

Being better informed

FS regulatory, accounting and audit bulletin

*PwC FS Regulatory
Centre of Excellence*

December 2012

In this issue:

Shadow banking update

RRP rules for G-SIFIs

CRD IV level 2 standards

AIFMD UK consultation



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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The FSB led the surge of Shadow Banking policy recommendations published in November, which we summarise in this month's Feature.

The FSB also looked at how shadow banking has grown globally in its shadow banking monitoring report. At this time assets in the aggregate shadow banking system are about half the size of assets in the traditional banking system.

In Europe, a number of legislative initiatives are delayed until 2013. On the insurance front, a further delay to Solvency II implementation now seems inevitable. But in *Laying the foundations for the future of insurance reporting* we make a case for adopting both sets of requirements now, to minimise the expense and disruption that would occur later.

In the UK, the FSA published its *first consultation to implement AIFMD*.

In 2013, many of areas of regulation will take shape as European regulators finalise key legislative initiatives and the UK launches its new regulatory regime.

- For the banks, it's about improving their culture and rebuilding profitability, while at the same time coping with new capital requirements under CRD IV. Banks will also need to adopt the new supervisory approaches presented by the EU banking union and the launch of the PRA, and continue clean-up efforts on prior misdeeds.
- Insurers will be hoping that their work on Solvency II doesn't go stale during the hiatus, and will look more closely at investor disclosure and conduct issues.
- Asset managers will be grappling with more strict MMF regulation, UCITS changes and the new alternative investment fund regime, while trying to work out what the FCA wants from them on the competition front.

We'll take a closer look at the 2013 regulatory landscape next month. We wish you all the joys of the holiday season and a Happy New Year, from all of us in the PwC Regulatory Practice.



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How to read this bulletin?

Review the Table of Contents the relevant Sector sections to identify the news of interest. We recommend you go directly to the topic/article of interest by clicking in the *active links* within the table of contents.

Contents

<i>Executive summary</i>	<i>1</i>
<i>Shadow bank of the future?</i>	<i>3</i>
<i>Cross Sector Announcements</i>	<i>7</i>
<i>Banking and Capital Markets</i>	<i>18</i>
<i>Asset Management</i>	<i>20</i>
<i>Insurance</i>	<i>22</i>
<i>Monthly calendar</i>	<i>25</i>
<i>PwC insights</i>	<i>30</i>
<i>Glossary</i>	<i>32</i>
<i>Contacts</i>	<i>36</i>

Shadow bank of the future?

FSB introduces global regulatory structure

After a mid-year lull, international regulators and policy setters released more than half a dozen shadow banking proposals in November. The FSB led the way by publishing four documents, with IOSCO contributing a report on *Global Developments in Securitisation Regulation* and the FSB releasing its second annual *Global Shadow Banking Monitoring Report*.

The FSB published two consultations which set out the foundations of a new global shadow banking regime. An *Integrated Overview of Policy Recommendations* presents the FSB's overall approach to shadow banking issues, while the *Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities* introduces a high-level policy framework for regulators to assess and mitigate bank-like systemic risks posed by most shadow banking entities. The FSB also released a further

consultation, *Policy Recommendations to Address Shadow Banking Risks in Securities Lending and Repos*, putting forward 13 suggestions to enhance transparency, strengthen regulation of securities financing transactions and improve market structure. The three consultations close on **14 January 2013**.

This article outlines the key FSB proposals and findings from the Global Monitoring Report, explains the international work streams' structure and summarises the status of each initiative as at the end of November 2012. We also touch on recent activity in Europe from the EP and from the FSOC in the US.

Getting on top of Shadow Banking

The financial crisis exposed the deep interdependence of the banking sector with non-bank entities which also undertake forms of credit intermediation and are dubbed 'shadow

banks'. Therefore regulators are seeking to appropriately regulate the non-banking sector, when involved in such activities. "You cannot tackle systemic risks unless you tackle things other than banks," said Vikram Pandit, former Citigroup CEO.

After agreeing Basel III capital and liquidity reforms, G20 leaders tasked the FSB with developing proposals to strengthen the oversight of the shadow banking system. At the Cannes Summit in November 2011 G20 leaders endorsed the FSB's initial recommendations to make the shadow banking system safer.

The FSB then delivered its detailed proposals to the G20 Central Bank Governors and Finance Ministers at the Mexico City Summit on 5 November 2012. The Communiqué from the meeting called for the FSB to produce final policy measures for the St Petersburg G20 summit in 2013.

The FSB has organised its shadow banking work into five work streams:

1. interaction between banks and shadow banking
2. MMFs
3. other shadow banking entities (excluding MMFs)
4. securitisation and
5. securities lending and repos.

The Basel Committee is reviewing the interaction between banks and shadow banking, and IOSCO is managing the work streams on MMFs and securitisation. The FSB is leading the work streams exploring other shadow banking entities' and securities lending and repos.

Improving monitoring and data reporting on agenda

The FSB's second annual Global Shadow Banking Monitoring Report surveys 25 countries (the 24 FSB countries and Chile), 11 more countries

than last year. The report aims to look at the big picture on shadow banking activity, examining national flows of funds across all types of non-bank intermediation. It found that:

- Shadow banking grew rapidly before the crisis, rising from \$26 trillion in 2002 to \$62 trillion in 2007. The system declined slightly in 2008 but then reached \$67 trillion in 2011.
- Shadow banking's share of total financial intermediation has decreased since the crisis. It remained at 25% in 2009-2011 after peaking at 27% in 2007. The aggregate size of the shadow banking system is around half the size of the banking system's assets.
- The US had the largest shadow banking system with \$23 trillion in 2011, followed by the euro area (\$22 trillion) and the UK (\$9 trillion).

The FSB believes that although regulators have improved the monitoring process - increasing its scope and data granularity - they need to do more to reach a satisfactory level of supervision. The FSB recommends that regulators use additional analytic

methods based on market supervisory practices and gather more data. They should aggregate better international data to provide an accurate assessment of the potential risks posed by shadow banking. The FSB observes that they have insufficient for countries such as Russia, China and Saudi Arabia, and believes that large international financial institutions should be providing more data.

Progress on the work streams

Work Stream 1: Banks' interaction with shadow banks

Since the crisis, the Basel Committee has been considering possible rules to better manage banks' exposures to shadow banking entities beyond Basel III. Building on its July 2012 interim report, the Basel Committee will put forward detailed policy recommendations by mid-2013 on:

- Scope of consolidation: additional guidance to improve the international consistency of the scope of consolidation for prudential regulatory purposes. The guidance will clarify how banks should consolidate their shadow banking

exposures, with rules drafted to limit regulatory arbitrage opportunities.

- Large exposures: developing a large exposure regime that takes into account risks typically arising from the shadow banking system, such as interconnectedness and opacity.
- Banks' investment in funds: introducing a more consistent and risk sensitive international capital treatment for bank investment in funds to better reflect the funds' underlying investments and leverage.

The Basel Committee also considered capital requirements relating to banks' short-term liquidity facilities to shadow banking entities (e.g. MMFs), but decided to take no further action. The Basel Committee was concerned that there could be unintended adverse affects, such as reducing the sensitivity of capital regimes to risk. Further, Basel III liquidity requirements were considered sufficient in addressing this risk.

Work Stream 2: MMFs

Following consultation, IOSCO published its *Policy Recommendations for Money Market Funds* in October 2012. The FSB endorsed IOSCO's paper as an effective framework in its entirety. The FSB particularly supports the Recommendation 10 requirement that stable NAV MMFs should be converted into floating NAV where possible. Where that is not possible, the FSB recommends that measures to safeguard MMF's resilience against runs should be functionally equivalent to the bank capital and liquidity requirements which protect against runs on deposits.

