultation closes on **28 September 2012.**

CPSS and IOSCO consult on resolution of financial market infrastructures

The Committee on Payment and Settlement Systems (CPSS) and IOSCO published a consultative report on the *Recovery and Resolution of Financial Market Infrastructures* (FMI) on 31 July 2012. FMIs play an essential role in global financial markets so it is vital to plan effective recovery and resolution strategies for them, to avoid a disorderly failure that could lead to severe systemic disruption.

The report builds on the principles previously laid down in two key documents: the CPSS-IOSCO *Principles for Financial Markets Infrastructures*, published in April 2012, and FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*, published in October 2011. It considers resolution approaches for different types of FMIs and provides an interpretation of the Principles and Key Attributes and how they may apply to FMIs.

The report concludes that the Principles set out a framework for FMIs' recovery, and that regulators need to ensure that rules and policies in line with the Principles are put in place. The Key Attributes provide a framework for resolution of FMIs if recovery efforts fail. The FSB plans to issue a methodology to assess compliance soon.

The consultation closes on **28 September 2012**.

CFTC amends effective date for Swap Regulation Order

The CFTC issued a *final order* on 3 July 2012 to extend the effective date of swap regulation. The CFTC is providing temporary exemptive relief under the Swap Regulation Order dated 14 July 2014, which deferred certain provisions of the Commodity Exchange Act from coming into force on 16 July 2011 under Title VII of the Dodd-Frank Act.

No new effective date has been published, but the CFTC has set 31 December 2012 as the latest expiration date, or depending on the nature of the relief, another date to be determined by CFTC.

EU finalises EMIR rules

The Council adopted EMIR on 4 July 2012 and published the *adopted text* on its website on 8 July 2012. The *final EMIR text* was published in the Official Journal on 27 July 2012, meaning EMIR comes into force on 16 August 2012.

EMIR implements the EU's commitment to reform the OTC derivatives markets by introducing derivative reporting requirements, a mandatory clearing requirement for clearing eligible derivative contracts and new risks management processes (including standardised margin requirements) for all uncleared OTC derivative trades. To support these aims, the Regulation introduces new authorisation and regulatory regimes for central counterparties and trade repositories. See our *webpage* for more information.

ESMA publishes audio recording of RTS hearing

ESMA published the *audio file* from its public hearing on 12 July 2012, discussing the EMIR RTS consultation proposals issued on 25 June 2012.

ESAs defer EMIR RTS on margin for uncleared trades

The ESAs *requested* the EC postpone the ESA's submission of draft RTS on EMIR risk management standards for uncleared trades from its current 30 September 2012 deadline. The ESAs want to defer their work until the Basel Committee and IOSCO's Working Group on Margins completes its consultation, Margin Requirements for Non-centrally cleared derivatives, and the working group reports findings later this year.

Both the US and EU policy makers delayed completion of their margin rules for uncleared OTC derivatives transactions pending the recommendations from the Working Group on Margins.

ECB announces new signatories to T2S agreement

The ECB announced that 15 CSDs signed the *T2S Framework Agreement* before the 30 June 2012 deadline set by Mario Draghi, ECB President, bringing the total number of participating CDS to 24, including 18 CDS from the Eurozone.

The T2S framework agreement is sets out the rights and obligations between the Eurosystem and CSD entities participating in the T2S in relation to the development and operation of the system. Under the agreement CSD

firms outsource information technology related to securities settlement to the Eurosystem. The agreement addresses legal issues relating to confidentiality, data protection, intellectual property rights, liability, dispute resolution and arbitration.

The T2S is one of the largest infrastructure projects launched by the Eurosystem and is designed to join up the fragmented operations that currently exist for cross-border securities settlement. The ECB expects significant benefits from this arrangement, including operational cost reductions and increased settlement efficiency, which will improve EU financial market stability.

The T2S system is scheduled to commence 2015-2016.

EC prepares to change time profile for emissions trading

The EC issued a press release (*IP/12/850*) and a memo *(MEMO/12/600)* on 25 July 2012 explaining its proposed changes to the time profile for auctions of emission allowances:

- a proposal to clarify the timing of auction allowances in the EU Emissions Trading System (ETS) Directive
- a possible future amendment of the Auctioning Regulation
- a Staff Working Document with analytical information

The EC proposes to 'back-load' the emissions trading volumes of EU ETS phase 3 (2013-2020) by reducing the auction volumes in the first three years and bringing them back in the last three years. The EC believes this measure will improve the functioning of the market.

The EC does not expect the proposal to have a major or lasting effect, given that the overall auction volumes remain unchanged over the 8 year period and the amount of free allowances could also alleviate any cost impacts.

The EC is currently preparing an impact assessment to help the Climate Change Committee decide on amendments to the draft ETS Auctioning Regulation before year end.

MiFID

ESMA publishes guidelines on MiFID suitability

ESMA released its *Guidelines on certain aspects of the MiFID suitability requirement* on 6 July 2012. Firms will need to evidence that they have systems to ensure that their investment advice or portfolio management service is 'suitable' in light of the client's risk profile and financial situation.

MiFID requires firms to collect all 'relevant' information about the client and all material characteristics of the investment(s) considered in the suitability assessment. Firms should consider a client's knowledge and experience when determining:

- the type of the financial instrument or transaction that the firm may recommend or enter into
- the nature and extent of the service that the firm may provide
- the nature, needs and circumstances of the client

In the final guidelines, ESMA has softened the language around what information is 'relevant' given the practical limitations that firms face in obtaining information on certain investments, especially where these investments are provided by third party investment firms.

ESMA's December consultation paper stipulated that investment firms should recommend 'the most suitable product or service for the client', which goes beyond current MiFID requirements.

ESMA has pulled back from the proposed wording requiring 'the most suitable product' to 'suitable products or services'. It also accepted that understanding the detailed workings of the risk profile (including calculations) is beyond the majority of retail customers, and accepted that clients should be given only general information on the process used to calculate a product's risk profile.

