

# ***Being better informed***

## FS regulatory, accounting and audit bulletin

PwC FS Regulatory  
Centre of Excellence

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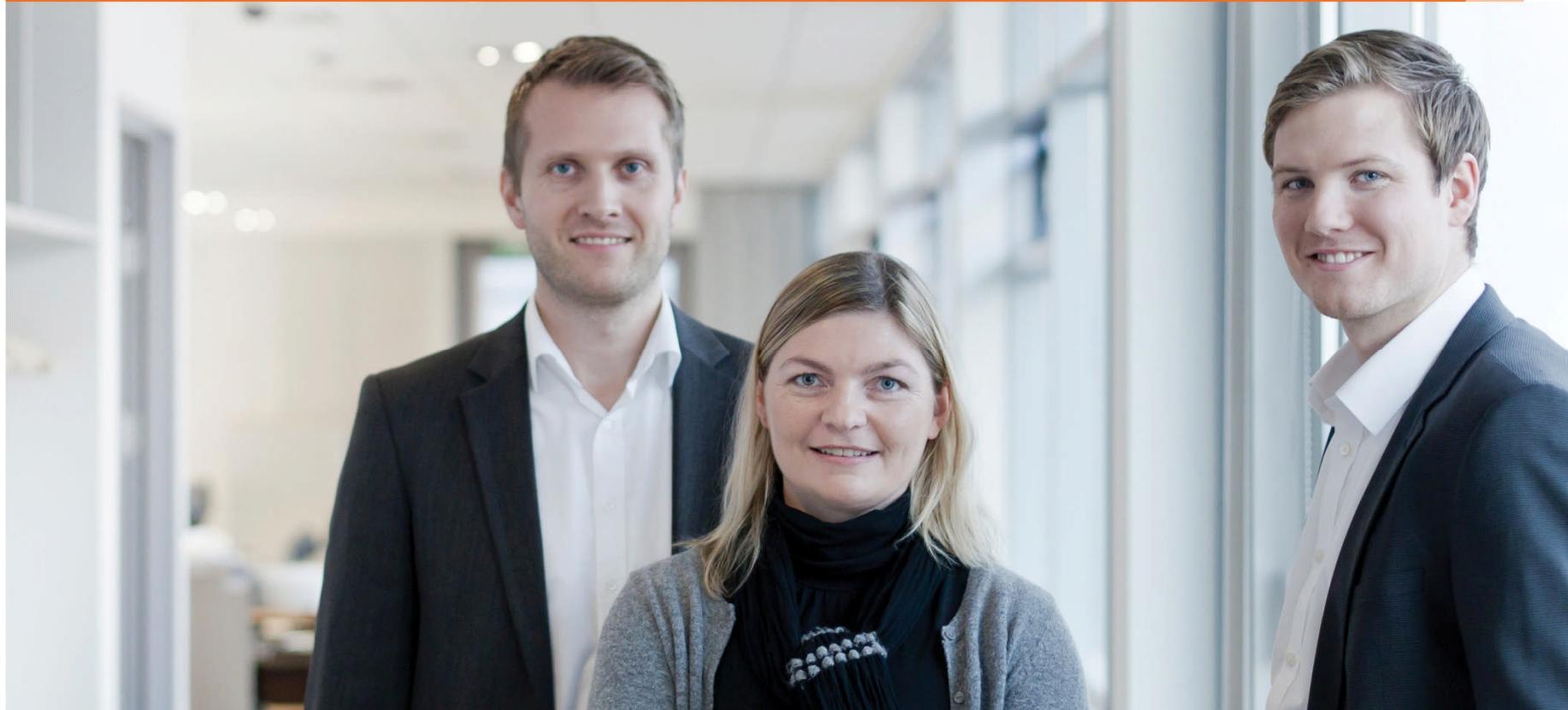
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# Executive summary

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.



**Laura Cox**  
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As is now traditional, the New Year brought with it the work programmes and policy initiatives for 2013 from a number of supranational and EU regulatory bodies, such as the *FSB*, *Basel Committee*, *EC*, *EIOPA*, and the *Joint Committee of the ESAs*. These work programmes and policy initiatives are a useful guide for identifying the regulatory priorities for 2013 and have been added to our Calendar.

We also saw the Basel Committee *reach agreement* on the revised LCR. The LCR is a short-term liquidity measure that considers a 30-day period of liquidity stress. The revisions recognise the continuing fragility of the global economy. Part of this amendment involves delaying LCR’s full application from 2015 to 2019.

The global LEI initiative gathered some pace in January. Switzerland was confirmed as the home of the LEI foundation and the *first meeting* of the LEI Regulatory Oversight Committee held on 24/25 January.

January also saw the continuing trend for consultations on benchmark-setting processes and how additional controls can be put in place to avoid future

problems. Both *IOSCO* and the *EBA/ESMA* issued consultations to establish principles; we can assume that 2013 will continue the focus on benchmark regulation seen in the second half of 2012.

The EC sensibly recommended in January that the fundamental review of FICOD (FICOD II) should be delayed for the foreseeable future, particularly until we have the new prudential regime in place (e.g. CRD IV and Solvency II).

The regulatory agenda for 2013-2014 in the EU is set to maintain – or even increase – ahead of the European Parliamentary elections next year.

Besides all the legislation currently being negotiated at the EU level, we expect new proposals this year including legislation on a European Resolution Mechanism (to supplement the three pillars of EU Banking Union which are currently under negotiation), money market funds, basic bank accounts and payments systems.

These new proposals will continue the pressure on firms from existing ones like the EU’s single supervisory mechanism,

the ‘single rule book’, CRD IV and Solvency II.

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# Culture and conduct - restoring public trust

*Despite extensive regulatory reforms over the past 5 years, public confidence in the financial sector remains at an all-time low*

Financial institutions are still paying the price for mis-sold payment protection insurance. Many market participants are accused of, and some have admitted, manipulating LIBOR and other benchmarks which underpin the cost of many everyday consumer products, from mortgages to petrol. Global banks have been fined for ignoring trade sanctions and failing to prevent money-laundering. Add these high profile stories to the financial crisis and continuing global economic uncertainty and it is hardly surprising that the majority of the public do not trust banks and other financial institutions to do the right thing<sup>1</sup>.

Customer satisfaction is lower in the financial industry than many other sectors. The public generally see senior management in financial services as behaving poorly before, during and after the financial crisis. The judgement

*· Edelman trust barometer, 2012*

of the participants in the financial sector has been called into question following evidence of short term thinking and a failure to anticipate long term risk.

The challenge for the financial sector is clear: leading economic recovery and repairing the reputational damage that arose from these failures can restore the public's confidence in the value of financial services to the wider economy. Regulatory change is only part of the solution. Regulators and the general public need to see broader change in the culture of financial institutions.

In Europe, considerable attention is focused on board and senior management responsibilities but these efforts also essentially boil down to a recognition and appreciation of the value of an appropriate business culture.

## *Culture matters*

Culture shapes judgements, decisions and behaviours in key moments that affect the performance and reputations of markets, firms and individuals. Culture can dramatically affect whether a firm's customers have a positive or

negative experience. Regulators firmly believe that culture influences consumer outcomes, and that requiring firms to have a robustly compliant culture can prevent consumer detriment. A firm that can demonstrate an appropriate culture can be confident in meeting expectations of the public, policy makers, their regulators, shareholders and other stakeholders.

Culture matters in restoring trust. Regulation will always lag behind developments in financial markets whereas a strong culture can help firms react appropriately on a real-time basis to prevent negative consequences to customers, whether arising from product development, sales practices or market trading activities.

Consumers of financial products experience firms' cultures in very tangible ways every time they buy a product or service. Conversely consumers probably cannot fully appreciate how regulation improves the service they receive other than very indirectly through the nature of the interaction that they have with firms. Extensive disclosures (and wide press coverage), allow consumers to identify

those firms which are subject to frequent complaints and fines from regulators. Customer satisfaction surveys and user reviews are increasingly accessible online and both positive and negative feedback informs the decision-making process for customers.