The US, which has the largest MMF market, has been wrestling with MMF reforms for some time. The FSOC published *Proposed Recommendations Regarding Money Market Mutual Fund Reform* on 13 November 2012. The FSOC argues that even a small threat to a MMF can start a run, because MMFs cannot absorb losses in their holdings without depressing the market value of their shares. The FSOC's recommendations follow proposals put forward by SEC Chairman Mary Shapiro in February

2012, which the SEC did not adopt. Chairman Shapiro called for a floating NAV or a tailored capital buffer of less than 1% of a fund's assets. The FSOC will send its final recommendations back to the SEC to take action.

The FSOC's proposals build on Chairman Shapiro's proposals:

1. Floating NAV: removing an accounting exemption that allows MMFs to maintain a stable NAV would encourage most MMFs would move to a floating NAV.
2. Stable NAV with NAV buffer and 'minimum balance at risk': MMFs would hold a buffer of up to 1% of assets to absorb daily fluctuations, to enable them to achieve a stable NAV. The buffer would be paired with a requirement for MMFs to hold an amount equal to 3% of a shareholders' highest account value, in excess of \$100,000, available for redemption on a delayed basis. If an MMF suffers losses that exceed the NAV buffer, the losses would be borne first by shareholders who had recently redeemed - creating a disincentive to redeem and protecting remaining shareholders.

3. Stable NAV with NAV buffer and other measures: MMFs would hold an NAV buffer of 3% to provide "explicit" loss absorbency, combined with other measures such more stringent investment diversification requirements, increased minimum liquidity levels and more robust disclosure requirements.

The FSOC stresses that the proposed recommendations are not mutually exclusive. The consultation closes on **11 January 2013**.

Work stream 3: Other shadow banking entities

The FSB proposes a package of diagnostic and policy tools to manage the risks presented by 'other shadow banking' entities. Once those are agreed, the FSB will map relevant non-bank financial entities into one five economic functions and assess the viability of the policy tools for each entity. The framework will provide the structure under which an annual monitoring exercise will be conducted, as well as assisting authorities in determining whether to extend the regulatory perimeter. The policy framework should eventually become a

FSB membership commitment, subject to peer reviews.

Work stream 4: Securitisation

IOSCO published *Global Developments in Securitisation Regulation* on 16 November 2012. IOSCO notes that securitisation markets can play a role in supporting economic growth by providing an alternative source of funding for the banking sector. However, it believes that a complex range of factors will determine the return of investor confidence to these markets.

The paper provides 10 recommendations, including a roadmap for international convergence and the implementation of risk retention requirements. IOSCO indicates that more work needs to be done to standardise asset level disclosures and recommends other means to support sustainable securitisation markets, including the relative prudential treatment of securitisation products and certain accounting issues, such as consolidation.

IOSCO published *Principles for Ongoing Disclosure for Asset Backed Securities (ABS)* on 27 November 2012 as a guideline for regulators designing or reviewing their ASB disclosure regimes. The 11 disclosure Principles complement the Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities that IOSCO issued in 2010, and are consistent with other IOSCO disclosure principles.

Work stream 5: Securities lending and repos

In its *Policy Recommendations to Address Shadow Banking Risks in Securities Lending and Repos*, the FSB notes that this system can provide a valuable alternative to bank funding and supports real economic activity. It says that shadow banking regulation should ensure securities lending and repos are subject to appropriate oversight and regulation but should not hinder sustainable non-bank financing models.

The FSB strongly believes that regulators should impose minimum standards to limit reductions to haircuts in benign market conditions,

and possibly to agree to binding numerical haircut floor to limit procyclicality. Such a framework would need to be carefully designed and calibrated to avoid unintended consequences and further proposals will be the subject of a public consultation.

Disclosure to markets and regulators should be expanded and improved. Financial institutions should work with international standard setting bodies to improve current disclosure practices for securities lending, repo and wider collateral activity. Financial intermediaries should disclose re-hypothecation practices to clients so they can understand their exposure in the event of counterparty failure, while fund managers should improve the level of information that they provide to end-investors.

Regulators should develop more detailed regulatory reporting, with the long term goal of reporting to trade repositories as the most effective approach to data collection. However, market-wide surveys are suggested as an initial step.

The FSB believes that more needs to be done to manage collateral. Regulators

should develop minimum standards to limit the risks associated with cash collateral investment and develop standards for collateral valuation and management, and to endorse the use of central clearing where appropriate.

Finally, policy makers should adopt changes to the treatment of repo and securities lending transactions in insolvency.

EP reports on shadow banking

The EP published an Own Initiative Report on Shadow Banking on 8 November 2012, responding in part to the EC's March 2012 Green Paper on Shadow Banking. The EP supports the EC's proposals, which are broadly in line with the FSB proposals. It also stresses the value of the shadow banking system, stating that "contrary to what the term might suggest" shadow banking is not necessarily an unregulated or illegal part of the banking sector.

The EP made a few key suggestions:

- The EP believes that the EBA's remit should include the shadow banking sector, arguing that the reports of

the ECON Committee on CRD IV represent an important step in tackling shadow banking.

- The EP calls on the EC to submit a review of the UCITS framework, with particular focus on MMFs, in the first half of 2013. Like the FSOC recommendations, the EP believes that regulators should either require a conversion to a floating NAV or introduce appropriate safeguards to protect a stable NAV MMF's resilience.
- The EP also invites the EC to adopt measures by the beginning of 2013 to increase transparency for clients in the securities lending and repo market.

Next steps

The FSB work stream owners will refine their policy proposals following consultation and plan to publish final policy recommendations by September 2013. They will suggest implementation timetables for each set of recommendations.

The EC is expected to issue legislative proposals on shadow banking in 2013. These proposals may come earlier than

previously anticipated, given the timelines set out in the EP's report.

The FSOC will finalise its recommendations on MMFs once the current consultation period closes and then pass these back to the SEC to implement. We expect the SEC to consider these recommendations early in the new year.

With all this activity, 2013 looks set to be a significant year in the regulation on shadow banking. The proposed regulatory changes for securities lending, repos, MMFs, etc have important implications for many firms' business models. Firms will need to play an active role in shaping this new regulation, to help ensure that regulators understand how these changes will affect the industry and the wider economy. Given the significant role that non-bank credit intermediation played in getting us through the financial crisis, we all have a vested interest in ensuring its continued viability.

Cross Sector Announcements

In this section:

Regulation

8

Capital and liquidity

8

Timeliness and consistency key to Basel III success (Basel Committee)

8

CRR Own Fund conditions published (EBA)

8

Updated capital rules for Islamic financial services providers (IFSB)

8

Consumer Credit

8

Improving CCD implementation (EP)

8

Consumer protection

8

Harmonising the consumer credit regime (EP)

8

Corporate governance

9

EBA publishes guidelines on suitability of management and key function holders

9

Dodd-Frank Act

9

IRS and CDS move to central clearing (CFTC)

9

Integrating Dodd-Frank swap measures with CFTC regulations (CFTC)

9

CFTC provides guidance on central clearing

10

Foreign exchange swaps and forwards exempt from clearing (US Treasury Dept)

11

LIBOR

11

ESRB supports LIBOR/EURIBOR reforms

11

Market infrastructure

11

EC addresses first EMIR questions

11

FSB moves forward LEI system

12

Ensuring strong payments system links (ECB)

12

MiFID

13

MiFID II works its way through the system (Council)

13

Operating rules and standards

13

ESMA approves SSR Spanish and Greek interventions

13

Fast start for SSR regime (ESMA)

13

Other regulatory

13

Financial Innovation Committee seeks recruits (ESMA)

13

RRPs

14

FSB consults on RRP standards for regulators

14

G-SIFIs framework gaining strength (FSB)

14

EP ministers consider RRP views

15

SSM

15

Draghi considers how SSM will work

15

Accounting

15

IFRS

15

Revenue recognition rules still pending

15

Limited modifications proposed for IFRS 9 (2010): financial instruments

16

Amending IAS 28: Investments in associates and joint ventures

16

Minor changes in annual improvements project (IASB)

16

PwC publications

16

Supervisory focus on financial statements (ESMA)

16

Maijor urges more cooperation between audit regulators and firms (ESMA)

16

Accounting Council takes action

17

Taxation

17

Financial tax proposal gaining steam

17

Regulation

Capital and liquidity

Timeliness and consistency key to Basel III success (Basel Committee)

Wayne Byres, the Basel Committee Secretary General, spoke on Basel III on 6 November 2012, arguing that Basel III is necessary, but not sufficient to secure a healthy banking system. Regulators must also implement other measures and maintain a consistent regulatory and supervisory approach.