ESMA publishes guidelines on MiFID compliance functions

ESMA published its *Guidelines on certain aspects of the MiFID compliance function requirement* on 6 July 2012. The guidelines call on senior management to promote and enhance a strong compliance culture in MiFID regulated firms.

Many respondents thought that ESMA's original proposals went too far in some areas. For example, the consultation stated that the compliance function is "responsible for the training of the staff", when in reality business unit/management is usually responsible for training and the compliance function is usually responsible for advising and supporting the operational functions. ESMA took this point into account in the final guidelines.

Respondents asserted that firms and their compliance officers must find the necessary balance between resources and risks to determine the compliance functions' focus and the scope of the monitoring, reporting and advisory activities it undertakes. Some respondents stated that planning for unforeseeable absences of the compliance officer is difficult in practice. EMSA adapted the final wording to give firms more discretion on resource planning.

All respondents agreed that compliance functions must be independent and allowed to take decisions without influence from business units.

Compliance functions can achieve independence through a combination of a positioning compliance as independent operationally and by requiring senior management to appoint and replace a compliance officer.

Operating rules and standards

EC bans short selling of uncovered sovereign securities

EC adopted a *delegated act detailing rules on the ban on uncovered sovereign credit default swaps and short sales of shares and sovereign debt - IP/12/746* on 5 July 2012. The EC has now adopted four implementing measures under its Short Selling Regulation (236/2012).

Sovereign CDS are considered covered, and therefore permitted, if the investor can demonstrate either a quantitative or qualitative correlation between the hedged assets and liabilities and the sovereign CDS.

The delegated act also includes provisions concerning:

- how to calculate the significant short positions that must be disclosed to regulators or the market
- how short positions are calculated and reported by fund managers managing several funds, or by different entities in the same group
- the levels at which short positions in sovereign debt must be notified to regulators
- the trigger thresholds for different instruments, ranging from illiquid shares to financial derivatives, where regulators can impose short term suspensions on short selling
- the decline in liquidity which allows Member States to suspend restrictions on uncovered short selling of sovereign debt
- the criteria for determining what constitutes an adverse development or event

The Short Selling Regulation and Implementing Regulation will apply from 1 November 2012.

Other regulatory

EC publishes responses to FICOD call for evidence

The EC published the responses to its high-level *Call for evidence on the fundamental review of the Financial Conglomerates Directive (FICOD) - February 2012* on 2 July 2012. The EC wants to stimulate debate on the supervision of large complex financial groups in Europe, as part of its wider review of FICOD. The EC asked interested stakeholders for views on supplementary supervision of groups meeting certain thresholds and issues in relation to supervising cross-border entities.

The EC received 13 responses, half from financial institutions. Many respondents welcomed the idea of revising the current supervisory framework for financial conglomerates. However, only a few advocated a stronger supervisory regime. Some respondents agreed that potential gaps arising from cross-sectoral risks and unregulated entities need to be in the scope of supervision. But most respondents believed that recently agreed improvements to sectoral

supervisory regimes will guarantee comprehensive group-wide supervision.

The EC will now consider this feedback and publish its formal review report in the autumn.

CRA regime moves forward

The Council of the EU published the *Delegated Regulation* (the Regulation) adopted by the EC on 16 July 2012, outlining further rules on the new CRA sanctions regime. The Regulation clarifies procedures on ESMA fines and penalties available under CRA Regulation III (Regulation 1060/2009), including issues such as rights of defence for CRAs (e.g. right to be heard, right to access the file).

The Regulation also establishes prescription periods for infringements of CRA Regulation III. However the Regulation is not intended to provide ESMA powers beyond those it has under CRA Regulation II (Regulation 513/2011).

In a separate development, ESMA published five new memoranda of understanding (MoUs) on cross-border supervision of CRAs on 19 July 2012, with:

- Canadian authorities: the Autorité des marches financiérs, and the British Columbia and Ontario Securities Commisions in Canada
- The National Securities Commission of Argentina
- The Securities and Futures Commission of Hong Kong
- The Monetary Authority of Singapore
- The Australian Securities & Investments Commission

Copies of these MoUs are available on the ESMA *website*.

Updated list of Financial Conglomerates

EIOPA, EBA and ESMA have jointly published the *List of groups that have been identified as financial conglomerates by July 2012*.

EBA identifies EU conglomerates

Along with EIOPA and ESMA the EBA published a *List of identified Financial Conglomerates, as at 1st July 2012*, on 20 July 2012, as required under FICOD. The list identifies the lead supervisor and other relevant supervisors for each entity.

The EBA's lost contains57 financial conglomerates, including three UK-headquartered firms: Lloyds Banking Group, Old Mutual and Co-operative Banking.

The EBA also identified Swiss Re, AIG, Ameriprise and National Australia Group as the largest financial conglomerates headquartered outside of the EU.

Database of registered financial institutions

EIOPA published a *database of registered financial institutions* on 19 July 2012, based on data supplied by local supervisory authorities. At present this database only comprises the "EIOPA Register of Insurance Undertakings" operating in the EEA but other registered financial institutions will be added in due course.

HMT announces FATCA implementation plans

The UK released a *joint statement* between the governments of the UK, France, Germany, Italy, Spain and the US, announcing a *Model intergovernmental agreement to implement FATCA* (the Model Agreement) on 26 July 2012.

The Model Agreement represents a key step towards delivering an intergovernmental approach to combating tax evasion and implementing FATCA, to which these countries previously committed in a *joint statement issued on 8 February 2012*. It addresses legal barriers to FATCA compliance and simplifies implementation, to ensure that financial institutions' reporting burdens remain proportionate. Financial institutions will be able to report the required information to their respective tax authorities, which will reciprocally exchange information with the US using existing tax treaties and agreements.

Pensions

EIOPA feeds back on pension proposals

EIOPA's Occupational Pensions Stakeholder Group has published their *feedback statement* on the EC's White Paper on "An Agenda for Adequate, Safe and Sustainable Pensions" (issued on16 February 2012).