Culture is just as important in the wholesale sector as in retail. Regulators are focusing much more on how firms' cultures influence their behaviour and interactions with counterparties in the wholesale markets, as part of their drive to fulfil regulatory objectives around ensuring market integrity. While the advantages of a strong culture are widely recognised, there is no clear consensus as to how firms can best go about introducing, reinforcing and exhibiting an appropriate business culture which will satisfy all stakeholders.

## *Measuring conduct*

Conduct is the visible manifestation of culture, channelled through a series of processes, systems and controls. While culture is invisible and hard to directly measure and assess, conduct can be measured. Thus, the best way to

measure culture is by looking at conduct-related outcomes, processes and controls.

The value of appropriate processes and controls is twofold; firstly they guide behaviour to ensure that individuals comply with best practice and meet cultural objectives. Secondly, recording data on the success and/or failure of controls provides a source of valuable management information. This management information can be used to assess the effectiveness of existing processes – the extent to which they deliver the desired outcome – and identify areas for further improvement.

Good conduct risk management has the additional advantage that it can mitigate failures arising from poor culture or a failure of individuals to adhere to the overall culture of a firm. Both wholesale and retail firms need to underpin their risk management efforts by developing appropriate conduct risk management frameworks as part of the drive to improve culture.

#### *Introducing change*

The best way to change culture is to consider high level motivators and ground level performance measures in tandem. While leadership from senior management is important, that leadership may be too distant from the day-to-day work of individuals to change behaviours. Culture is shaped at

every level within a firm. Although senior management must take responsibility for setting the 'tone at the top', individuals at all levels in a firm have a part to play.

Staff at all levels should be trained and encouraged to consider what the purpose of a given activity is, to identify the intended beneficiary of an action and consider the factors that matter to the beneficiary rather than the agent.

To develop a conduct control regime, firms will need to first analyse their business model and future strategy to understand the products, markets, customers and services supported across their business lines. Firms need to understand any interdependencies between entities and/or business lines where these impact service delivery. Firms should identify those aspects of their business models that could impact the fair treatment of customers or their ability to operate in the market with integrity.

Senior management must be familiar with this high level review of the business model and should be able to articulate the key findings of the review to their supervisors. Firms should document this business model analysis for future reference.

Once they understand the business model, firms should undertake a detailed conduct risk assessment to

identify the risks that arise across different business lines. This could be done by assessing their business lines against a series of conduct risk factors, such as the nature of customers, the complexity of the service they provide and the product they offer.

Firms should identify which risks are controlled through the existing risk management frameworks, and which require further controls and monitoring arrangements. They should build on the above analyses to assess current risk and compliance management information, and identify areas where they should explicitly reference conduct risk. This approach will provide additional information to senior management and governance forums and demonstrate to the regulator how conduct risk is overseen.

#### *The costs and benefits*

Changing the conduct risk management of a business is not without cost. New systems and controls to monitor must be implemented and existing controls may be adapted. Staff training and communication costs will increase and compliance staff will have additional responsibilities.

The cost of cultural change is less direct, but no less significant. For firms, certain products and practices may no longer be deemed suitable for consumers. For individuals,

remuneration on the basis of sales may no longer be appropriate. Hard won expertise may no longer be as valuable.

To change cultures and conduct requires detailed analysis, careful planning, and a dedicated, sustained effort over many months or even years. But while such change involves cost, it can also provide organisational, regulatory, reputational and financial benefits. The additional management information feeds from conduct risk controls can provide senior management with key information and enable them to change processes before they incur a loss of consumer confidence or suffer a fine from the regulator for failure to identify the problem internally. Over time, those with good culture and a strong control framework will avoid costly regulatory interventions and differentiate themselves with customers.

# Cross sector announcements

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## Regulation

### Benchmark reform

#### *Creating global standards for benchmarks*

IOSCO published a [Consultation Report on Financial Benchmarks](#) on 11 January 2013, the same day as ESMA and the EBA released a series of papers relating to Euribor.

IOSCO called for benchmarks to be regulated and stressed the need for credible governance structures to address conflict of interests in the rate setting process at banks as well as at administrators.

The consultation discusses the need for increased transparency and openness in the benchmarking process (including transition between benchmarks), data sufficiency and the options for enhanced regulatory oversight.

The consultation also considers issues that market participants might confront when seeking to make the transition to a new or different benchmark.

Benchmarks should only be created when sufficient data is available to construct a credible benchmark. In cases where there is insufficient data, regulatory authorities should consider the possibility of transitioning away from a benchmark.

The consultation closes on **11 February 2013**. IOSCO should present its final proposals in the summer.

#### *Fixing Euribor*

ESMA and the EBA published the results of their joint work on Euribor on 11 January 2013:

- A [\*Review of Euribor's administration and management\*](#) and [\*Clear recommendations to the Euribor-European Banking Federation \(EEBF\)\*](#) to improve the governance and transparency of the rate-setting process
- A joint [\*ESMA-EBA consultation on Principles for Benchmark Setting Processes in the EU\*](#) which establish a framework for the conduct of benchmark rate-setting and the activities of participants in the process.
- Formal [\*EBA Recommendations\*](#) to national authorities on the supervisory oversight of banks participating in the Euribor panel.

ESMA and the EBA conducted a review of Euribor in November 2012 which identified 'significant weaknesses and insufficiencies' in the governance and rate-setting process. They have proposed a series of recommendations to the Euribor-European Banking Federation (Euribor-EBF) which they

want to see implemented 'promptly' and 'in full' to ensure Euribor is restored as a reliable benchmark.

The regulators want Euribor-EBF to jettison a number of thinly-traded rates to reduce the likelihood of manipulation. The number of tenors should be scaled down from the current 15 (1-3 weeks and 1-12 months) to no more than 7 (1 and 2 weeks, 1, 3, 6, 9 and 12 months). They will review the Euribor-EBF's progress in implementing these reforms in six months.

ESMA and the EBA are also consulting on a set of Principles which provide a general framework for the setting, submitting and administering the benchmarks, which are broadly in line with the Wheatley Review recommendations.

**Rate-setting process:** including methodology, governance, supervision, transparency and continuity of the process itself. Actual market transactions should be used as a basis for a benchmark where appropriate.

**Submission:** including banks' governance systems; management of conflicts of interest; quality of internal processes relating to staff experience, compliance, whistle-blowing; record-keeping and disclosures.

**Administration:** including robust calculation methodologies, governance and compliance systems, periodic assessment of range of benchmarks covered, consistency checks, and disclosures.

**Calculating agents:** including robust calculation methods, strong internal governance, record-keeping, accountability of staff and whistle blowing, and disclosures.

**Benchmark publishers:** including accountability of staff, and timeliness and accuracy of publication.

**Users:** including regular assessments of benchmarks used to verify appropriateness, suitability and relevance for targeted markets, monitoring compliance of benchmark administrators and calculation agents with the principles, and establishing contingency plans for unavailability of benchmarks.

ESMA and the EBA recognise that any changes to a benchmark's framework should be managed to ensure minimum disruption.

These Principles are a first step towards a potential formal regulatory and supervisory framework for benchmarks in the EU. The consultation closes on **15 February 2013**. ESMA and the EBA are planning that these principles become applicable by April 2013.

Finally, in their Recommendations to national supervisors, ESMA and the EBA focus on requests to strengthen Euribor panel banks' internal governance arrangements. These measures include a code of conduct with emphasis on identifying and managing internal conflicts, internal control arrangements (including audits), record keeping and comparison with actual transactions. They also recommend that national supervisors encourage all banks active in Euro money markets to participate in the Euribor panel to ensure that it is representative. National supervisors are expected to comply with these recommendations by 11 March 2013.

## **Capital and liquidity**

### *Revised LCR agreed*

The Basel Committee *endorsed* final standards on the Liquidity Coverage Ratio (LCR) on 6 January 2012, representing a significant step forward in the Basel III framework.

The LCR is a short-term liquidity measure that considers a 30-day period of liquidity stress. It is designed to ensure short-term resilience against liquidity disruptions and reduce the need for banks' to seek outside liquidity support during a crisis.

The Basel Committee announced a number of changes to the proposed standard in light of ongoing concerns

about the fragility of the global economy, such as delaying LCR's full implementation from 2015 to 2019. Now banks will only need to meet 60% of the requirements by 2015; this number will increase by 10% per year until 2019.