Byres reviewed Basel III's key elements: increased and higher-quality capital, better risk coverage, the capital conservation buffer, leverage ratio and international standards for bank liquidity and funding. Reassuringly, the Basel Committee recently found that most banks already meet the Basel III minimum capital standards, but that it will require those that are systemically important to hold additional capital. Basel III will be phased-in from January 2013 to 2019, with the minor, less onerous changes being implemented first.

Byres believes that Basel III standards should complement strong supervisory practices while regulators work to complete a range of new capital and liquidity reforms (e.g. liquidity, review of trading book, securitisation, large exposures and standardised approaches to capital adequacy). To achieve this, they need to be more vigilant and increase their supervisory capabilities. The key principles for bank supervision are stated in the Basel Committee's recently revised 'Core Principles for Effective Banking Supervision'. The principles incorporate contributions from a wide range of supervisors and lessons learned from the crisis.

Byres concluded that Basel III provides a strong set of minimum standards but regulators must ensure its timely and consistent implementation to restore trust and health to the financial system.

CRR Own Fund conditions published (EBA)

The EBA published Draft Regulatory Technical Standards On Own Funds under the draft Capital Requirements Regulation - Part Two on 9 November 2012, specifying the conditions under which an institution qualifies as

mutual, cooperative society, saving institution or similar institution under CRD IV/CRR.

This standard will ensure that all EU institutions subject to the specific own funds requirements for mutuals have common features.

The consultation closes on **21 December 2012**.

Updated capital rules for Islamic financial services providers (IFSB)

The Islamic Financial Services Board (IFSB) published ED 15: Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (Takāful) Institutions and Islamic Collective Investment Schemes). This ED revises the previous IFSB standard on capital adequacy and provides additional guidance on capital adequacy requirements developed since the financial crisis, including Basel III. The ED aims to provide comprehensive guidance on capital adequacy regulations and macro-prudential tools to supervisory authorities and institutions offering Islamic financial services.

Consumer Credit

Improving CCD implementation (EP)

The EP's Internal Market and Consumer Protection Committee published a Report on the implementation of the Consumer Credit Directive 2008/48/EC on 8 November 2012.

The Committee is calling for a review of the CCD implementation and urging Member States to apply it correctly. It does not believe that the CCD should be revised, but wants the Commission to ascertain whether or not it has been transposed correctly and enforced. The report identifies some problem areas that have arisen during Member States' transposition of the CCD.

The EP will consider the resolution contained in the report at its plenary session scheduled 19-22 November 2012.

Consumer protection

Harmonising the consumer credit regime (EP)

The EP published its resolution on the implementation of the Consumer Credit Directive on 20 November 2012 and the EC published their update on

the investigation into websites offering consumer credit on 23 November 2012. These publications are issued as part of the EC's CCD review.

The EP highlights the lack of consistency in the transposition of parts of the directive into Member State legislation, and calls on national regulators to improve certain requirements, particularly transparency and disclosure to consumers.

The EP welcomed the 'sweep' operation carried out by the EC in September 2011, which revealed that 70% of websites it reviewed failed to include CCD disclosure requirements in their advertising.

However, the EC recently carried out another review, and found that last year's crackdown influenced website providers to improve their standards. This year 75% of all sites reviewed met the requirements.

Corporate governance

EBA publishes guidelines on suitability of management and key function holders

The EBA published its final Guidelines on the assessment of the suitability of

members of the management body and key function holders on 22 November 2012, instructing banks, large investment firms and competent authorities on assessing the suitability of management personnel, supervisory staff and key function holders. "Key function holders" are staff whose positions give them "significant influence" over the firm's direction.

Individuals should be assessed on their reputation, experience and the firm's governance criteria – e.g. whether or not the appointment presents any potential conflicts of interest. When considering a person's reputation, firms should pay particular attention to whether or not the candidate has been transparent, open and cooperative in his or her dealings with regulators.

To create a robust selection process, firms should assess the suitability of candidates prior to, or immediately after, their appointment, and notify the competent authority of the appointment. Some authorities may require firms to obtain their prior approval.

Once the authorities have received notification of appointments, they

should make a regulatory assessment based on the criteria set out in the guidelines. If an authority determines that a candidate is not suitable, the firm should take appropriate action. The competent authority should only take action if firm fails to do so.

Competent authorities and firms must comply with the Guidelines by 22 May 2013.

Dodd-Frank Act

IRS and CDS move to central clearing (CFTC)

The CFTC published Clearing Determination for Certain Credit Default Swaps and Interest Rate Swaps on 28 November 2012, the CFTC's first Dodd-Frank Act clearing determination. Initially four IRS and two CDS classes will be centrally cleared. Market participants will be required to submit such swap transactions to a derivative clearing organisation (DCO) as soon as technologically practicable and no later than the end of the day of execution.

Swap dealers and private funds that are active in the swaps market must comply from 11 March, 2013 for swaps they

enter into on or after that date. Accounts managed by third party investment managers and ERISA pension plans will have until 9 September 2013, to start centrally clearing their transactions. All other financial entities will have to begin central clearing on 10 June 2013.

If no DCO offers iTraxx (the CDS index on European corporate names) for clearing by 11 February 2013, the CFTC will delay compliance for those swaps until 60 days after an eligible DCO offers iTraxx indices for client clearing.

Integrating Dodd-Frank swap measures with CFTC regulations (CFTC)

The CFTC published Adapting CFTC Regulations to Incorporate Swaps in the Federal Register on 2 November 2012, conforming its regulations to the Dodd-Frank Act regulatory framework.

The CFTC is aligning its requirements and procedures across futures and swaps markets. Most importantly, it is harmonising some of its recordkeeping requirements and amending procedures for post-trade allocation of bunched orders. The bunched orders changes will enable "eligible account

managers” to allocate such orders post-execution, as they currently do with futures. The CFTC is also making some technical changes, e.g. to incorporate defined terms relating to swaps, swap markets, and swap entities.

CFTC provides guidance on central clearing

Continuing the campaign it started October, the CFTC published another tranche of Q&A, FAQs, interpretation letters and no action letters in November:

Q & A: Clearing Requirement Determination under Section 2(h) of the CEA. This Q&A accompanied the CFTC’s first set of clearing determinations, published on 28 November 2012 (see CFTC issues Clearing Determination article below).

FAQ on Cleared Swaps – Revised. The CFTC withdrew the following FAQs on Cleared Swaps on 29 November 2012:

- “Which party has the authority to select the particular SDR for purposes of cleared swap reporting?”
- “May a DCM, SEF or DCO that is also registered as an SDR or legally

affiliated with an SDR require counterparties to use their “captive” SDR for reporting swap transactions?”