Prospectus Directive

ESMA updates Q&A for prospectuses

ESMA published two updated Q&As for prospectuses on *2 July* and *23 July* 2012.

The first Q&A advises firms on drafting prospectus summaries. The EC released some details on prospectus summaries on 30 March 2012, but we are still awaiting the ITS on uniform templates. ESMA's advice should help firms during the interim period until it finalises the template.

The second Q&A advises firms on the process for giving consent in retail cascades. The EC published a draft Delegated Regulation setting out the consent to use a prospectus on 4 June 2012. ESMA advises firms to follow the provisions in the draft Delegated Regulation until it is finalised. However firms face uncertainty because the EP can still has three months to object to the draft Delegated Regulation before it comes into force.

Retail Products & Conduct

EC publishes PRIPs, IMD revision and UCITS V proposals

The EC proposed a package of retail investment reform proposals on 3 July 2012, which would shake up the €10 trillion retail investment market in Europe. The proposals will:

- require key information documents (KID) for *packaged retail investment products* (PRIPS)
- revise the *Insurance Mediation Directive* (IMD) to improve product disclosure and sales practices
- impose additional requirements on depositaries, regulate the remuneration of fund managers and harmonise sanctions across the EU for retail investment funds (governed by the *Directive on Undertakings for Collective Investment in Transferable Securities* (UCITS V))

These reforms will change key aspects of the retail investment market in Europe. However, the Council probably won't begin negotiating this package in earnest until early in 2013, which could lead to the adoption of the texts in early 2014, and a transposition date of early 2016.

PRIPs

PRIPs aims to improve the quality of information provided to retail consumers about EU investment products. Product manufacturers (e.g. investment fund managers, insurers, banks) will be required to provide a KID to every investor for each retail investment product other than UCITS funds. The KID will disclose standard product information, describing the product's main features, and the risks and costs associated with it, so consumers can compare products.

Eventually, the KID may also replace the KIID (Key Investor Information Document) required under UCITS. PRIPs provides an initial five year exemption for UCITS funds which the EC will review after four years. This delay means consumers may have to wait a long time before product disclosure that enables them to easily compare all investment products is available.

IMD II

The EC proposes revising the IMD, which regulates selling practices for all insurance products, including general insurance products (e.g. motor and household insurance) and those containing investment elements. Although the IMD will remain a 'minimum harmonisation' Directive, the revised framework (most likely Regulations in Level 2) will provide key operational details, particularly in relation to insurance investment products. The EC hopes these measures will increase consistency in insurance product disclosure and ensure the regime is comparable to MiFID II.

The EC wants to improve consumer protection in the insurance sector by creating common standards across insurance sales and ensuring proper advice. It aims to do so by improving transparency and establishing a level playing field for insurance sales by intermediaries and insurance firms.

The IMD proposals would require that:

- the same level of consumer protection applies, regardless of the

sales channel (i.e. insurance firm, broker, agent or other intermediary)

- consumers are provided with clear information about the professional status of the person selling the insurance product, and that sales staff comply with new conflict of interest rules
- insurance product sales are accompanied by honest, professional advice

These standardisation measures should facilitate intermediaries operating cross-border, thus promoting a real internal market in insurance services across the EU.

UCITS V

The financial crisis, together with the fraud perpetrated by Bernie Madoff in the United States, highlighted weaknesses in the consumer protection measures that apply to investment funds. This is further emphasised by the tough rules the EC is introducing for alternative funds under AIFMD.

Therefore the EC is proposing to amend the existing UCITS framework to provide:

- a precise definition of the tasks and liabilities of all depositaries acting on behalf of a UCITS fund
- clear rules on the remuneration of UCITS managers, to ensure they are not remunerated in ways that encourage excessive risk-taking, and better link remuneration policies with the long-term interest of investors
- a common approach to sanctions, including introducing common standards on the levels of administrative fines

The proposals seek to ensure that the UCITS brand remains trustworthy by ensuring that the fund depositary's duties and liability are clear and uniform across the EU.

Shadow banking

EBA advocates wider regulatory net for shadow banking

The EBA wants to cast a wider regulatory net to contain risks arising from "shadow banking", according to its *opinion on the Commission's Green paper on Shadow Banking* published on 17 July 2012. The EBA argues that supervisors should be given powers to changes regulatory perimeters, to respond quickly to risks arising in finance markets. Such a change would represent a substantial departure from the approach taken by most countries' legal and regulatory frameworks, where perimeters are set through legislation and then interpreted by regulators.

The EBA considered two approaches to regulating shadow banks: regulating shadow banking entities or regulating their functions and activities. The EBA believes that shadow banks should be regulated by function, but that regulators should have powers to cross over into entity regulation if required. However, broad supervisory powers to shift regulatory boundaries raise concerns because supervisory powers (and their limits) should be clearly defined.

The EBA wants the shadow banking system should be prudentially regulated. Shadow banking entities, particularly if entities that are unregulated and unconsolidated, may be vulnerable to runs and/or liquidity problems. Unlike banking entities, such entities do not have access to central bank liquidity support, government guarantee programs or insured deposits.

Shadow banking entities are highly interconnected with regulated entities and can, directly or indirectly, generate systemic risks through spreading contagion. The EBA is concerned by excessive leveraged positions which may be maintained by market finance entities without due controls to keep leverage in check.

The EBA believes that it is in the best position to regulate the shadow banking system, given the right mandate and powers. If EU policy makers agree, we may see both the EBA's regulatory powers and the regulatory perimeter expand.

Structured products

ECB implementing ABS loan level data reporting

The ECB published their *plan for the implementation of loan level data reporting requirements for asset-backed securities* on 6 July 2012. Implementing loan level data reporting requirements marks the latest phase of the ECB's programme to bring ABS loan level reporting within the EBA's collateral reporting framework. With

the reporting infrastructure now largely in place, the ECB outlined the phases and deadlines for implementation:

- reporting residential mortgage-backed securities - 1 December 2012
- reporting ABS whose underlying assets include small and medium sized enterprises, and commercial mortgage backed securities – 1 January 2013
- reporting ABS whose underlying assets include consumer finance, leasing and auto loans – 1 January 2014.