The range of corporate debt securities that are considered liquid is expanded to include BBB- (subject to limits and haircuts). Some retail mortgage-backed securities also count as high-quality liquid assets under the new regime. Previously, qualifying assets were limited to cash, government debt, central bank reserves and high quality corporate bonds.

The Basel Committee has softened the assumptions underpinning the cash inflow/outflow scenarios to reflect better experience in times of stress. This change is good for banks because the outflow rate has decreased for several types of liabilities and commitments which will mechanically increase the ratio.

The new rules provide welcome clarification in uncertain areas (e.g. the definition of liquidity facilities, introduction of a standardised approach to calculate market value changes in derivatives positions) which should promote consistent application and result in fewer arbitrage opportunities. Also, the phase-in

arrangements will give banks and large investment firms more time to complete any required balance sheet restructuring necessary to meet the 100% minimum requirements.

Further details of the changes can be found in *Annex 1: Summary description of the LCR* and *Annex 2: Complete set of agreed changes to the formulation of the Liquidity Coverage Ratio* both published by the Basel Committee.

### *Standardising Pillar III Disclosures*

The ESRB published a *Staff note* on 21 January 2013, calling for a standardised format for banks' Pillar III financial disclosures. It argued that harmonising the content and timing of Pillar III disclosures would promote market efficiency and financial stability.

Pillar 3 disclosures were designed to allow markets to operate more transparently because information disclosure facilitates assessment of banks by investors and analysts. However, different national regulators have set varied guidance across Members States regarding what should be disclosed, and in what timeframe. Therefore the information needed by the markets is still not presented in the same format or at the same time.

The ESRB suggested that the availability of more detailed information on banks' risk weighted

assets (RWA) would make it easier for supervisors, investors and analysts to identify potential solvency issues within banks. This approach would be safer than the current system where many banks only disclose an absolute figure for RWA.

The ESRB proposed that the EBA should take the lead in delivering enhanced disclosure by:

- finalising new minimum requirements for quantitative data in consultation with data users and the reporting banks (once the CRR requirements are clarified)
- establishing an EU-wide publicly accessible database.

The ESRB noted that organisations such as the EBA, ECB, FSB and CRAs have all called for banks to make more detailed and standardised data disclosure. Regulators should seize the opportunity presented by this broad support for reform.

### *FICOD II put on the back burner*

In its *Fundamental review of the FICOD*, published on 9 January 2013, the EC recommends that the revision of FICOD should not go ahead this year due to the evolving regulatory landscape.

When a revision takes place it should focus on:

- the definition and identification of a conglomerate
- identification of the parent entity ultimately responsible for meeting the group-wide requirements
- enforcement of the parent entity ultimately responsible for meeting the group-wide requirements.

Sensibly, the EC said it would be in a better position to assess these issues and whether additional requirements are required at the parent level when prudential regulations (such as CRD IV and Solvency II), the banking union and structural reforms are finalised.

The EC will keep the situation under “constant” review to determine an appropriate time frame for amendments. However, it will make an assessment of the impact of regulatory reforms already in the pipeline before making proposals, recognising that these may bring fundamental changes. This pragmatic decision by the EC is welcome.

## **Dodd-Frank Act**

### *CFTC's final exemptive order published*

The CFTC's Final Exemptive Order on Certain Swap Regulations was published in the Federal Register on 7 January 2013. The Final Order became effective on 21 December 2012. Under the Final Order, non-US entities that register as a swap dealer or major swap

participant may delay compliance with certain entity-level requirements under the Commodities Exchange Act as modified by Title VII of Dodd-Frank. In addition, non-US swap dealers and major swap participants, and foreign branches of US swap dealers and major swap participants may delay compliance with certain transaction-level requirements of the Commodities Exchange Act as modified by Title VII of Dodd-Frank, subject to specified conditions.

### *OCC grants applications to delay Swaps Pushout Rule compliance*

The OCC published guidance on the Swaps Pushout Transition Period on 8 January 2013. The guidance notifies federally-chartered insured depository institutions that it is willing to grant applications to delay compliance with the Swaps Pushout Rule for up to two years. The Swaps Pushout Rule will become effective on 16 July 2013. The Notice became effective on 3 January 2013. Requests for delays were due by 31 January 2013.

### *Real-time reporting of swap transactions begins*

The CFTC announced on 2 January 2013 that real-time reporting of swap transactions and swap dealer registration began on 31 December 2012. In making the announcement, CFTC Chairman Gary Gensler explained that for the first time, the

price and volume of swap transactions are available to the public, bringing benefits to the swap market that have long been prevalent in the securities and futures markets.

Firms must report interest rate and credit index swap transactions. The public can access this data through the swap data repository websites.

The CFTC will phase in the reporting of more swap transactions over the next few months. Swap dealer reporting will begin for foreign exchange, equity and physical commodity swaps, including agricultural and energy swaps in February 2013.

### *Extending portfolio margining*

Gary Gensler supported the CFTC's order to allow portfolio margining of both swaps and security-based swaps in a cleared swaps customer account on 14 January 2013. Clearing members already benefit from portfolio margining when clearing CDS; the order facilitates client clearing by allowing customers of clearing members to get similar benefits. The order was granted in response to a request made by Ice Clear Credit LLC (ICC). The order sets out terms and conditions under which ICC and its clearing members that are dually registered as future commission merchants and broker-dealers may

hold CDS and security-based CDS in a cleared swaps customer client account.

The SEC issued a complementary exemptive order permitting security-based CDS, which fall under the purview of the SEC, to be held outside a securities account and commingled and portfolio margined with CDS in a cleared swaps customer account.

In a statement, Commissioner Scott O. Malia said that in granting these orders the Commissions will be paving the way for customers trading both swaps and security-based-swaps to take advantage of the capital efficiencies provided by calculating margin based on the entire portfolio of positions, thereby recognising margin reductions based on correlated positions.

### *Public comment periods extended*

The CFTC extended the comment period for its proposed rule on enhancing protections to customers and customer funds held by future commissioner merchants and derivative clearing organisations until **15 February 2013**. Comments were originally due by 14 January 2013.

The SEC extended the comment period for its proposed rule on capital, margin, and segregation requirements for securities-based swap dealers and securities-based major swaps participants and capital requirements for broker-dealers until

**22 February 2013.** Comments were originally due by 22 January 2013.

*SEC releases Interim Final Rule on extension of exemptions for security-based swaps*

The SEC released an *Interim Final Rule* on the extension of exemptions for security-based swaps on 30 January 2013. The exemption applies to security-based swaps that were defined as "securities" prior to 16 July 2011. The extension becomes effective upon publication in the Federal Register and will remain in effect until 11 February 2014.

*CFTC requests comment on extension of compliance date*

On 2 January 2013, the CFTC *published* a request for comment on an extension of the compliance date for rules governing business conduct standards for swap dealers and major swap dealers and major swap participants, and certain rules requiring portfolio recognition and to have certain documentation with swap counterparties.

The CFTC is extending the compliance date for certain rules by four months, and up to six months for others. The extended compliance dates are intended to provide swap dealers and major swap participants with additional time to achieve compliance with certain regulations.

*CFTC extends review period for request from CME on regulatory reporting*

On 18 January 2013, the CFTC *announced* that it is extending the time period during which it is reviewing a request from the Chicago Mercantile Exchange (CME). The request from CME related to New Chapter 10 and New Rule 1001, both of which relate to regulatory reporting of swap data. The CFTC explained the proposed rule raises novel or complex issues that require additional time to review.

**Financial crime**

*IMF guidance on AML surveillance*

The IMF published a guidance note, *Anti-money laundering and combating the financing of terrorism inclusion in surveillance and financial stability assessments*, on 3 January 2013 (dated 14 December 2012).

The guidance note provides a framework for assessing whether cases of money laundering or terrorist financing (ML/TF) and related underlying crimes (i.e. "predicate crimes" or "predicate offenses") are so serious as to threaten domestic stability, balance of payments stability or the effective operation of the International Monetary System.

The guidance note also looks at cases where money laundering or related predicate crimes will have an adverse

effect on the stability of the broader economy without necessarily directly involving the financial system. In addition, the guidance note includes policy advice that authorities should consider when attempting to address significant instances of money laundering or terrorist financing.