- “Where must the resulting swaps created through the clearing process be reported?”

CFTC staff are reviewing advice on these questions in light of a submission from the Chicago Mercantile Exchange Inc. for approval of CME Rule 1001–“Regulatory Reporting of Swap Data”.

Staff Interpretation Regarding Part 22. On 1 November 2012, the CFTC Division of Clearing and Risk staff clarified certain operational issues regarding the requirement for Futures Commission Merchants and DCOs to legally segregate each cleared swaps customer’s collateral (they can commingle cleared swaps customers’ collateral).

Time-Limited No-Action for Swap Dealer Compliance with Swap Data Reporting Rules. The letter published on 20 November 2012 establishes a common monthly date by which all newly registered swap dealers must comply with their reporting obligations,

and extends the deadline for reporting historical swap transaction data.

Time Limited No-Action Letter for Operators of Certain Funds of Funds: Request for Delayed Compliance Date of Amended Part 4: Rescission of Former Appendix A. The CFTC is allowing fund-of-funds commodity pool operators to defer registration. They will have until the later of 30 June 2013 or six months after the effective date (or compliance date, if later) of any revised guidance that the CFTC issues on the de minimis thresholds for fund of funds. To rely on the temporary relief, which the CFTC granted on 29 November 2012, a commodity pool operator must meet certain criteria and file a no-action letter request.

No-action relief for family offices. The CFTC provided no-action relief to family offices from commodity pool operator registration requirements under the CEA, subject to certain conditions, on 29 November 2012.

No-Action Letter on the Pay-to-Play rules for Swap Dealers Conducting Business with Certain Governmental Special Entities. The CFTC’s pay-to-play rules restrict swap dealers from

engaging in certain activities with certain government entities, if the swap dealer (or its associate) has made or solicited contributions to an official of that government entity during the preceding two years. This no-action letter dated 29 November 2012, will allow swap dealers and their covered associates to make certain contributions to officials of government entities that would otherwise be prohibited.

The letter also clarifies that the two-year “look-back” period does not include any periods prior to the date that the swap dealer was required to register with the CFTC.

Time-Limited No-Action Relief from the Clearing Requirement for Swaps Between Affiliated Counterparties.

Swap dealers don’t have to clear swaps with affiliates that they majority own or with which they are both majority owned by a common parent provided their accounts are reported on a consolidated basis, provided both parties agree.

Time-Limited No-Action Relief for Bespoke or Complex Swaps from Certain Swap Data Reporting

Requirements. The 20 November 2012 letter allows reporting parties and reporting counterparties to omit certain data from their reports on bespoke or complex swaps. It also provides relief from certain confirmation data reporting obligations. The relief is temporary – it will expire on the later of the date when the relevant data elements can be electronically represented in the financial products mark up language (FPML) schema or June 30, 2013.

Foreign exchange swaps and forwards exempt from clearing (US Treasury Dept)

US Treasury Department issued its final determination to exempt foreign exchange swaps and forwards from clearing exemptions under the Dodd-Frank Act and an accompanying *Fact Sheet* on 16 November 2012. “Unlike other derivatives, FX swaps and forwards already trade in a highly-transparent, liquid and efficient market,” the Treasury Department said. “This final determination is narrowly tailored.” Firms will still be required to comply with reporting and conduct of business standards for these contracts.

The US Treasury cited certain unique factors about these contracts that justify the exception:

- they are typically for short, fixed terms,
- they are physically settled in the currency of the trade and
- market operates with strong pricing transparency and is supported by a highly developed settlement system.

It also noted that the majority of counterparties are regulated banks with strong prudential regimes. Other foreign exchange contracts such as options, currency swaps and non-deliverable forwards remain subject to Dodd-Frank Act clearing requirements.

LIBOR

ESRB supports LIBOR/EURIBOR reforms

The ESRB published its report on Macro-prudential aspects of the reform of Benchmark Indices in response to a consultation by the EC on a possible framework for the regulation of the production and use of indices serving as benchmarks on 18 November 2012.

A credible regulatory framework is needed to ensure the proper functioning and oversight of all reference benchmarks. The ESRB describes LIBOR and EURIBOR as “partly flawed”, identifying shortcomings in the calculation of most benchmarks and indices and suggesting that many are open to gaming and are characterised by weak governance processes. Specifically, rules should govern the production of credit default swaps and repo indices, commodity price indices and proprietary benchmarks - particularly those that define payoffs from structured retail products.

The ESRB wants benchmark setting and administration to be regulated. Benchmark providers and contributors should be subjected to stringent control and independent oversight mechanisms. The ESRB shares the view that the deliberate distortion of benchmarks is market abuse and should be punished, welcoming the EC’s benchmark manipulation amendments to MAD. The ESRB also supports the work of the EBA and ESMA which are preparing guidelines

for reference rates and other benchmarks-setting processes.

The EC’s consultation on benchmarks closed on 29 November 2012. It plans to issue legislative proposals early next year.

Market infrastructure

EC addresses first EMIR questions

The EC published an EMIR Frequently Asked Questions which confirms some EMIR implementation dates, its scope and the position of third country CCPs and TRs.

The EC outlines the EU legislative endorsement process for EMIR technical standards and then confirms first registration dates for CCPs and TR and certain compliance dates for firms. Several key dates for firms, such the date when risk management for uncleared trades commences and when clearing commences, are dependent upon finalisation of the technical standards.

Regarding scope, the EC confirms that:

- Transactions in scope: energy spot transactions are out of scope but foreign exchange derivatives are out.

- Ability to delegate reporting to entities outside the EU: counterparties may delegate reporting to firms, CCPs or TRs outside the EU, but remain liable for reporting delegated to a third party located anywhere.
- Intra-group clearing exemption issues: counterparties which wish to rely on the exemption may notify regulators when the relevant regulatory standards are complete. For Non-financial Counterparties, exempt intra-group transactions are calculated toward, not reduced from, the clearing threshold.
- Status of special purpose (SPV) and pooled vehicles: SPVs should be classified as either Financial or Non-financial Counterparties. Pool structures are not directly subject to EMIR, because they lack legal capacity, but counterparties remain subject to EMIR requirements when trading with pooled structures.

Clarifying the position of third country CCPs and TRs, the EC sets out scenarios which trigger EMIR registration for these entities. These entities may apply for EU recognition

when the relevant regulatory technical standards are complete.

The FAQ contains an address to which public may submit more questions. The EC maintains copies of EMIR legislation and related developments on its Derivatives webpage. The first sets of EMIR regulatory technical standards are expected to come into force in late Q1 or early Q2 2013.

FSB moves forward LEI system

The FSB's Implementation Group (IG) and the LEI Private Sector Preparatory Group (PSPG) have made progress in developing the LEI system. The IG published the *Allocation of Pre-LOU Prefixes for Pre-LEI Issuance*, dated 20 November 2012, which outlines the technical specification of the LEI code structure which will be rolled-out from March 2013.

The IG also published a draft *Charter of the Regulatory Oversight Committee (ROC) for the Global Legal Entity Identifier System* and a *Charter for the Regulatory Oversight Committee and Report on Progress* for G20 Finance Ministers and Central Bank Governors to consider at their meeting on 4/5 November 2012. The ROC is the body

which will have ultimate responsibility of the governance of the global LEI system.

The PSPG has finalised the selection criteria for the ROC board of directors, identifying standards for fitness and experience as well as seeking regional and sectoral representation. The PSPG has also undertaken detailed work on operational aspects of the new system, such as data quality, localisation, ownership and corporate hierarchies, and has looked at ways to take advantage of existing local infrastructures.