Firms will have to report data at least quarterly using the ECB templates (available on the *ECB website*).

The EBA is allowing a nine month transitional period for each deadline. Firms will also have the opportunity to report "No Data" (ND) for each of the loan-level lines. The transitional periods will be split into three sections. The first three months will be a test period in which there are no reporting limits or thresholds. The second three months will incorporate provisions for the maximum percentage of NDs within the data set. In the final three months, the provision will be reduced to catch a larger percentage of the required data.

After the transition period, firms will not be permitted to report any non mandatory fields for loan-level data as ND, and the EBA will expect firms to have archive systems and controls in place.

Accounting

IFRS

ESMA reviews Greek exposure accounting

ESMA published a *Review of Greek Government Bonds accounting practices in the IFRS Financial Statements for the year ended 31 December 2011* on 26 July 2012. The review covers accounting practices and disclosures of a sample of 42 European financial institutions with significant exposure to Greek Government Bonds.

ESMA observed a good level of consistency concerning the level of impairment losses recognised in the financial statements, an improvement the 2011 half year financial statements. However, ESMA found that institutions fell short of meeting IFRS disclosure requirements in relation to transparency of gross exposure, maturities, valuation methodologies and fair value hierarchy levels used, as well as on the impact of impairment on the income statement.

The review identified a lack of transparency on CDS and their impact on exposure. The review also highlighted a lower level of transparency regarding Greek Government Bonds that had been reclassified and on exposures to Greek non-sovereign debt.

ESMA believes that whilst the report focused on Greek exposures, the principles highlighted in relation to disclosure and transparency apply more generally. Therefore, each financial institution should assess at every reporting period whether it has material exposures to financial instruments subject to increased risk and should provide disaggregated and expanded disclosures about those instruments.

ESMA will discuss their findings with national regulators and monitor the actions they take.

Other accounting news

SEC releases final report on IFRS 'Work Plan'

The SEC has published its final report ('the staff report') on its 'Work Plan' intended to help the SEC evaluate the implications of incorporating IFRS into the US financial reporting system. See

our *'Straight away' publication - SEC releases final report on IFRS 'work plan'* for further details.

IASB reaches tentative decisions on 'investment entities

The IASB and FASB started to re-deliberate their respective 'investment entities' exposure drafts (EDs) in May and June. The IASB's ED proposed an exemption from consolidation for entities such as private equity funds that could meet certain criteria See our publication - *IASB reaches tentative decisions on 'investment entities' ED* for details of the IASB significant tentative decisions.

FASB and IASB re-deliberations to make proposed revenue standard 'less onerous'

The FASB and IASB ('the boards') met on 19 July 2012 to discuss their joint project on revenue recognition. They reached decisions on identifying separate performance obligations, performance obligations satisfied over time and onerous performance obligations. They also discussed the accounting for licences, but did not reach any decisions. See our '*Straight away' publication - FASB and IASB re-deliberations to make proposed revenue standard 'less onerous'* for further details.

Leasing re-deliberations end but future dissent looms

The IASB and FASB ended their re-deliberations of the leasing project with tentative agreements on a number of issues relating to presentation and disclosure. However, on a number of areas some members of both boards are likely to dissent on the proposals in the revised exposure draft. The revised exposure draft is due to be published late November 2012. See our '*Straight away' publication - leasing re-deliberations end but future dissent looms* for further details.

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Regulation

Banking and liquidity

Basel Committee consults on intraday liquidity indicators

The Basel Committee published its consultation *Monitoring indicators for intraday liquidity management* on 2 July 2012. The Basel Committee believes that no single indicator can provide supervisors with sufficient information on intraday liquidity risks or on how well risks are managed. Therefore, it proposed eight intraday liquidity indicators:

- daily maximum liquidity requirement
- available intraday liquidity
- total payments
- time-specific and other critical obligations
- value of customer payments made on behalf of financial institution customers
- intraday credit lines extended to financial institution customers
- timing of intraday payments
- intraday throughput

The Basel Committee outlined the reporting requirements for each indicator and supporting regulatory requirements. Although the indicators will apply directly to internationally active banks, the proposed indicators are designed to be applicable to all banks, including those that access payment and settlement systems indirectly via the services of a correspondent bank.

If used correctly, these indicators should give supervisors a better sense of banks' ability to meet payment and settlement obligations on a timely basis, under normal and stressed conditions. Given the close relationship between banks' intraday liquidity and the smooth functioning of payment and settlement systems, the indicators will also benefit supervisors of payment and settlement systems.

The consultation closes on **14 September 2012**.

Capital and liquidity

Bank recapitalisation findings show stronger position

The EBA published an *Update on the implementation of Capital Plans following the EBA's 2011 Recommendation on the creation of temporary capital buffers to restore market confidence* on 11 July 2012. The update contains generally positive findings on banks' work to strengthen their capital bases.

As of 30 June 2012, the 27 largest EU banks have raised €94.4 billion of capital against the shortfall of €76 billion that the EBA identified in December 2011. All banks' Core Tier 1 ratio met or exceeded the 9% target threshold set by the EBA. While seven of these banks are relying on government backstop measures to reach the 9% level, these entities are engaging in significant restructuring which should strengthen their position.

Banks improved their capital positions through raising capital and to a lesser extent, by releasing capital through measures which reduced risk weighted assets. Since September 2011, the 27 banks have increased their core capital position (ordinary equity plus reserves) by €41 billion through issuing new ordinary shares, paying dividends in shares, retaining earnings and converting hybrids into common capital.

Banks are now in a stronger position to pump credit in to the real economy when a recovery materialises. However, the external environment remains challenging and the EBA recommends that national supervisors continue their heightened monitoring of banks' capital positions.

Euroarea lending conditions stabilise

The ECB published its quarterly *Euroarea Lending Survey* on 25 July 2012. The Survey found that banks' tightened their lending standards in Q2 2012 compared to the previous quarter. Credit tightening standards increased slightly for corporate loans, eased for housing loans and rose marginally for consumer credit.