*New centre for tackling cybercrime*

The new European Cybercrime Centre (also known as EC3) *opened* on 11 January 2013 aiming to protect European citizens and businesses from cybercrime.

EC3 will focus on illegal online activities carried out by organised crime groups, especially attacks targeting online banking and other online financial activity.

The EC announced its intention to establish a European Cybercrime Centre in the *EU Internal Security in Action*, adopted on 22 November 2010. The establishment of Ec3 is part of a series of measures that seek to protect EU citizens from online crimes.

**Financial stability**

*Ensuring money markets run smoothly*

Benoît Cœuré, a member of the ECB Executive Board, spoke about *ensuring the smooth functioning of money markets* at the Global Securities Financing Summit on 16 January 2013.

Cœuré explained that the recent financial and sovereign debt crises exposed the weaknesses of certain financial institutions, causing the European interbank money market to fragment. He noted that the real economy suffers severe consequences when money markets do not function properly.

Cœuré found the ongoing investigations into manipulations of key reference rates, such as LIBOR and EURIBOR, a troubling development. In response the recent EC consultation, the ECB has called for short-term governance reforms as well as longer-term measures involving changes to the calculation methodology.

On the role of CCPs in the smooth functioning of money markets, Cœuré argued that they play a major role in reducing counterparty risk, thereby mitigating potential risks associated with the drying-up of sources. The ECB supports the execution of repo transactions via CCPs. He added that market incentives are sufficient to negate the need to advocate regulatory action imposing central clearing of repos.

On collateral optimisation Cœuré highlighted three initiatives that the ECB supports:

- T2S, a single European infrastructure for securities settlement
- the implementation of cross-border triparty collateral management services within the Eurosystem collateral framework
- triparty settlement interoperability to support settlement of general collateral trading cleared by CCPs.

Finally, Coeuré asserted that it is important to ensure that collateral can flow freely, regardless of its location.

## Market infrastructure

### Switzerland to host Global LEI Foundation

The FSB reported Global LEI developments in its *[Fifth progress report](#)* published on 11 January 2013. The FSB traced the development of the Regulatory Oversight Committee (ROC) and outlined the chief responsibilities of the Private Sector Preparatory Unit, the Global LEI Foundation and the Central Operating Unit (COU).

On 24 January 2013 the ROC convened its *[first meeting](#)* in Toronto, taking over leadership of the global LEI project from the FSB.

ROC delegates appointed Matthew Reed (US Treasury Department) to serve as first Chair and Jun Mizuguchi (Financial Services Agency, Japan) and

Bertrand Couillault (Banque de France) as Vice Chairs. The ROC also appointed its Executive Committee which will be responsible for developing the Global LEI Foundation.

The ROC agreed to locate the Global LEI Foundation and its underlying COU in Switzerland. The COU, together with the federated Local Operating Units (LOUs), which will provide registration and other services, will manage day-to-day Global LEI operations.

The ROC commended work undertaken by the LEI Private Sector Preparatory Group, with whom it will coordinate when developing the LEI operational framework, relationship data standards, intellectual property, data privacy, confidentiality protocols and other LEI requirements.

### *Increasing the security of internet payments*

The ECB published its *[Recommendations for the Security of Internet Payments](#)* on 31 January 2013.

The recommendations are effectively minimum standards which apply to all payment service providers (PSPs) that provide or oversee internet payment services, such as card payments, online credit transfers and electronic direct debit electronic mandates.

The recommendations include:

- PSPs must use robust customer authentication tools to prevent unauthorised access to payment services and personal data
- establishing transaction monitoring systems designed to prevent, detect and block fraudulent transactions
- using multiple layers of online security defences in order to prevent fraud
- providing tools to help customers monitor transactions
- making all online transactions traceable
- limiting the number of log-in or authentication attempts
- setting time limits for the access to an online payments system
- promoting education and consumer awareness of online security best practices.

The ECB expects these recommendations to be integrated into existing oversight frameworks for payment schemes and supervisory frameworks for PSPs.

PSPs must implement the recommendations by 1 February 2015, although Member States may apply a shorter transition period.

## Operating rules and standards

### *Clarifying the SSR exemptions*

ESMA published final *[guidelines](#)* on the exemptions for market making activities and primary market dealers from *[Regulation \(EU\) 236/2012](#)* (the SSR) on 1 February 2013. The SSR contains exemptions allowing short positions for market making activities and the activities of primary dealers without needing to make disclosures.

ESMA consulted on the proposed exemptions in September 2012. The guidelines clarify:

- the scope of the exemption for market making activities
- how an appropriate competent authority for notification is defined, in particular with reference to third country notifications
- the process for notifying competent authorities of the intent to use the exemptions, including common templates for notification
- transitional arrangements for notifications made prior to the publication of the guidelines which are not consistent with the new, standardised approach.

The guidelines do not contain any surprise changes in the assumed scope of the exemptions. National supervisors

will need to comply with the guidelines or explain why not within two months after ESMA publishes all the translations.

#### *ESMA approves Greek SSR intervention*

ESMA validated the Greek regulator's *proposed emergency intervention* measure on 29 January 2013, finding that the proposals were appropriate, proportionate and justified.

The Greek regulator has issued a temporary ban on the short sale of shares of credit institutions admitted to trading on the Athens Exchange and part of the FTS/ATHEX-CSE Banking Index, regardless of where the trade is executed. The ban also applies to depository receipts.

Between November 2012 and January 2013, the Greek regulator prohibited the short sale of all shares and units of ETFs admitted to trading on the Athens Exchange. It now applies the ban to shares of credit institutions due to the ongoing difficulties in the Greek banking sector. The measure came into force on 1 February 2013 and expires on 30 April 2013.

#### *Other regulatory*

*Tougher rules for CRAs close to finalisation*

Following a debate on 16 January 2013, the EP adopted *new rules* on credit

rating agencies (CRA3). The changes set a number of new tougher requirements that CRAs would need to meet.

The rules governing CRAs will change so that they can only issue unsolicited sovereign debt ratings no more than three times a year and on dates specified by the CRA in the previous year. CRAs will only be able to publish ratings after EU markets have closed and at least an hour before they open, to lessen the impact the ratings have on the market.

The new rules will allow private investors to sue a CRA for negligence if it breaches any of the new rules. CRAs will also be required to explain in greater detail the key factors underpinning the ratings that they give. To reduce the potential for conflicts of interest, the amount of shares that CRAs are able to hold in listed companies will be reduced.

Finally, CRAs will not be allowed to try to influence state policies, nor will they be allowed to advocate any policy changes. Council is expected to adopt the EP's text shortly. The new rules may therefore be in force by the end of Q1 2013 or early Q2.

#### *Prospective directive*

##### *ESMA advises on disclosure requirements*

ESMA published *Technical Advice - on possible delegated acts concerning the Prospective Directive as amended by the Directive 2010/73/EU* on 9 January 2013. This constitutes the third part of technical advice due in relation to Directive 2003/71/EC, as amended by Directive 2010/73/EU, in response to a mandate issued by the EC on 20 January 2011. This advice concerns final technical advice concerning the disclosure requirements for convertible or exchangeable debt securities.

The changes proposed to the Prospectus Regulation by ESMA include, but are not limited to:

- the share registration document schedule should not be used if the underlying shares are traded on a regulated market
- clarifying the application of Annex XVIII (which sets out the schedule and building blocks for drawing up a prospectus)
- applying the proportionate disclosure regime to convertible and exchangeable debt securities which are admitted to trading on a regulated market
- setting out when the share registration document is applicable

- capital raising transactions may also be carried out by issuing debt securities with give the right to subscribe to new shares issued by the same debt securities issuer.

ESMA has set up a task force currently dealing with section 5 of the EC's mandate to compile comparative tables of liability regimes applied by the Member States in relation to the Prospectus Directive. ESMA expects to report to the EC in the second quarter of 2013.

ESMA has postponed its remaining work on the criteria to be applied in assessing the equivalence of a third-country financial market pending the outcome of the ongoing reviews of the Transparency Directive, Market Abuse Directive and MiFID.

#### *Regulatory reform*

##### *ECB backs Liikanen proposals*

The ECB gave its *tentative support* to the High-Level Expert Group structural reform proposals in EU banking (the Liikanen report) on 28 January 2013. The ECB's response to the EC's consultation supports safeguarding the existing banking model in Europe and promoting diversity which it believes reduces contagion across financial markets.