The FSB is still mulling over the location and exact legal form that the LEI foundation should take, which will influence the foundation's overall governance framework. The FSB has analysed a number of potential locations and is preparing a detailed assessments of its proposals. Location and form decisions will dictate drafting of legal documents required to establish the various bodies, such as the LEI foundation which will run the global LEI system.

Ensuring strong payments system links (ECB)

The ECB published *Oversight Expectations for Links between Retail Payment Systems* on 29 November 2012, setting out high level requirements for managing the links between retail payment systems (RPS). This follows the ECB's March 2012 consultation and May 2012 publication of draft requirements.

The ECB expects an RPS that is linked with other RPSs to identify, monitor and manage link-related risks. All links should have a well-founded, clear and transparent legal basis that is enforceable in all relevant jurisdictions. RPSs should also take into account operational risk, considering information security and the scalability and reliability of IT and related resources.

The ECB also calls on RPSs to closely monitor and manage the financial risks arising from the link arrangement: assets used for settlement should carry little or no credit risk and payments should be settled promptly, preferably on an intra-day basis.

An RPS should publish its criteria for permitting other RPSs to access links. The links must be stable and efficient enough to meet the requirements of RPS participants and the markets the RPS serves.

The ECB wants to see strong governance arrangements for establishing and operating links. A RPS's senior management team should formulate a clear strategy on how it will establish links and disclose this to its owners, regulators and other RPSs. An RPS that uses an intermediary to operate a link should measure, monitor and manage the resulting additional risks. RPSs are responsible for ensuring that their RPS link complies with the ECB's oversight expectations.

MiFID

MiFID II works its way through the system (Council)

The Council is not expected to adopt its general approach on MiFID II/MiFIR until early Q1 2013. It will spend the remainder of the Cypriot presidency dealing with other pressing subjects, such as the SSM, CRD IV and the EU budget. The Council's recent draft compromises on MiFID II have show

few position changes, so we expect that it will be able to agree the general approach early in 2013, under the Irish Presidency.

Operating rules and standards

ESMA approves SSR Spanish and Greek interventions

ESMA validated the Spanish and Greek regulators' proposed emergency intervention measures on 1 November 2012, finding that the proposals were appropriate, proportionate and justified.

The Spanish Comision Nacional del Mercado de Valores (CNMV) proposed a temporary ban on short sale transactions conferring a financial advantage to the person trading shares listed on Spanish official secondary markets supervised by CNMV decline in value.

The Hellenic Capital Market Commission (HCMC) proposed a temporary ban on the short sale of shares, ETFs and depository receipts for shares admitted to trading on the Athens Exchange, regardless of where the trade is executed. HCMC is banning

sales that are covered with subsequent intraday purchases.

Both measures came into force on 1 November 2012 and expire on 31 January 2013.

Fast start for SSR regime (ESMA)

The SSR took effect on 1 November 2012, prohibiting the uncovered (naked) trading of CDS traded in EU markets. The SSR restricts the short selling of bonds, shares admitted to trading on EU markets and CDS.

The SSR makes ESMA responsible for coordinating and approving emergency short selling bans in Member States. On 1 November 2012, ESMA approved Greece and Spain's extending their short selling bans for a further three months in its Opinion on the emergency measure by the Greek HCMC under the Short Selling Regulation and its Opinion on the emergency measure proposed by the Spanish CNMV under the Short Selling Regulation, respectively.

ESMA believes these extensions are justified given the ongoing threats to financial stability in Spain and Greece. It welcomed the statement from both

authorities that they will lift the ban as soon as market conditions normalise.

Other regulatory

Financial Innovation Committee seeks recruits (ESMA)

ESMA began recruiting candidates for the Consultative Working Group (CWG)'s Financial Innovation Standing Committee (FISC) on 16 November 2012. The FISC coordinates ESMA's work on financial innovation, addressing both products and processes.

CWG members will brief the FISC about financial innovation, which will help ESMA to identify potential risks within the financial services market. The CWG will also assist ESMA in identifying new threats to investors and financial stability, while providing insight on new or evolving products.

ESMA invites applicants to the CWG to submit an application form and CV by 31 December 2012.

RRPs

FSB consults on RRP standards for regulators

The FSB issued a consultation *Recovery and Resolution Planning: Making the Key Attributes Requirements Operational* on 2 November 2012. The consultation provides guidance on:

- triggers and stress scenarios in recovery planning
- resolution strategies and associated operational plans tailored to different group structures and
- critical functions and supporting services at firms.

The consultation outlines the key elements that regulators should examine in G-SIFIs' resolution strategies and RRP. The FSB proposes two approaches to resolution:

- a "single point of entry" approach where the home regulatory authority drives group resolution, which takes place mainly at the parent or holding company level and
- a "multiple point of entry" approach where multiple regulatory

authorities manage resolution plans along national, regional or functional lines.

Resolution authorities will need to apply the approach which best matches the business of the G-SIFI, but sometimes they may need to use a combined approach.

Regulators will now have a common framework to identify the critical functions and shared services that banks need to maintain in a crisis to protect financial stability. The FSB are keen to ensure that a globally agreed framework is used for all G-SIFIs.

Regulatory authorities should find the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*, published in November 2011, helpful. G-SIFIs and other firms with RRP should consider the report's findings to inform discussions with their supervisors.

G-SIFIs framework gaining strength (FSB)

In November 2012 the FSB published three reports outlining progress in implementing the G-SIFI framework.

In *Resolution of Systemically Important Financial Institutions: Progress Report*, the FSB found that overall countries are making "encouraging" progress in reforming their national resolution regimes and instituting RRP for G-SIFIs. But some countries are still working on reforms to align their resolution regimes with the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions* (November 2011).

The progress report focuses on:

- Crisis Management Groups (CMGs): CMGs have been established for nearly all of the 29 G-SIFIs designated in November 2011. CMG membership includes the prudential supervisor, central bank and, where it is a separate authority, the resolution authority of the home and key host countries.
- Recovery plans: regulators have conducted initial reviews of most G-SIFI's recovery plans, but are still conducting in-depth reviews. The regulators have recommended that the hypothetical stress scenarios use greater severity. Regulators should undertake more analysis of

impediments to recovery measures, taking into account interconnections between group entities and constraints arising from legal frameworks.

- Resolution strategies: Recently CMGs have focused on developing clearly articulated resolution strategies for their G-SIFIs.

The FSB suggests that each G-SIFI's home country resolution authority should propose a basic resolution strategy to the G-SIFI's other host countries by the end of 2012. The FSB is investigating how client assets can be better protected if G-SIFI's fail, and is also looking at how regulators in different countries exchange information, especially during times of crisis. We expect further FSB resolution recommendations during 2013.

Increasing the Intensity and Effectiveness of SIFI Supervision Progress Report to the G20 Ministers and Governors, looks at the intensity and effectiveness of G-SIFI supervision. The FSB is still seeing evidence of weak risk controls at G-SIFIs in certain countries and this creates the potential for regulatory arbitrage. The FSB

recommends measures to make SIFI supervision more proactive and effective, in particular the supervision of G-SIFIs. Its recommendations include updating the Basel Committee capital requirements for operational risk by the end of 2014.

The FSB provided an *Update of group of global systemically important banks (G-SIBs)* based on end-2011 data. The FSB has reduced the number of G-SIFIs from 29 to 28, removing Dexia, Lloyds and Commerzbank but adding Standard Chartered and BBVA.