The Survey's results surprised markets, which expected lending standards to deteriorate across all sectors given the EU's deepening sovereign debt crisis and ongoing balance sheet adjustments.

The Survey indicated that banks' access to retail and wholesale funding improved across all funding categories this year, but particularly for debt securities and money markets. Banks stated that sovereign debt-market tensions had a smaller impact on funding conditions than in the first three months of the year.

Looking ahead, banks anticipate the demand for mortgages in Q3 to exceed expectations and an increase in demand for corporate loans.

Basel Committee modifies rules on credit risk adjustments to derivatives

The Basel Committee *revised* its Basel III rules on own credit risk adjustments to derivatives on 25 July 2012. Firms must fully deduct debit valuation adjustments in the calculation of Common Equity Tier 1 following the revision.

In calculating Common Equity Tier 1, Basel III requires banks to disregard any 'unrealised gains and losses in the fair value of liabilities that are due to changes in the bank's own credit risk'. While this rule was originally developed in the context of debt issued by banks, the Basel Committee believes the principle should extend to fair valued OTC derivatives as well.

FSI surveys Basel III implementation

The Financial Stability Institute (FSI) published a survey, *FSI Survey - Basel II, 2.5 and III Implementation* on 26 July 2012. The survey covers some 70 countries, excluding jurisdictions that are Basel Committee members or EU members. The Basel Committee published a similar report covering its members in April 2012, in advance of the G20 Los Cabos summit.

In contrast to previous practice, the results are published on a country by country basis rather than on an aggregated basis. FSI intends to update the survey results every year from March 2013.

Remuneration

EBA finalises CRD III remuneration templates

The EBA published its *Guidelines on the Remuneration Benchmarking Exercise EBA/GL/2012/4* on 27 July 2012. The Guidelines outline the final templates and data collection requirements for high earners at financial institutions under the Capital Requirements Directive by Directive 2010/76/EU (CRD III).

Firms will need to identify the number of high earners across each business line and their total fixed and variable remuneration and breakdown variable remuneration information into the total discretionary pension benefits paid and total variable remuneration deferred.

On the same day, the EBA published its final *Guidelines on the Remuneration Benchmarking Exercise EBA/GL/2012/4*. Under CRD III 'significant' financial institutions are required to provide consolidated data on remuneration for all their staff on an annual basis. A 'significant' financial institution is defined as a large, cross-border banking group which is active in the EU, or any institutions that national supervisors determine are significant.

The data requirements cover two categories: all staff, and 'identified' and high-earning staff. Staff reporting requirements will include the total number of staff, net profits, and the total fixed and variable remuneration in the relevant year. Firms will have to disclose the number 'identified' staff (i.e. in senior management, risk taking and control positions) together with details of their fixed and variable remuneration packages.

National supervisors have to apply the Guidelines as soon as possible and not later 30 September 2012. Firms have been required to report this information since October 2011. National supervisors must submit the first tranche of data, on fixed and variable remuneration awards for the 2010 and 2011 performance year, to the EBA by year end.

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Regulation

UCITS

EC starts the ball rolling on UCITS VI

The EC published its UCITS consultation on *Product Rules, Liquidity Management, Depositary, Money Market Funds, Long-term Investment* (UCITS IV) on 26 July 2012. These proposals follow hot on the heels of the UCITS V proposals published earlier in July.

UCITS VI reviews:

- UCITS' use of eligible assets and their access to ineligible asset classes
- the efficient portfolio management techniques the UCITS use
- UCITS' use of OTC derivatives, in particular those that will be centrally cleared under EMIR
- the liquidity management rules to provide more clarity on the 'exceptional circumstances' when UCITS can suspend
- a depositary passport (following implantation of depositary rules under UCITS V)
- UCITS money market funds, in particular those with a constant net asset value (CNAV)
- the possibility of allowing long term investments (e.g. illiquid assets like real estate)
- an assessment of the success of UCITS IV rules for master-feeders, mergers, management company passports and notification procedures implemented in July 2011

These proposals are wide-reaching and have important implications for the UCITS market.

The consultation closes on **18 October 2012.**

New ESMA UCITS guidelines take a tough approach

ESMA published *Report and Consultation paper: Guidelines on ETFs and other UCITS issues and Consultation on recallability of repo and reverse repo arrangements* on 25 July 2012, following its January consultation. The guidelines call for significantly increased disclosure to investors across a wide range of areas. They also include other measures:

- requiring securities lending income to paid to the UCITS, except for direct and indirect operating costs
- introducing a definition for 'index-tracking' UCITS, and imposing exposure limits for leveraged index-tracking UCITS
- amending the definition of a 'UCITS ETF' to include a reference to the ETF's indicative net asset value (iNAV)
- allowing secondary market investors to redeem their interests directly through the UCITS ETFs
- tightening up on the use of total return swaps and other similar derivatives
- relaxing the range of eligible investments for UCITS cash collateral

ESMA retained its original policy position in several areas, in spite of widespread industry criticism. In particular ESMA is requiring UCITS using financial indices to publish proprietary index calculation methodologies, to enable investors to replicate the indices. Index providers may prefer not to publish such information, which may result in fewer funds developed to track proprietary indices.

In addition, UCITS ETFs will have to offer investors a right of direct redemption from the UCITS if the price of units varies significantly from the fund's NAV. All UCITS ETFs will have to comply with these requirements from 25 September 2012, leaving them very little time to adapt fund documentation and put the necessary procedures in place.

The guidelines are effective on 25 September and will apply immediately to any new UCITS launched thereafter. Aside from the redemption requirements for UCITS EFTs, firms will have until 25 September 2013 to comply.

ESMA is also consulting on repo and reverse repo arrangements, which ESMA views as posing different problems from securities lending because firms cannot recall securities

transferred under repo and reverse repos on demand. ESMA proposes introducing a percentage of assets limit on UCITS repo and reverse repo arrangements, and is looking for industry to comment on an appropriate percentage.