However, the ECB calls for the proposals to be backed by a robust

impact assessment to gauge the possible impact of the proposals in the EU and ensure the benefits of the reforms outweigh the costs. It notes that the Liikanen report's proposals may have a significantly different impact in each country due to the differences in the structure of banking sectors, so multiple layered impact assessment may be required.

Where possible, the ECB states the structural reform proposals need to be consistent with international reforms, whether outside (e.g. Volcker rule in the US) or inside (e.g. Independent Commission on Banking in the UK) the Union. This should avoid regulatory arbitrage and ensure a level playing field for financial institutions that are active across a number of jurisdictions.

## Retail products and conduct

### Principles for distributing complex products

IOSCO published its final report on the [Suitability Requirements for Distribution of Complex Financial Products](#) on 21 January 2013. IOSCO has set out principles for intermediaries distributing complex products to retail and non-retail customers, as part of its ongoing effort to improve customer protection. The report gives eight principles for distributing complex products:

- **Classification of customers:** intermediaries should be able to distinguish between retail and non-retail customers
- **General duties irrespective of customer clarification:** intermediaries should act professionally and mitigate conflicts of interest
- **Disclosure requirements:** customers should have information on the features, costs and risks of the complex products
- **Protection of customers for non-advisory services:** regulatory systems should protect customers from risks associated with non-advised sales
- **Suitability protections for advisory services (including portfolio management):** advice or decisions should be based on an assessment that the product's structure and risk-reward profile; the product should be aligned with the customer's experience, knowledge, investment objectives, risk appetite and capacity for loss; and intermediaries should have sufficient information to have a reasonable basis for recommendations
- **Compliance function and internal suitability policies**

**and procedures:** intermediaries should establish a compliance function and develop procedures that support compliance with suitability requirements

- **Incentives:** intermediaries should develop incentive schemes designed to ensure that only suitable products are recommended to customers
- **Enforcement:** regulators should take appropriate action and consider the value of making enforcements public.

This report is intended to complement the Joint Forum's report on [Customer suitability in the retail sale of financial products and services](#), published in 2008.

## RRPs

### Large EU banks told to prepare recovery plans

The EBA's [Recommendation on Recovery Plans](#), published on 23 January 2013, calls for all major cross-border EU banks to develop and present group recovery plans by the end of the year. The plans will need to be submitted to the national supervisors and then discussed within colleges of supervisors. The Recommendation aims to spur the development of recovery plans and to foster convergence on the highest standards across the Europe.

The Recommendation includes a template of the contents for a recovery plan:

- a general overview, proving a summary of the plan, background information on the structure of the bank's group and on the governance of the plan
- the core of the recovery plan, which sets out a list and description of options available in a crisis situation and an assessment of their execution and impact
- follow-up measures that the bank plans to implement in relation to the recovery plan.

National supervisors must notify the EBA whether they comply, or intend to comply, with the Recommendation by 23 March 2013.

At least 15 of the 39 banks captured under this Recommendation are already in the process of developing recovery plans under G-SIFI requirements propagated by the FSB.

## Tax

### Relaunching FTT through enhanced cooperation

ECOFIN [backed](#) plans by 11 Member States, representing around two-thirds of EU GDP, to proceed with a

harmonised FTT using enhanced cooperation on 22 January 2013.

The participating Member States in the FTT are: Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain. Other Member States are free to join at any time. Some are still considering whether to join (e.g. the Dutch government wants pension funds to be exempt from an FTT before joining up); other countries have completely ruled it out due to international competitiveness concerns (e.g. the UK).

Within the next few weeks, the EC will draw up a new legislative proposal on the FTT, which is expected to be largely based on the original proposal, possibly subject to a few adjustments:

- the addition of the issuers principle to the residence principle
- a single and lower tax on repos
- an exemption for the sale of UCITS.

All EU Member States can subsequently participate in debating the proposal but only participating countries will vote on the final text. The agreement will aim to establish a common framework for the FTT, with harmonised features in order to reduce tax arbitrage, as well as the possibilities for double or non-taxation and tax evasion.

Algirdas Šemeta, EU tax commissioner, *called* the Council's decision a "milestone in global tax history" and believes it might encourage other regions to make similar moves. It's also a milestone for EU taxation policy, and paves the way for further harmonisation across Member States on fiscal and taxation policy (such as on corporate tax rates), even in areas where unanimity cannot be achieved.

# Banking and capital markets

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## Regulation

### Capital and Liquidity

#### *ECB amends Eurosystem refinancing operations guidelines*

The ECB published *Guideline ECB/2013/2* on 23 January 2013, amending Guideline ECB/2012/18 of 2 August 2012, on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral.

The amended Guideline replaces Article 2. The amendment specifies the procedure for early repayments of certain long-term refinancing operations, where the Eurosystem allows counterparties to make such repayments. The new procedure requires counterparties to notify the relevant central bank of their early repayment one week in advance. The notification then becomes binding and the Eurosystem would apply a financial penalty if the counterparty fails to make the repayment as notified.

The new Guideline ensures that all central banks in the Eurozone apply the same conditions regarding early repayments. Central banks must notify the ECB of their arrangements to implement the Guideline by 21 February 2013, and apply those measures from 7 March 2013.

#### *Basel Committee analysis of RWA measurements*

The Basel Committee published the *preliminary results* of its analysis into the consistency of banks' risk-weighted asset (RWA) measures on 31 January 2013. The analysis was undertaken as part of the Regulatory Consistency Assessment Programme which monitors the implementation of Basel standards.

The Committee used two methods to calculate their market RWA:

- an analysis of publicly disclosed data from large banks with significant trading book activities
- a hypothetical test portfolio exercise, through a risk assessment of hypothetical trading portfolios containing simple long and short positions.

The preliminary results find "a clear picture of substantial variation in market RWAs across banks". In particular, the hypothetical exercise showed that there could be a "substantial difference" between the lowest and highest market RWAs. This variation is attributable to two main factors: differences in supervisory approach and different modelling choices.

The report highlighted three main policy options for reducing the variation of market RWAs in future:

- enhancing banks' public disclosure requirements
- reducing the flexibility allowed within market RWA assessment models
- harmonising national supervisors' approaches to market RWA assessments

The report also acknowledged that the Basel standards deliberately allow for some flexibility as regards risk measurement and that a certain amount of variation should therefore be expected.

### Financial stability

#### *Improved funding of European banks*

The EBA released its second *Risk Assessment of the European Banking System* on 23 January 2013. It notes the improved strength and funding position of European banks but also highlighted a number of ongoing risks to the stability of the European banking system.

The EBA cited banks' rising equity prices and their ability to issue new debt instruments as evidence of increasing market confidence. This improvement is even more impressive considering the ongoing difficult

macroeconomic operating conditions for banks. However, the EBA acknowledged that many banks are still heavily dependent on central bank funding and warned that they have much work to do to return to fully private funding sources.

The EBA cited banks' ongoing shift away from riskier activities (e.g. investment banking and trading) towards more traditional models of retail banking as evidence of the continued 'de-risking' of the European banking sector.

However, it warned of additional risks to the European banking sector:

- Debt forbearance: renegotiation of repayment terms with customers may be postponing inevitable loan losses
- Regulatory costs: the costs of new regulatory initiatives (e.g. Solvency II, CRD IV) will put pressure on banks' business models and profitability
- Net interest margins: reduced demand for credit facilities pushes a bank's net-interest margin close to zero, thereby reducing profitability.

The EBA concluded with a review of banks' marketing of retail investment products. It pointed out that retail customers often lack the necessary knowledge to properly evaluate such

products. It warned that banks may be exposing themselves to risks of further mis-selling scandals, going as far as to describe this situation as a potential prudential risk.

*Basel Committee principles for strengthening risk*

The Basel Committee published [Principles for effective risk data aggregation and reporting](#) on 9 January 2013, which sets out 14 Principles to strengthen banks' risk management capabilities.

The Principles are aimed at G-SIBs, both on a group and solo basis. The Principles form part of the FSB's wider work on risk data aggregation and reporting practices which includes developing a new common data template for G-SIFIs and the LEI initiative.