EP ministers consider RRP views

EP ministers (MEPs) gave their views on *Bank crisis rules need a dose of realism and more detail* on 6 November 2012. The MEPs think the EC's draft RRP legislation focuses too much on individual troubled banks and that it should also address crises situations that could impact the whole banking sector. The MEPs called for amendments to specify that all share and bond holders' stakes are used before a bank gets taxpayer assistance. Gunnar Hokmark, MEP, has advocated using public budgets if state

intervention is needed to avoid crisis engulfing the banking sector as a whole.

The pan-European RRP regime is one of the three pillars of the EU banking union proposition, along with the single supervisory mechanism and a stronger deposit guarantee scheme.

MEPs plan to debate the RRP legislation during the winter with a view to holding a vote in March 2013 and a plenary session in June 2013.

SSM

Draghi considers how SSM will work

Mario Draghi, ECB president, spoke on the *Rationale and principles for Financial Union* on 23 November 2012, reflecting on how the ECB will respond to the SSM proposals.

Draghi indicated that the ECB will separate its monetary and supervisory policies when it takes charge of Eurozone bank prudential supervision. It will establish a Supervisory Board of senior representatives from national supervisory authorities to ensure robust separation. The Supervisory Board will be at the heart of the new system of financial supervision and will seek to engender decision-making under a

collective, collegial approach. National supervisors will be "prime actors" in the new framework, contributing knowledge from their national markets.

SIBs will experience the most direct intervention from a centralised bank supervisor but will also deal on some level with national supervisors. National supervisors will be largely responsible for supervising smaller banks under the ECB's overall responsibility. Draghi rejected calls to limit the ECB's supervisory remit to SIBs, because the financial crisis demonstrated that even small banks can destabilise the financial system.

The ECB sees benefits in the new system and plans to ensure "homogeneous supervision, convergence of practices, a level playing field and therefore a reduction in banks' compliance costs" under the new regime.

Draghi says that the SSM will not only break the feedback loop between banks and sovereigns, it will also result in a more effective EU monetary policy, by reversing monetary and fiscal policy fragmentation within the Eurozone. The SSM lays the foundation for better

cross-border bank supervision and, when needed, resolution, alleviating the risk of taxpayer bailouts and to payments systems in the future. It will need to be supplemented, however, by common resolution schemes adopted at the national level (in line with the EC's proposal) and, ideally, by a European Resolution Authority.

Accounting¹

IFRS

Revenue recognition rules still pending

This IASB and the FASB joint project *IFRS - Revenue Recognition* aims to clarify when revenue from customer contracts can be recognised. The rules apply to all contracts with customers except leases, financial instruments and insurance contracts. The boards intend to issue a final standard in the first half of 2013, with an effective date no earlier

¹ This section includes accounting developments with a direct or potential impact 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

than 2015. They will continue to re-deliberate over the next several months and intend to publish guidance on some of the more significant changes.

At the November meeting, the boards reached tentative decisions on when revenue from variable consideration should be recognised, presentation of amounts not expected to be collected and licences. Other key issues still to be re-deliberated include allocation of transaction price, contract costs, disclosures and transition. See [Straight away 98](#).

Limited modifications proposed for IFRS 9 (2010): financial instruments

The IASB issued an ED *proposing limited modifications to IFRS 9 (2010), 'Financial instruments'*. The proposals address issues on the use of amortised cost, the interaction with the insurance contracts project and how to reduce differences between IFRS 9, and the FASB's classification and measurement proposals (now largely aligned for debt instruments). The FASB is expected to issue an ED on instrument classification and a measurement model in Q1 2013. The

consultation closes on 28 March 2013. See [Straight away 101](#).

Amending IAS 28: Investments in associates and joint ventures

The IASB has proposed additional guidance on the *application of the equity method in IAS 28*. This guidance will cover how investors should recognise their share of the changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee, and that are not distributions received ('other net asset changes'). The consultation closes on **22 March 2013**. See [Straight away 100](#) and our [press release](#).

Minor changes in annual improvements project (IASB)

The IASB published an ED of its *proposed annual improvements to IFRS*. These amendments include minor changes to:

- IFRS 1, 'First-time adoption of IFRS'
- IFRS 3, 'Business combinations'
- IFRS 13, 'Fair value measurement'
- IAS 40, 'Investment property'.

These proposals would apply to annual periods beginning on or after 1 January 2014. Comments are due by **18 February 2013**. For further details see [Straight away 99](#).

PwC publications

- **IFRS news.** Our monthly newsletter highlighting developments at the IASB. The November 2012 edition addresses the following issues:
 - Exemption from consolidating investment entities
 - Viewpoint – are you truly happy with your accounting framework?
 - Cannon Street Press:
 - revenue update
 - insurance contracts – proposal re-exposed
 - IFRS Foundation response to SEC work plan
 - Questions and answers – Associates.

Supervisory focus on financial statements (ESMA)

ESMA published *European common enforcement priorities for 2012*

financial statements on 12 November 2012, to guide listed companies and their auditors in the preparation and audit of financial statements.

The common enforcement priorities relate to the application of IFRS to:

- financial assets
- impairment of non-financial assets
- defined benefit obligations
- provisions, contingent liabilities, and contingent assets.

By establishing these priorities, ESMA hopes to promote the consistent application of European securities and markets legislation and IFRS. With national supervisors, it will monitor the application of IFRS, collect data on how European listed entities have applied IFRS requirements in these areas and publish the results.

Maijoor urges more cooperation between audit regulators and firms (ESMA)

Steven Maijoor, ESMA Chairman, spoke on *Developments in European Financial Reporting Regulation and Enforcement* on 12 November 2012. Maijoor highlighted the common IFRS

enforcement priorities that all EU regulators will focus on in this year's financial statements:

- financial instruments
- impairment of non-financial assets
- defined benefit obligations and provisions that fall within the scope of IAS 37 Provisions
- Contingent Liabilities and Contingent Assets.

Regarding forbearance, Maijor said that high bank leverage and questions about borrowers' ability to meet their debt obligations are stressing the EU banking sector. Accordingly, lenders should be clear with investors about the credit risk arising from forbearance.

Maijor discussed the recent SEC staff report considering whether IFRS should be applied in the US. Despite regulators' best efforts to adopt IFRS in the US, there seems to be a lack of political will to keep it high on the agenda.

On audits, Maijor said that the financial crisis exposed significant audit failures which were basic audit failures, rather than purely failures relating to

the handling of complex instruments and issues.

Accounting Council takes action

At its meeting on 15 November 2012, the AC:

- tentatively agreed to recommend to the FRC that early application of FRS 102 should generally be available for accounting periods ending on or after 31 December 2012
- made tentative decisions regarding inventories held for distribution at no or nominal cost
- deferred discussion about accounting for insurance contracts/business to the next meeting.

See developments by month for a detailed summary of the monthly meetings.

Taxation

Financial tax proposal gaining steam

The EP has tabled amendments to its 26 October 2012 draft recommendation on the proposal for a

Council decision authorising the use of Enhanced Cooperation Procedures to introduce a Financial Transaction Tax.

It is scheduled to vote on the final recommendation in plenary session on 12 December. ECP allows Member States that want to introduce an FTT to use the EC to coordinate their efforts and produce a single tax proposal applicable to all participating Member States. Fiscal issues are generally the Council's responsibility, but the EP has to consent to the use of this procedure.

Banking and Capital Markets

In this section:

Regulation	19
Financial reporting	19
ECB revises loan reporting timetable	19

Banking & Capital Markets



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Regulation

Financial reporting

ECB revises loan reporting timetable

The ECB announced on 27 November 2012 that it is delaying implementation of the loan-level data reporting requirements, to ensure smooth implementation. Banks will now have to comply with mandatory reporting requirements for residential mortgage-backed securities and asset-backed securities from 3 January 2013, and for commercial mortgage-backed securities from 1 March 2013. It has adjusted the nine-month transition phase for each set of requirements accordingly. FRC issues FRS 100 and FRS 101.