ESMA has issued the guidelines on a "comply or explain" basis – national authorities have 2 months from the date ESMA publishes translations of the guidelines on its website to advise ESMA of whether they intend to apply the guidelines locally. Although it is difficult to imagine that many national authorities will resist, if they do this could lead to significant variation across different Member States in what is permissible in a UCITS funds. This disconnect could in turn lead to problems with passporting between countries taking substantially different approaches.

ESMA publishes two UCITS Q&As

ESMA published two UCITS Q&As on 9 July 2012: *Notification of UCITS and exchange of information between competent authorities* and *Risk Measurement and Calculation of Global Exposure and Counterparty Risk for UCITS*.

The notification and information exchange Q&A provide answers on the following UCITS topics:

- notifications required for sub-funds of a UCITS
- requirement to file an attestation letter with updated fund documents
- host Member State accessing of documents
- Part A of the notification letter, supplied by the home Member State
- information sharing between the home Member State of a UCITS management company and a branch host Member State
- how home Member States supply proof of payment of notification fees

The Q&A on risk measurement and exposure and risk provide information on:

- activities considered 'hedging strategy'
- leverage disclosure
- applying concentration rules for government and public securities on a net or gross basis
- calculating global exposure for a 'fund of funds'

ESMA produces these Q&As to promote consistency of supervisory practices across the EU, and assist competent authorities and the general public with the practical application of UCITS rules.

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Regulation

Other regulatory

Cutting through the regulatory knot

This PwC paper is relevant to insurers in all parts of the world. Its aim is to help insurers cut through the detail to look at the underlying trends shaping the latest regulatory developments, the thinking behind them and the implications for strategy and operations.

Insurers around the world are facing a raft of new regulations that go beyond simple changes in compliance procedures, affecting how they price their products, deal with their customers and make decisions within their business. Key developments include the move to risk-based solvency management, and many more detailed changes linked to the global financial stability agenda.

IAIS report on Reinsurance and Financial Stability

The International Association of Insurance Supervisors (IAIS) has released a *report* examining the relationship between reinsurance activities and systemic risk, as part of its ongoing work to assess whether insurance activities in general contribute to systemic risk. Overall the report concludes that traditional reinsurance is unlikely to cause, or amplify, systemic risk.

EIOPA hosts meeting of the EU/US insurance dialogue project

EIOPA hosted a *Steering Committee meeting* of the EU/US insurance dialogue project on 11 July 2012. The EU and the US have started a dialogue recently to increase mutual understanding and cooperation with a view to identifying the main commonalities and differences of the two insurance regulatory and supervisory regimes. This dialogue will allow regulators on both sides of the Atlantic to find areas for further compatibility and convergence and could pave the way for future decisions.

EIOPA report on Insurance Guarantee Schemes

EIOPA has published a *report* on the EC's work on Insurance Guarantee Schemes, summarising their findings from a mapping exercise on the types of schemes and their roles in the winding-up procedures of insolvent insurance undertakings across the EU/ EEA.

EIOPA publishes 2012 report on Market Developments

This *report* provides a general overview on the developments in cross-border arrangements of IORPs. This is the sixth report on Market Developments and shows the growth in the number of cross-border IORPs, from June 2011 until June 2012.

Solvency II

Background

Solvency II is a fundamental review of the prudential regulatory requirements for the European insurance industry. Solvency II's current proposed implementation date is 1 January 2014.

The Omnibus II Directive will:

- amend Solvency II to set the implementation date
- specify areas of, and timing for, further Solvency II legislation
- incorporate new powers given to EIOPA
- make a number of other technical amendments

The EC, ECON and the Council are in trilogue discussions aimed at reaching an agreed position on the Omnibus II proposals. After they reach agreement, the EP will hold a plenary vote to finalise the Omnibus II Directive and set Solvency II's Level 1 text, the last stage required to pass Omnibus II. Its passage will enable regulators to begin consultations to develop the supporting Level 2 and Level 3 legislation.

Solvency II timetable remains uncertain

A *short amending Directive* was adopted on 3 July 2012, setting a new timetable for Member States to transpose Solvency II by 30 June 2013, with firms implementing it from 1 January 2014.

The *forecast date* for approval of the Omnibus II Directive in plenary remains **22 October 2012.** However, given the ongoing delays, this timetable looks increasingly tight.

EIOPA publishes Final Report on draft Guidelines for Own Risk and Solvency Assessment

EIOPA has published its *final report* on draft Guidelines for Own Risk and Solvency Assessment (ORSA) on 12

July 2012. The report focuses on the purposes of the ORSA and provides additional details on how ORSA should be interpreted rather than how it should be performed.

Insurers are expected to have the necessary competence and expertise to find suitable solutions for the practical implementation of the ORSA. Insurers' Boards should take an active part in the ORSA, including steering how the assessment is to be performed and challenging its results.

EIOPA publishes final report on Solvency II reporting and disclosure requirements

EIOPA has published its *final report* on reporting and disclosure requirements for insurance undertakings and insurance groups. EIOPA notes that the ongoing discussions related to Omnibus II and the future Implementing Measures are expected to lead to changes in the reporting requirements. The design or structure of the templates may also be affected by the development of the respective IT reporting standards. Despite possible changes, EIOPA strongly believes that the industry should use begin using this package now. See our Hot Topic publication *Getting ready for Solvency II reporting* for further details.

Accounting[1]

IFRS

IASB Insurance Contracts Project – IFRS 4 Phase II

The IASB is working alongside the FASB to develop a harmonised IFRS for insurance contracts. A review draft or revised ED is timetabled for the second half of 2012. In their *joint note* on accounting convergence, the Boards indicated that on the basis of their current plan the final insurance contract standard could be issued in 2013. The final standard is not expected to be effective before 1 January 2015. For further background information see our *webpage* on this project and also the IASB's high level summary of the *current status* on the project, their *summary* of how tentative decisions of the IASB are reflected in the ED and their *presentation* on IASB and FASB's tentative decisions, showing where those decisions would affect the proposals in the ED.