The Principles address four key areas:

- Strong governance arrangements and robust IT infrastructure
- Risk data aggregation capabilities to enable accurate, complete and timely reporting on an ad-hoc basis under stress situations
- Risk reporting practices that produce accurate, clear and meaningful reporting at the appropriate frequency and for the appropriate recipients

- Supervisory tools and cooperation to ensure adequate review of the bank's compliance with the Principles.

The Basel Committee wants banks to start discussing the Principles with their supervisors in early 2013 and develop a strategy to meet the requirements by 2016.

# Asset management

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## Regulation

### AIFMD

#### *UK implementation of AIFMD gathers pace*

HMT published its first of two consultation papers on [Transposition of the Alternative Investment Fund Managers Directive](#) on 11 January 2013.

The consultation paper sets out the HMT policy for the following issues:

- Sub-threshold alternative investment fund managers: will be subject to the minimum requirements under AIFMD unless they manage authorised funds (e.g. non-UCITS retail schemes or qualified investor schemes), in which case they will be subject to AIFMD in full, except for the remuneration, transparency and letter-box rules.
- Marketing: the UK rules on selling alternative funds to retail investors and the UK's existing private placement regime for non-EU alternative investment funds would both remain unchanged.

- Private equity funds: will be subject to the lighter depositary requirements allowed in AIFMD, as FSA proposed.
- Other issues: the definition of a "collective investment scheme" in FSMA will remain the same, and the RAO will be amended to include new permissions for managing or acting as depositary of alternative investment funds.

The consultation closes for comments on **27 February 2013**.

HMT's second consultation will include further details on the scope of funds impacted by AIFMD, including its impact on charity funds, the marketing requirements for EU and non-EU retail funds and whether the approved persons regime will apply to internally managed alternative investment funds.

#### *AIFMD co-operation agreed with Brazilian regulator*

ESMA [announced](#) on 16 January 2013 that EU and Brazilian regulators have agreed to co-operate on the cross-border supervision of alternative investment funds. ESMA concluded the co-operation agreement with the Brazilian regulator on behalf of all the Member State regulators.

This is the second such co-operation agreement that ESMA has agreed, following the agreement reached with the Swiss regulator in December 2012. The Brazilian market is an important one for many alternative managers and it is positive that managers can continue to delegate functions to Brazilian entities. The co-operation agreement also gives Brazilian fund managers and funds access to the EU market.

We are pleased to see ESMA now progressing with these co-operation agreements - they are one of the key cornerstones for AIFMD's success. Hopefully many more will follow in future months with other key countries across the globe.

# Insurance

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## Regulation

### Solvency II

#### Long-term guarantees assessment starts

EIOPA launched the *LTGA* on 28 January 2013. The assessment, which is required to help EU legislators agree final Omnibus II requirements, tests a 'BASE scenario with LTG package' that may be the clearest indication so far of regulators' likely final position.

The LTGA also tests a 'BASE scenario without LTG package' and 11 other scenarios reflecting options debated by EU legislators. EIOPA plans to issue its LTGA findings in June, which will be discussed when trilogue resumes.

#### Planning Solvency II reporting and disclosure requirements

Solvency II reporting and disclosure requirements are not likely to change substantially during the implementation delay. In '*Getting to grips with Pillar 3*' we consider how insurers should prepare for these requirements and the main misconceptions about challenges for insurance companies.

### Other regulatory

#### Supervisory Colleges and 2013 Action Plan

EIOPA published a *Report on the Functioning of Colleges and the Accomplishments of the 2012 Action Plan* on 29 January 2013, concluding that supervisors have made progress in preparing for Solvency II. However, EIOPA noted differences in the scope and frequency of information exchange between college members, as well as in their approaches to risk assessment and analysis. In the *Action Plan 2013 for Colleges*, published the same day, EIOPA says that it will focus this year on developing a common understanding of risks across the EU and will seek to further align work on the pre-application of Solvency II internal models.

#### Guidelines on Complaints-Handling by Insurance Undertakings

EIOPA issued *Guidelines on Complaints-Handling by Insurance Undertakings* for national competent authorities in November 2012. Authorities had until 15 January 2013 to comply or explain why they did not intend to comply and EIOPA has published their *responses*.

#### EIOPA's Multi-Annual Work Programme 2012-2014

EIOPA published their *Multi Annual Work Programme 2012-2014*, reviewing its 2012 activities and providing a preview of its plans for 2013-2014.

EIOPA's 2013 work is organised under its strategic initiatives: regulatory tasks, supervisory tasks, consumer protection and financial innovation, common supervisory culture, financial stability, crisis prevention, management and resolution, external relations and EIOPA internal organisation.

#### Call for European Insurance Contract Law experts

The EC is setting up an insurance Expert Group (See *EC Decision 2013/C 16/03 of 17 January 2013*). The expert group will assist legislators in investigating whether contract law differences pose an obstacle to cross-border insurance product sales and to identify the insurance areas affected. The expert group will report to the EC by the end of 2013. The application deadline closes on **21 February 2013** (see *EC call for applications*).

## Accounting<sup>2</sup>

### IASB

#### IASB Insurance Contracts Project – IFRS 4, phase II

The IASB is working with the FASB to develop a harmonised IFRS for insurance contracts. However, differences between the IASB and FASB's positions mean that full convergence between their standards is unlikely. For more information see our *webpage* and also the IASB's high level summary of the project *status*.

The IASB published a *podcast* on 11 January 2013 reporting on developments at their November 2012 and December 2012 meetings.

The IASB met on 29 January 2013 to continue discussions on the proposed Insurance Contracts Standard and considered:

- allocation of insurance contract revenue—change in pattern of expected claims

<sup>2</sup> This section includes accounting developments with a direct or potential on the financial services industry only.

- the transition proposals in the light of subsequent decisions on insurance contracts revenue
- sweep issues.

The FASB and IASB tentatively decided that under the building block approach, insurers should update the allocation pattern of revenue on a prospective basis, if the pattern of expected claim estimates changes.

Regarding transition, the IASB decided on a simplified approach for estimating the risk adjustment under the previously agreed retrospective transition method. The IASB tentatively decided that the risk adjustment calculated at the transition date for in-force insurance contracts should be used as a proxy for the risk adjustment at contract inception. As a consequence of the simplified calculation of the risk adjustment, the IASB board tentatively concluded that an insurer should be able to estimate the residual margin retrospectively or to estimate it making maximum use of objective data. This conclusion reverses the IASB's previous decision that would have allowed a practical expedient involving calibration to previous GAAP.

For more details see our [Insurance Alert](#).

#### *The future of insurance reporting webcast*

In this [webcast](#) our partners Brian Purves, Paul Clarke, Gail Tucker, and Kirsty Ward discuss how insurers can prepare for the transition to the new IFRS for insurance contracts, as well as benefitting from their investment in Solvency II.

They also consider the options for reporting in the 'gap' period between Solvency II and IFRS Phase II, as the timetables are not aligned. This webcast follows on from PwC's recently launched publication ['Laying the foundations for the future of insurance reporting'](#).

#### *Scope of revenue recognition standard agreed (IASB/FASB)*

This project aims to clarify the principles for recognizing revenue from customer contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts. In [practical guide 36](#) we summarise the IASB/FASB re-deliberations in November and December 2012, tentative decisions since October 2012 and potential implications. The appendix summarises

the boards' tentative decisions since July 2012 and compares them to the 2011 exposure draft.

At their January 2013 meeting the IASB and FASB clarified the scope of the revenue standard and confirmed the accounting for repurchase agreements and performance fees by asset managers. They also confirmed that the accounting for transfers of non-financial assets, that are not an output of an entity's ordinary activities, should follow the guidance in the revenue recognition standard. The boards' decisions are tentative and subject to change.

Disclosure and transition requirements are the main outstanding issues that the IASB and FASB are expected to re-deliberate at the February meeting. The boards are aiming to finalise re-deliberations in Q1 2013 and issue the final standard in Q2 2013 which will take effect no earlier than 2015.

For an overview of the boards' decisions and what's next, see our [Straight away 109](#).