Asset Management

In this section:

Regulation **21**

AIFMD **21**

FSA consults on AIFMD implementation 21

Asset Management



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Regulation

AIFMD

FSA consults on AIFMD implementation

The FSA published *CP12/32: implementation of the Alternative Investment Fund Managers Directive – Part 1* on 14 November 2012, the first of two FSA consultation documents expected. In CP 12/32, the FSA focussed on areas where the FSA has some discretion in implementation. It will consider other issues such as AIFMD's scope and what structures are classified as AIFs in a second consultation.

The FSA proposes replacing the Collective Investment Sourcebook (COLL) with a new Investment funds (FUND) sourcebook which will include all rules for fund managers and funds. The FSA expects authorised funds such as the non-UCITS retail schemes and qualified investor schemes to be AIFs, but does not intend to make other changes to the regimes governing them.

The FSA provided information on:

- its authorisation regime for AIFMs, including the permissions they will need and the capital requirements they will have to meet
- draft rules on the new AIFMD transparency requirements which require AIFMs to report additional information to investors and the regulator
- provisional conduct of business requirements for AIFM, including draft rules for the fair treatment of investors, identification of conflicts of interest and organisational requirements.

The FSA noted that the Level 2 AIFMD technical standards will set out qualitative tests that AIFMs will need to meet, rather than a quantitative requirement. Delegation is a controversial AIFMD topic, and identifying the circumstances in which AIFMs become 'letterbox entities' by delegating too many activities is a challenge. Although CP12/32 the FSA provides some insight on this topic, asset managers must wait until ESMA completes the technical standards to be certain of the criteria.

The FSA plans to allow the full transitional timetable for firms to comply with AIFMD requirements, giving UK fund managers until 22 July 2014 to submit AIFM authorisation applications. But AIFM that market in other Member States that don't allow this flexibility may need to apply earlier.

The consultation closes on **1 February 2013**. The FSA plans to issue the second consultation paper in February 2013, to clarify AIFMD's scope, the marketing regime for retail and professional investors, Level 2 regulations, the application of the FSCS and FOS to AIFs and further draft rules for the FUND sourcebook.

Insurance

In this section:

Regulation **23**

Other regulatory **23**

IFSB consults on Takaful (Islamic Insurance) Undertakings 23

Complaints-handling guidelines arrive (EIOPA) 23

EIOPA's priorities for 2013 23

Solvency II **23**

Omnibus II vote pushed further into 2013 (EP) 23

EIOPA considers interim measures 23

Where to go for more Solvency II information 23

Accounting **23**

IFRS **23**

IASB Insurance Contracts Project – IFRS 4, phase II 23

Bringing together IFRS and Solvency II 24

Insurance



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Regulation

Other regulatory

IFSB consults on Takāful (Islamic Insurance) Undertakings

The Islamic Financial Services Board (IFSB) issued a new ED on 1 November 2012: *ED 14: Standard on Risk Management for Takāful (Islamic Insurance) Undertakings*, which advises on the development of a risk management framework for Takāful Undertakings. The consultation closes on 31 March 2013.

Complaints-handling guidelines arrive (EIOPA)

Following the release of the original report in June 2012, EIOPA published translations of its *Guidelines on Complaints Handling by Insurance Undertakings* for Member State supervisors in November. The Guidelines set out high-level principles EU insurers complaints handling, including:

- principles for complaints-handling systems and controls (e.g. a complaints management policy and

a dedicated complaints management function)

- the standard of information provided to complainants and
- procedures for firms' responses.

EIOPA also published a *One Minute Guide* for firms.

Member State supervisors have until 15 January 2013 to declare whether they intend to comply with the Guidelines or explain their reasons for non-compliance.

EIOPA's priorities for 2013

Gabriel Bernardino, EIOPA Chairman, spoke at EIOPA's annual conference on 21 November 2012. He discussed key issues facing EIOPA, including Solvency II implementation, reform of the European pensions system, development of a systemic risk approach in insurance and occupational pensions. Carlos Montalvo, EIOPA Executive Director, followed with an update on EIOPA's strategic objectives and organisational issues.

Solvency II

Omnibus II vote pushed further into 2013 (EP)

The EP has rescheduled its Omnibus II plenary vote from 11 March 2013 to 10 June 2013. Omnibus II amends the Solvency II and must be adopted before legislators can complete Solvency II.

This most recent delay reinforces the industry's concerns about the Solvency II implementation date. Although the EC has not formally announced a delay to the 1 January 2014 implementation date, perhaps to 1 January 2016, a delay now seems inevitable. The FSA in the UK has acknowledged that the 1 January 2014 date has become 'completely unrealistic'.

EIOPA considers interim measures

At the 21 November 2012 annual conference (see below) Gabriel Bernardino, EIOPA Chairman, said that to progress Solvency II EU political institutions need a strong commitment and a clear and realistic timetable. Politicians must also agree a sound and prudent regime for valuing long-term guarantees. As an interim measure, EIOPA is considering incorporating some of the key features of Solvency II

(Pillars 2 and 3) into the current EU insurance supervisory processes.

Where to go for more Solvency II information

See our web pages at www.pwc.co.uk/solvencyII.

Accounting²

IFRS

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 decisions 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 and FASB boards met on 20 November 2012 to continue their discussions on the proposed Insurance Contracts Standard. They discussed the

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

discount rate for cash flows that are not subject to mirroring but are affected by asset returns. Representatives of the IASB met on 21 November 2012 ([*IASB meeting audio playback*](#)) to discuss presentation and disclosure requirements and a proposed approach to fieldwork. See [*PwC summary of meetings and education sessions*](#).

Bringing together IFRS and Solvency II

With a delay to Solvency II likely and a three year grace period for IFRS Phase II, many finance officers are breathing a sigh of relief.

In our latest report [*Laying the foundations for the future of insurance reporting*](#) we make a case for taking a different response. We believe that insurers should move towards adopting both Pillar 3 and IFRS Phase II, to minimise the expense and disruption that a later and separate implementation will bring, particularly to data management, modelling and investor relations.

Careful planning is still required to deliver the benefits of early adoption and despite the similarities between Solvency II and IFRS Phase II,

differences remain. Identifying those differences and anticipating the challenging questions that they may raise from analysts and investors will be key to their success. For those brave enough to act now, the rewards are there for the taking.

Monthly calendar

Open consultations

Closing date for responses	Paper	Institution
16/12/12	<i><u>Policy prescriptions for Systemically Important Insurers</u></i>	IAIS
21/12/12	<i><u>Draft regulatory technical standards on own funds under the draft Capital Requirements Regulation – part two</u></i>	EBA
21/12/12	<i><u>Further amendments to ESMA's Recommendations for the consistent implementation of the Prospectus Regulation regarding mineral companies</u></i>	ESMA
28/12/12	<i><u>Consultation on a possible Recovery and Resolution Framework for Financial Institutions other than banks</u></i>	EC
14/01/13	<i><u>Consultative document strengthening oversight and regulation of shadow banking: a policy framework for strengthening oversight and regulation of shadow banking entities</u></i>	FSB
14/01/13	<i><u>Consultative document strengthening oversight and regulation of shadow banking: an integrated overview of policy recommendations</u></i>	FSB
14/01/13	<i><u>Consultative document strengthening oversight and regulation of shadow banking: a policy framework for addressing shadow banking risks in securities lending and repos</u></i>	FSB
31/01/13	<i><u>Thinking about disclosures in a broader context: a road map for a disclosure framework</u></i>	FRC
31/03/13	<i><u>Standard on risk management for Takaful (Islamic insurance) undertakings</u></i>	IFSB