On 3 July 2012 the IASB uploaded a working draft to implement the IASB's tentative decisions on the Insurance Contract project on their *Current Status webpage*. This draft deals with the definition of 'insurance contracts' and scope of the Insurance Contract Standard, the premium-allocation approach and non-insurance components. The IASB invites feedback on the working drafts and information about any unintended consequences from those drafts.

At their meeting of 16 July 2012, the IASB and FASB discussed the Insurance Working Group meeting held on 25 and 26 June 2012.

IFRS news

IFRS news is our monthly newsletter highlighting developments at the IASB. See *IFRS news catalogue January 2011 to June 2012*.

[1] *This section includes accounting developments with a direct or potential on the financial services industry only. For a complete update on accounting developments in the UK visit http://www.pwc.co.uk/eng/services/ifrs_services.html*

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
13/08/12	*Consultation on response to call for evidence on the review of FICOD*	*ESAs*
17/08/12	*Consultation on future regulation of authorised professional firms*	*SRA*
20/08/12	*Consultation on the taxation of unauthorised unit trusts*	*HMRC*
27/08/12	*Consultation paper on draft Implementing Technical Standards on supervisory reporting requirements for liquidity coverage and stable funding*	*EBA*
27/08/12	*Consultation paper on draft Implementing Technical Standards on supervisory reporting requirements for leverage ratio*	*EBA*
27/08/12	*Call for comment on LCH Clearnet's application for registration as a Derivatives Clearing Organisation*	*CFTC*
07/09/12	*Basel Committee on Banking Supervision fundamental review of trading book*	*BCBS*
14/09/12	*Consultation paper – adaptation to cross-CSD settlements in T2S*	*ECB*
15/09/12	*Draft regulatory technical standards for credit valuation adjustment risk on the determination of a proxy spread and the specification of a limited number of smaller portfolios (EBA/CP/2012/09)*	*EBA*

Closing date for responses	Paper	Institution
25/09/12	*Consultation on recallability of repo and reverse repo arrangements*	*ESMA*
26/09/12	*Consultation on revised remuneration reporting regulations*	*BIS*
27/09/12	*Consultation paper – guidelines on sound remuneration policies under the AIFMD*	*ESMA*
28/09/12	*Consultation on margin requirements for non-centrally cleared derivatives*	*BIS / IOSCO*
30/09/12	*Consultation paper – guidelines on sound remuneration policies under the AIFMD*	*ESMA*
30/09/12	*Draft regulatory technical standards on the specification of the calculation of specific and general credit risk adjustments (EBA/CP/2012/10)*	*EBA*
18/10/12	*IP/12/853 – European Commission launches consultation on future framework for investment funds (UCITS VI)*	*EC*
31/12/12	*Discussion paper: toward a disclosure framework for the notes*	*FRC*

Forthcoming publications in 2012

Date	Topic	Type	Institution
Banking Structure			
Q3 2012	Report from the high-level expert group examining the structural aspects of the EU banking sector	Discussion paper	EC
Capital and Liquidity			
Q3-Q4 2012	Capital Requirements Directive IV	76 regulatory technical standards, 32 implementing technical standards and 20 guidelines	EBA
Consumer protection			
Q3 2012	Directive on misleading and comparative advertising (2006/114/EC)	Communication	EC
Q4 2012	Bank accounts	Legislative proposals	EC
Financial crime, security and market abuse			
Q3 2012	European terrorist finance tracking system	Legislative proposals	EC
Q3 2012	Financial message data transfer from the EU to the USA for the purposes of the Terrorist Finance Tracking Program	Report	EC
Q4 2012	Market Abuse Review	Technical advice	ESMA
Q4 2012	An EU framework for collective redress	Legislative proposals	EC
Q4 2012	Securities Law Directive	Legislative proposals	EC
Q4 2012	Review of Financial Conglomerates Directive	Legislative proposals	EC
TBC 2013	Revision of Financial Conglomerates Directive (FICOD II)	Legislative proposals	EC

Date	Topic	Type	Institution
TBC 2012	Third Anti-Money Laundering Directive	Legislative proposals	EC
Insurance			
Q3 2012	Institutions for Occupational Retirement Provision	Legislative proposals	EC
Market Infrastructure			
Q3 2012	OTC Derivatives, CCP Requirements, Trade Repositories and CCP Interoperability (EMIR)	Guidelines	ESMA
Q4 2012	Limitation period and further procedures for fining credit rating agencies	Regulation	EC
Q4 2012	Credit Rating Agencies III Regulation	Technical advice	ESMA
Q4 2012	Revision of the Transparency Directive	Discussion papers	ESMA
TBC 2012	Investor Guarantee schemes- revision	Legislative proposals	EC
TBC 2012	Close-out netting	Legislative proposals	EC
Products and investments			
Q3 2012	Alternative Investment Fund Managers Directive – Level 2 measures	Regulation	EC
Q4 2012	Alternative Investment Fund Managers Directive – cooperation agreements	Technical standards	ESMA
Q4 2012	Markets in Financial Instruments Directive II	Technical advice	ESMA
Q4 2012	Markets in Financial Instruments Directive II	Guidelines	ESMA
Q4 2012	Packaged Retail Investment Products	Technical standards	ESMA

Date	Topic	Type	Institution
Q4 2012	Prospectus Directive	Technical advice	ESMA
Q4 2012	Social Investment Funds	Technical advice	ESMA
Q4 2012	Venture Capital	Technical advice	ESMA
Q4 2012	Undertakings For The Collective Investment Of Transferable Securities V	Technical advice	ESMA
Recovery and Resolution			
Q3 2012	EU framework for recovery and resolution plans	Technical advice	EBA
Q4 2012	Rescue and restructuring of financial institutions in Europe	Guidelines	EC
Solvency II			
Q3 2012	Draft Level 2 delegated acts	Level 2 text	EC
Q4 2012	Solvency Level 3 measures finalised	Level 3 text	EC
Supervision, governance and reporting			
Q3 2012	Corporate reporting	Guidelines/ recommendations	ESMA
Q4 2012	EU corporate governance and company law	Action plan	EC
Q4 2012	Storage of regulated information at ESMA	Discussion paper	ESMA
Q4 2012	Supervisory convergence	Discussion paper	ESMA
Q4 2012	Revision of Enforcement Standards	Consultation paper	ESMA
Q4 2012	Corporate Governance (proxy advisors, empty voting)	Discussion paper(s)	ESMA
Q4 2012	Remuneration and supervisory co-operation arrangements	Guidelines/ recommendations	ESMA