#### *New ED on recoverable amount disclosures for non-financial assets*

The IASB published an ED on 18 January 2013 of proposed

modifications to disclosures required under IAS 36 'Impairment of assets' when the recoverable amount is determined based on fair value less costs of disposal. The consultation closes on **19 March 2013**. For further details see our [Straight away 108](#).

#### *Joint efforts needed to improve disclosures*

The IASB published highlights of its survey on financial disclosures, ahead of the Disclosures in Financial Reporting forum on 28 January 2013. The IASB found that standard-setters, auditors, preparers, regulators and investors need to work together to improve all disclosures, not just those in financial statements. See [IASB press release](#).

The IASB intends to publish full results of the survey, a summary of forum notes and the IASB's disclosure proposals in Q1 2013.

#### *PwC publications*

- [IFRS News](#), our monthly IASB newsletter.
- **Investor View**, a series with insights from our ongoing dialogue with investors and analysts to help IFRS preparers improve their

communication to the capital markets.

- **Investor view 27 – Seven principles for risk disclosures**

In *Investor view 27* we look at how all companies can apply disclosure principles to their risk reporting.

- **Investor view 26 – Return on capital employed**

In *Investor view 26* we look at some improvements to disclosures that could help investors and benefit companies.

- **Practical Guide 35 – IAS 19 (revised) significantly affects the reporting of employee benefits**

In *Practical guide 35* we consider the amendments to IAS 19.

# Monthly calendar

## Open consultations

Closing date for responses	Paper	Institution
11/02/13	<a href="#">Consultation on financial benchmarks</a>	IOSCO
15/02/13	<a href="#">ESMA calls for candidates for its Corporate Reporting Consultative Working Group</a>	ESMA
15/02/13	<a href="#">Consultation paper: principles for benchmark-setting processes in the EU</a>	ESMA/EBA
20/02/13	<a href="#">Consultation paper: guidelines and recommendations on the scope of the CRA Regulation</a>	ESMA
10/03/13	<a href="#">Consultation Paper on Draft Implementing Technical Standards on reporting of national provisions of prudential nature relevant to the field of occupational pension schemes</a>	EIOPA
15/03/13	<a href="#">Consultative document: revisions to the Basel Securitisation Framework</a>	BIS
31/03/13	<a href="#">Standard on risk management for Takaful (Islamic insurance) undertakings</a>	IFSB

## Forthcoming publications in 2013

Date	Topic	Type	Institution
<b>Capital and Liquidity</b>			
Q1 – Q3 2013	CRR/CRD IV	76 regulatory technical standards, 32 implementing technical standards and 20 guidelines	EBA
Q1 2013	Review of Financial Conglomerates Directive	Legislative proposals	EC
TBC 2013	Revision of Financial Conglomerates Directive (FICOD II)	Legislative proposals	EC
TBC 2013	The development of technical standards on risk concentrations and intra-group transactions	Draft technical standards	ESAs
<b>Consumer protection</b>			
Q1 2013	An EU framework for collective redress	Legislative proposals	EC
Q1 2013	Investor Guarantee schemes- revision	Legislative proposals	EC
Q1 2013	Bank accounts	Legislative proposals	EC
<b>Financial crime, security and market abuse</b>			
Q1 2013	Financial message data transfer from the EU to the USA for the purposes of the Terrorist Finance Tracking Program	Report	EC
Q4 2013	Market Abuse Review	Technical advice	ESMA
TBC 2013	Third Anti-Money Laundering Directive	Legislative proposals	EC
<b>Insurance</b>			
Q3 2013	Institutions for Occupational Retirement Provision	Legislative proposals	EC
Q4 2013	Technical standards for Omnibus II	Technical standards	ESMA
TBD 2013/2014	Advice or technical standards for IMD2	Technical advice or technical standards	EIOPA

Date	Topic	Type	Institution
<b>Securities and markets</b>			
Q1 2013	Securities Law Directive	Legislative proposals	EC
Q1 2013	Limitation period and further procedures for fining credit rating agencies	Regulation	EC
Q1 2013	Revision of the Transparency Directive	Discussion papers	ESMA
Q1 2013	Close-out netting	Legislative proposals	EC
Q1 2013	OTC Derivatives, CCP Requirements, Trade Repositories and CCP Interoperability (EMIR)	Guidelines	ESMA
Q1 2013	Guidelines on the enforcement of EMIR provisions on OTC derivatives	Guidelines	ESMA
Q1 2013	Joint technical standards on Article 11 of EMIR (exchange of collateral)	Technical standards	ESAs
Q2 2013	Guidelines on MiFID remuneration	Guidelines	ESMA
Q4 2013	Technical standards following the revision of MiFID (MiFID II and MiFIR)	Technical standards	ESMA
TBD 2013	Credit Rating Agencies III Regulation	Technical advice	ESMA
<b>Products and investments</b>			
Q1 2013	European Social Entrepreneurship Funds	Technical advice	ESMA
Q1 2013	European Venture Capital Funds	Technical advice	ESMA
Q2 2013	Technical advice on the revised Prospectus Directive	Technical advice	ESMA
Q3 2013	Technical standards on the revised Transparency Directive: notification requirements and update and maintenance of Q&A	Technical standards	ESMA
TBD 2013	Packaged Retail Investment Products	Technical standards	ESMA/EIOPA

Date	Topic	Type	Institution
TBD 2013	Development of high level principles for the product approval process	Principles	ESAs
TBD 2013	Undertakings For The Collective Investment Of Transferable Securities V	Technical advice	ESMA
TBD 2013	Markets in Financial Instruments Directive II	Technical advice	ESMA
TBD 2013	Markets in Financial Instruments Directive II	Guidelines	ESMA
TBD 2013/2014	A framework for the activities and supervision of personal pension schemes	Advice	EIOPA
<b>Recovery and resolution</b>			
Q1 2013	Rescue and restructuring of financial institutions in Europe	Guidelines	EC
TBD 2013	EU framework for recovery and resolution plans	Technical advice	EBA
<b>Solvency II</b>			
Q1/Q2 2013	Draft Level 2 delegated acts	Level 2 text	EC
TBD 2013	Solvency Level 3 measures	Level 3 text	EIOPA
<b>Supervision, governance and reporting</b>			
Q1 2013	Corporate reporting	Guidelines/recommendations	ESMA
Q1 2013	EU corporate governance and company law	Action plan	EC
Q1 2013	Storage of regulated information at ESMA	Discussion paper	ESMA
Q1 2013	Supervisory convergence	Discussion paper	ESMA
Q1 2013	Revision of Enforcement Standards	Consultation paper	ESMA
Q1 2013	Remuneration and supervisory co-operation arrangements	Guidelines/recommendations	ESMA

Date	Topic	Type	Institution
TBD 2013	IORP standard on reporting prudential regulation	Impact assessment	EIOPA
TBD 2013	Reporting prudential legislation relevant to occupational pension schemes to EIOPA	Implementing technical standards	EIOPA
TBD 2013	Implementing technical standards on credit ratings and external credit assessment institutions	Implementing technical standards	ESAs
TBD 2013	The equivalence of CRA rules in a number of third countries	Technical advice	ESMA

Main sources: ESMA 2013 work programme; EIOPA 2013 work programme; EBA 2013 work programme; ESAs Joint Committee 2013 work programme

# PwC Insights

## Financial services

### *16th Annual Global CEO Survey*

Leaders and their organisations are now operating in a world where uncertainty and volatility have increased to unprecedented levels, and economic growth varies widely between countries and regions. It's against this background that we have conducted our 16th PwC Annual Global CEO Survey.

[Read more \*\*here\*\*](#)

## Asset Management

*Alternative Investment Fund Manager's Directive (AIFMD) and remuneration*  
Alternative Investment Fund Manager's Directive (AIFMD) represents a big change for the industry and when implemented on the 22nd July 2013, it will have an impact on all types of remuneration paid after that date. This may also affect bonuses already accruing from 1 January this year.

In a short video, Tim Wright, Director in our Human Resource Service (HRS) practice discusses how remuneration will be affected by AIFMD.

**[Read more \*\*here\*\*](#)**

*Top 10 impacts of regulation on asset managers*

The wave of new financial services regulations is causing deep changes in the asset management industry, heralding a period of transformation that will threaten some business models' profitability.