Forthcoming publications in 2012

Date	Topic	Type	Institution
<i>Capital and Liquidity</i>			
Q4 2012 – Q2 2013	CRR/CRD IV	76 regulatory technical standards, 32 implementing technical standards and 20 guidelines	EBA
Q4 2012	Review of Financial Conglomerates Directive	Legislative proposals	EC
TBC 2013	Revision of Financial Conglomerates Directive (FICOD II)	Legislative proposals	EC
<i>Consumer protection</i>			
Q4 2012	Directive on misleading and comparative advertising (2006/114/EC)	Communication	EC
Q4 2012	An EU framework for collective redress	Legislative proposals	EC
Q4 2012	Investor Guarantee schemes- revision	Legislative proposals	EC
Q4 2012	Bank accounts	Legislative proposals	EC
<i>Financial crime, security and market abuse</i>			
Q4 2012	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 2012	Third Anti-Money Laundering Directive	Legislative proposals	EC
<i>Insurance</i>			
Q3 2013	Institutions for Occupational Retirement Provision	Legislative proposals	EC
Q4 2013	Technical standards for Omnibus II	Technical standards	ESMA

Date	Topic	Type	Institution
Securities and markets			
Q4 2012	Securities Law Directive	Legislative proposals	EC
Q4 2012	Limitation period and further procedures for fining credit rating agencies	Regulation	EC
Q4 2012	Revision of the Transparency Directive	Discussion papers	ESMA
Q4 2012	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
Products and investments			
Q4 2012	Alternative Investment Fund Managers Directive – Level 2 measures	Regulation	EC
Q4 2012	Alternative Investment Fund Managers Directive – cooperation agreements	Technical standards	ESMA
Q1 2013	Social Investment Funds	Technical advice	ESMA

Date	Topic	Type	Institution
Q1 2013	Venture Capital	Technical advice	ESMA
Q1 2013	Implementation of the Alternative Investment Fund Managers Directive (Part 2)		
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
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
Recovery and resolution			
Q4 2012	Rescue and restructuring of financial institutions in Europe	Guidelines	EC
TBD 2013	EU framework for recovery and resolution plans	Technical advice	EBA
Solvency II			
Q1 2013	Draft Level 2 delegated acts	Level 2 text	EC
TBD 2013	Solvency Level 3 measures	Level 3 text	EIOPA
Supervision, governance and reporting			
Q4 2012	Corporate reporting	Guidelines/recommendations	ESMA
Q4 2012	EU corporate governance and company law	Action plan	EC

Date	Topic	Type	Institution
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	Remuneration and supervisory co-operation arrangements	Guidelines/recommendations	ESMA

Main sources: ESMA 2012 work programme; EIOPA 2012 work programme; EBA 2012 work programme; EC 2012 work programme; ESMA 2013 work programme; EIOPA 2013 work programme; EBA 2013 work programme

PwC insights

Banking

Smart implementation: Reining in risk and cost of regulatory change in banking

The unprecedented volume of global regulation is placing considerable demands on banks change management capacity. The average project overrun is 24% of budget and schedule, although this number increases by a factor of ten in many of the larger, more complex projects facing 'black swan' risk events.

Better planning and execution will allow banks to improve on poor delivery quality and reduce financial costs associated with programme overrun. Read our report to find out how to control the risks and costs of banking regulation.

Read more [here](#)

Project Blue: Forging the central bank of the future

The world was already changing before the global financial crisis as China, India and Brazil emerged as economic superpowers. But the crisis has

accelerated the speed and broadened the scope of the shake-up.

The immediate priority for central banks, especially those in developed markets, is to re-establishing a baseline of stability. But the markets that central banks oversee, the currency and monetary positions they manage, and the wider economic drivers that they are there to control, are all going to face significant upheaval as a result of the longer term trends explored in Project Blue, such as global and local instability, the rise of state-directed capitalism and the rise and interconnectivity of the emerging markets.

Read our report for our views on reshaping the policies, responsibilities and operational armoury of central banks for economies and financial sectors in transformation.

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

Asset Management

EMIR's strategic implications for European boutiques

As Europe's asset managers prepare for the new over-the-counter (OTC) derivatives regulations, phased in from 2013, they realise that the new regime goes far beyond compliance. The European Market Infrastructure Regulation (EMIR) is driving up costs and might force some boutique managers to look again at their investment propositions.

Find out more in the latest of our Asset Management Insight series.

Read more [here](#)

Nine new rules of IT strategy

Many asset managers are refining their business models. They are placing greater emphasis on investor-facing functions such as marketing and distribution, while developing products for new investor needs. Yet, all too often, IT struggles to support these initiatives – holding back changes that are critical for future business success.

Investor preferences are shifting and pricing pressure rising. But IT is often an impediment to progress – slow, inflexible, expensive and not offering what the business wants. So what can technology leaders do to improve performance?

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>

Insurance

A delay to Solvency II

Solvency II is likely to be delayed by two years from January 2014 to January 2016. Although there is only one material area of disagreement (affecting long term guarantees for life firms), a decision has been made to delay the whole implementation rather than take a partial or piecemeal approach.

In this short update we consider the two polarised approaches that insurers

appear to be taking: ‘Getting Solvency II over the line as soon as possible’ or ‘Taking the time to get it right’.

Read more [here](#)

Bringing together IFRS and Solvency II : Make changes early to avoid unnecessary costs and disruptions

We all know that Solvency II has been delayed. And with a three year grace period for implementing the International Financial Reporting Standards for Insurance contracts (IFRS Phase II) once introduced in 2014, it’s not surprising that most finance functions are breathing a sigh of relief.

In our latest report ‘Laying the foundations for the future of insurance reporting’ we make a case for taking a very different type response.

Read more [here](#)

Find out more about all issues affecting the insurance industry:

<http://www.pwc.com/insurance>

Glossary

ABC	anti-bribery and corruption
ABS	asset backed security
AIFMD	Alternative Investment Fund Managers Directive (Directive 2011/61/EU)
AIMA	Alternative Investment Management Association
AMICE	Association of Mutual Insurers and Insurance Cooperatives
AML	anti-money laundering
AML3	3rd Anti-Money Laundering Directive (Directive 2005/60/EC)
Basel Committee	Basel Committee of Banking Supervisors (of the BIS)
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework
Basel III	Basel III: International Regulatory Framework for Banks
BBA	British Bankers' Association
BIBA	British Insurance Brokers Association
BIS	Bank for International Settlements
CCD	Consumer Credit Directive 2008/48/EC
CCPs	central counterparties
CDS	credit default swaps
CEBS	Committee of European Banking Supervisors (predecessor of EBA)

CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors (predecessor of EIOPA)
CESR	Committee of European Securities Regulators (predecessor of ESMA)
Co-legislators	Ordinary procedure for adopting EU law requires agreement between the Council and the European Parliament (who are the 'co-legislators')
CFPB	Consumer Financial Protection Bureau (US)
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)
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 Occupations 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
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
FSB	Financial Stability Board
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
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICB	Independent Commission on Banking
IFRS	International Financial Reporting Standards
IIF	Institute for International Finance
IMA	Investment Management Association
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
JMLSG	Joint Money Laundering Steering Committee
JURI	Legal Affairs Committee of the European Parliament
LEI	legal entity identifier
LIBOR	London Interbank Offered Rate
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)
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
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)
OTC	over-the-counter
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
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
Solvency II	Directive 2009/138/EC
SSAP	statements of standard accounting practice
SSR	Short Selling Regulation EU 236/2012
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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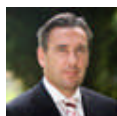
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