PwC insights

Banking

US Basel III Regulatory Capital Regime and Market Risk Final Rule

In a long-anticipated but not eagerly-awaited action, the three federal banking agencies released three notices of proposed rulemaking (NPRs) that will revise regulatory capital rules for US banking organizations and align them with the Basel III capital standards that were issued in December 2010 and subsequently updated in 2011 (Basel III).

Read more here

European Banking Authority consults on Liquidity Coverage Ratio

On 7 June 2012, the European Banking Authority (EBA) released draft Implementing Technical Standards setting out supervisory reporting requirements for the Basel III liquidity rules: the Liquidity Coverage Ratio and the Net Stable Funding Ratio.

Read more here

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Asset Management

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Insurance

Cutting through the regulatory knot

Wherever insurers are in the world, they're likely to be facing a raft of new regulations that go beyond simple changes in compliance procedures to affect how they price their products, deal with their customers and make decisions within their business.

Read more here

Actuarial insurance matters, summer 2012

The latest edition of our actuarial newsletter is now available. The newsletter, Actuarial insurance matters contains points of view on the hot topics in the actuarial community today.

Read more here

Find out more about all issues affecting the insurance industry:

http://www.pwc.com/insurance

Cross Financial Services

Rise and interconnectivity of the emerging markets (SAAAME)

We believe the real issue is not so much the speed of growth within the SAAAME markets, but how interconnected the trade flows between them have become. Trade between the SAAAME markets is growing much faster than the developed-to-developed and developed-to-emerging market flows.

Read more here

Finding your way through the regulatory storm: Reward regulations in financial services

Financial services pay models for firms with European operations have changed profoundly since the financial crisis as a result of European Union and domestic regulation, but the story is far from over.

Read more here

Uncovering covered bonds: should covered bonds be part of your funding strategies?

The markets for covered bonds are rapidly developing in Asia, in particular Australia, and in the US. Potential issuers outside of Europe now need to evaluate whether covered bonds should be part of their future funding strategies.

Read more here

Glossary

AIFMD	Alternative Investment Fund Managers Directive
AIMA	Alternative Investment Management Association
AMICE	Association of Mutual Insurers and Insurance Cooperatives
AML	anti-money laundering
Basel Committee	Basel Committee of Banking Supervisors
BIL	Bank for International Settlements
BIS	Bank of International Settlements
CCD	Consumer Credit Directive 2008/48/EC
CCPs	central counterparties
CDS	credit default swaps
CEA	European Insurance and Reinsurance Federation
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CFPB	Consumer Financial Protection Bureau
CFTC	Commodities Futures Trading Commission
CIS	collective investment schemes
Council	European Council of Ministers
CPSS	Committee on Payment and Settlement Systems
CRAs	credit rating agencies
CRD	Capital Requirements Directive 2006/48/EC
CRR	Capital Requirements Regulations 2006 (S.I. 2006/3221)
DG MARKT	Internal Market and Services Directorate General
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
D-SIBs	Domestically systematically important banks
EBA	European Banking Authority
EC	European Commission
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council of the EU
ECON	European Parliament Committee on Economic and Monetary Affairs
EEA	European Economic Area
EFAMA	European Fund and Investment Management Association
EIOPA	European Insurance and Occupations Pension Authority
EP	European Parliament
EMIR	European Market Infrastructure Regulation COM(2010) 484 final
ESA	European Supervisory Authority
ESMA	European Securities and Markets Authority

ESRB	European Systematic Risk Board
EURIBOR	Euro Interbank Offered Rate
FASB	US Financial Accounting Standards Board
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FICOD	Financial Conglomerates Directive 2002/87/EC
FSB	Financial Stability Board
FSCS	Financial Services Compensation Scheme
FMI	financial market infrastructure
G30	Group of 30
GAAP	Generally Accepted Accounting Principles
G-SIBs	Globally systematically important banks
G-SIFIs	globally systemically important financial institutions
G-SIIs	globally systemically important insurers
IASB	International Accounting Standards Board
ICB	Independent Commission on Banking
IFRS	International Financial Reporting Standards
IMD	Insurance Mediation Directive (2002/92/EC)
IMF	International Monetary Fund
IORP	Institutions for Occupational Retirement Provision Directive 2003/43/EC
IOSCO	International Organisations of Securities Commissions
ISDA	International Swaps and Derivatives Association
ITS	implementing technical standards
LEI	legal entity identifier
MAD	Market Abuse Directive 2003/6/EC
MAR	Market Abuse Regulation COM(2011) 651 final
Member States	countries which are members of the European Union
MiFID	Markets in Financial Instruments Directive 2004/39/EC
MiFIR	Markets in Financial Instruments Regulation COM(2011) 652 final
MLD	Money Laundering Directive 2005/60/EC
MoJ	Ministry of Justice
Official Journal	Official Journal of the European Union
Omnibus II	EC proposed Directive 2011/0006 (COD) amending Solvency II
OTC	over-the-counter
PRIPs	Packed Retail Investment Products
RRPs	recovery and resolution plans
RTS	regulatory technical standards
SCR	solvency capital requirement
SEC	Securities and Exchange Commission
Solvency II	Taking up Pursuit of Business of Insurance and Reinsurance Directive 2009/138/EC
T2S	TARGET2-Securities
TR	trade repository
UCITS	Undertakings for Collective Investments in Transferable Securities

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