In the latest in our series of Asset Management Insights we look at the top 10 challenges facing the industry when responding to the changing regulatory landscape.

**[Read more \*\*here\*\*](#)**

For a full library of insights into all issues affecting asset management, please visit our new, easy to navigate online library:  
<http://www.pwc.com/bankingpublications>

## Banking

*Basel III and beyond: Revised Liquidity Coverage Ratio*

On 7 January 2013 the Basel Committee on Banking Supervision (BCBS) issued a finalised standard on the Liquidity

Coverage Ratio (LCR). The LCR forms one of the key planks of the Basel III reform package.

**[Read more \*\*here\*\*](#)**

For a full library of insights into all issues affecting banking, please visit our new, easy to navigate online library:  
[www.pwc.com/bankingpublications](http://www.pwc.com/bankingpublications)

# Glossary

2EMD	The Second E-money Directive 2009/110/EC	BBA	British Bankers' Association
ABC	anti-bribery and corruption	BIBA	British Insurance Brokers Association
ABI	Association of British Insurers	BIS	Bank for International Settlements
ABS	asset backed security	BoE	Bank of England
AIF	alternative investment fund	CASS	FSA Client Assets sourcebook
AIFM	alternative investment fund manager	CCD	Consumer Credit Directive 2008/48/EC
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU	CCPs	central counterparties
AIMA	Alternative Investment Management Association	CDS	credit default swaps
AMICE	Association of Mutual Insurers and Insurance Cooperatives	CEBS	Committee of European Banking Supervisors (predecessor of EBA)
AML	anti-money laundering	CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors (predecessor of EIOPA)
AML3	3rd Anti-Money Laundering Directive 2005/60/EC	CESR	Committee of European Securities Regulators (predecessor of ESMA)
ASB	UK Accounting Standards Board	Co-legislators	Ordinary procedure for adopting EU law requires agreement between the Council and the European Parliament (who are the 'co-legislators')
Basel Committee	Basel Committee of Banking Supervisors (of the BIS)	CFPB	Consumer Financial Protection Bureau (US)
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework		
Basel III	Basel III: International Regulatory Framework for Banks		

CFTC	Commodities Futures Trading Commission (US)
CGFS	Committee on the Global Financial System (of the BIS)
CIS	collective investment schemes
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups
Council	Generic term representing all ten configurations of the Council of the European Union
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems (of the BIS)
CRA1	Regulation on Credit Rating Agencies (EC) No 1060/2009
CRA2	Regulation amending the Credit Rating Agencies Regulation (EU) No 513/2011
CRA3	proposal to amend the Credit Rating Agencies Regulation and directives related to credit rating agencies COM(2011) 746 final
CRAs	credit rating agencies
CRD	'Capital Requirements Directive': collectively refers to Directive 2006/48/EC and Directive 2006/49/EC
CRD II	Amending Directive 2009/111/EC
CRD III	Amending Directive 2010/76/EU
CRD IV	Proposal for a Directive COM(2011) 453 final amending CRD
CRR	Capital Requirements Regulations 2006 (S.I. 2006/3221)

CTF	counter terrorist financing
DFBIS	Department for Business, Innovation and Skills
DG MARKT	Internal Market and Services Directorate General of the European Commission
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act (US)
D-SIBs	domestically systemically important banks
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECP	European cooperation mechanism
ED	exposure draft
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (configuration of the Council of the European Union dealing with financial and fiscal and competition issues)
ECON	Economic and Monetary Affairs Committee of the European Parliament
EEA	European Economic Area
EFAMA	European Fund and Investment Management Association
EIOPA	European Insurance and Occupational Pension Authority

EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EC) No 648/2012
EP	European Parliament
ESA	European Supervisory Authority (ie generic term for EBA, EIOPA and ESMA)
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EURIBOR	Euro Interbank Offered Rate
Eurosystem	System of central banks in the euro area, including the ECB
FASB	Financial Accounting Standards Board (US)
FATCA	Foreign Account Tax Compliance Act (US)
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FDIC	Federal Deposit Insurance Corporation (US)
FiCOD	Financial Conglomerates Directive 2002/87/EC
FiCOD1	Amending Directive 2011/89/EU of 16 November 2011
FiCOD2	Proposal to overhaul the financial conglomerates regime (expected 2013)
FMI	financial market infrastructure

FOS	Financial Ombudsman Service
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FSA	Financial Services Authority
FSB	Financial Stability Board
FS Act 2012	Financial Services Act 2012
FS Reform Bill 2012	Financial Services (Bank Reform) Bill 2012
FSCS	Financial Services Compensation Scheme
FSI	Financial Stability Institute (of the BIS)
FSMA	Financial Services and Markets Act 2000
FSOC	Financial Stability Oversight Council
FTT	financial transaction tax
G30	Group of 30
GAAP	Generally Accepted Accounting Principles
G-SIBs	globally systemically important banks
G-SIFIs	globally systemically important financial institutions
G-SIIs	globally systemically important insurers
HMRC	Her Majesty's Revenue & Customs

HMT	Her Majesty's Treasury
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICAS	individual capital adequacy standards
ICB	Independent Commission on Banking
ICOBS	Insurance: Conduct of Business Sourcebook
IFRS	International Financial Reporting Standards
IIF	Institute for International Finance
IMA	Investment Management Association
IMAP	internal model approval process
IMD	Insurance Mediation Directive 2002/92/EC
IMD2	Proposal for a Directive on insurance mediation (recast) COM(2012) 360/2
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
JCESA	Joint Committee of the European Supervisory Authorities

JMLSG	Joint Money Laundering Steering Committee
JURI	Legal Affairs Committee of the European Parliament
LEI	legal entity identifier
LIBOR	London Interbank Offered Rate
LTG	long-term guarantee
LTGA	long-term guarantee assessment
MAD	Market Abuse Directive 2003/6/EC
MAD II	Proposed Directive on Criminal Sanctions for Insider Dealing and Market Manipulation (COM(2011)654 final)
MAR	Proposed Regulation on Market Abuse (EC) (recast) (COM(2011) 651 final)
MCR	minimum capital requirement
Member States	countries which are members of the European Union
MiFID	Markets in Financial Instruments Directive 2004/39/EC
MiFID II	Proposed Markets in Financial Instruments Directive (recast) (COM(2011) 656 final)
MiFIR	Proposed Markets in Financial Instruments Regulation (EC) (COM(2011) 652 final)
MMR	Mortgage Market Review
MoJ	Ministry of Justice
NAV	net asset value

OCC	Office of the Comptroller of the Currency (US)
OECD	Organisation for Economic Cooperation and Development
Official Journal	Official Journal of the European Union
OFT	Office of Fair Trading
Omnibus I	Directive 2010/78/EU amending 11 existing Directives to reflect Lisbon Treaty and new supervisory architecture
Omnibus II	Second Directive amending existing legislation to reflect Lisbon Treaty and new supervisory infrastructure (COM(2011) 0008 final) – amends the Prospectus Directive (Directive 2003/71/EC) and Solvency II (Directive 2009/138/EC)
ORSA	own risk solvency assessment
OTC	over-the-counter
PPI	payment protection insurance
PRA	Prudential Regulation Authority
Presidency	Member State which takes the leadership for negotiations in the Council: rotates on 6 monthly basis
PRIPs	Packed Retail Investment Products
PRIPs Regulation	Proposal for a Regulation on key information documents for investment products COM(2012) 352/3
RAO	Financial Services and Markets Act 2000 (Regulated Activities Order) 2001
RDR	Retail Distribution Review

RRPs	recovery and resolution plans
RTS	regulatory technical standards
SCR	solvency capital requirement (under Solvency II)
SEC	Securities and Exchange Commission (US)
SFD	Settlement Finality Directive 98/26/EC
SFO	Serious Fraud Office
SIPP	Self-invested personal pension scheme
SOCA	Serious Organised Crime Agency
Solvency II	Directive 2009/138/EC
SSAP	statements of standard accounting practice
SSR	Short Selling Regulation EU 236/2012
SUP	FSA Supervision source
T2S	TARGET2-Securities
TR	trade repository
TSC	Treasury Select Committee
UCITS	Undertakings for Collective Investments in Transferable Securities
UCITS IV	UCITS Directive 2009/65/EC

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