FIG Bulletin

Recent developments
13 March 2017 to 17 March 2017

Hogan Lovells

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1. Financial Conduct Authority

1.1 GC17/2: Guidance on the treatment of politically exposed persons under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

On 16 March 2017, the Financial Conduct Authority (FCA) published a guidance consultation, [CG17/2](), on proposed new guidance on how financial services firms should treat customers who are politically exposed persons (PEPs) when meeting their anti-money laundering obligations. The guidance consultation follows the publication by HM Treasury of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 on 15 March 2017 (see item 5.1 below).

The term PEPs refers to people who hold high public office. The current regime, under the Money Laundering Regulations 2007, requires firms to apply extra measures, called "enhanced due diligence" when dealing with those who are PEPs in a state other than the UK, as well as family members or close associates of those PEPs. The UK must update its anti-money laundering regime by 26 June 2017 by transposing the Fourth Money Laundering Directive. This includes expanding the definition of a PEP to include those holding a politically exposed position in the UK.

The FCA says that it has prepared guidance based on its understanding of the risks and experience of cases where firms have applied enhanced due diligence measures that were not commensurate with the risk posed by the PEP.

The FCA's proposed guidance clarifies who should be considered a PEP, a family member of a PEP or known close associates and the steps that firms should take when dealing with higher or lower risk PEPs. Section 333U of the Financial Services and Markets Act 2000 (FSMA) requires the FCA to publish guidance to firms it supervises under the Money Laundering and Transfer of Funds (Information on the Payer) Regulations 2017 (the Regulations), on how they treat customers who meet the definition of a PEP under these new rules prior to them coming in to force.

Section 333U of FSMA states that this guidance must include guidance as to who should and should not be considered a PEP and set out requirements on how firms can take a proportionate, risk based and differentiated approach to meeting their obligations under the Regulations. The draft guidance is aimed at all relevant persons that are subject to supervision by the FCA under the Regulations. This will include (but is not limited to) banks, building societies, wealth management firms and investment managers.

The draft guidance is set out in chapter 2 of GC17/2. The FCA has set out the regulatory requirements as set down in the draft Regulations. Where the FCA interprets the regulatory requirements this is shown in italics. The FCA says that the guidance should be read in conjunction with guidance on PEPs produced by the Joint Money Laundering Steering Group and guidelines issued by the joint European Supervisory Authorities.

HM Treasury has proposed in the Regulations to make changes to the FCA's obligation to provide guidance. The FCA says that its proposed guidance already covers much of the obligation but it will work with HM Treasury during the consultation period to further refine the guidance in line with this requirement and in line with feedback from consumers and the industry.

The FCA will keep the final guidance under review, including taking in to account complaints to the Financial Ombudsman Service and feedback from consumers and regulated firms. Where the guidance is not meeting its aims, the FCA will consult on amendments to the guidance.

Comments are requested by 18 April 2017. The FCA will issue a response before the law requires it to be in place by 26 June 2017.

1.2 GC17/1: Changes to the way firms calculate redress for unsuitable defined benefit pension transfers

On 10 March 2017, the FCA published proposals, in guidance consultation GC17/1, for updating the methodology used to calculate the redress owed to consumers who were given unsuitable advice to transfer out of a defined benefit (DB) pension scheme.

The FCA announced in August 2016 that it planned to review the methodology following concerns that there may be more appropriate ways to calculate redress so that consumers are more likely to replicate the benefits that they held in their DB pension scheme. The FCA appointed PricewaterhouseCoopers LLP (PwC) to provide a review of the existing methodology, and provide recommendations for a new methodology. PwC's report has also been published.

The FCA's proposed changes to the methodology include:

- updating the inflation rates used to better reflect likely inflation;
- updating the pre-retirement discount rate so that it acknowledges the Pension Protection Fund;
- updating the post retirement discount rate and acknowledging the likelihood that consumers will take a pension commencement lump sum;
- updating the mortality assumptions;
- making allowance for gender-neutral annuity rates;
- assuming that male and female consumers are the same age as their spouse to simplify the approach;
- simplifying the assumption about the proportion of people married or in a civil partnership at retirement;
- making allowance for enhanced transfer values;
- updating these assumptions on a regular basis to reflect the fact that markets are often volatile.

Comments are requested by 10 June 2017.

Any changes to the methodology will apply to future redress payments only. Consumers who are unhappy with the advice they have received to transfer out of their DB scheme may continue to complain to firms. Where redress is due, a complaint should not be settled on a "full and final" basis until the outcome of the consultation is known. The FCA intends to reach its conclusions by autumn 2017.

1.3 FCA to publish its mission, business plan for 2017/18, sector views and fees consultation paper on 18 April 2017

On 16 March 2017, the FCA published the March 2017 issue of its Regulation round-up. Among other things, this gives the information that the FCA will be publishing its mission, business plan for 2017/18, sector views and fees consultation paper on 18 April 2017. The deadline for responding to the fees consultation paper will be 9 June 2017.

1.4 Connect: FCA update on MiFID applications

On 10 March 2017, the FCA updated its Connect webpage to give the information that new application forms in relation to the Markets in Financial Instruments Directive (MiFID), including in relation to the Article 3 exemption, were issued on 30 January 2017. Any applications which were already being completed in draft using the previous forms on Connect will be accepted until 31 March 2017.

After 1 April 2017, applicants will need to apply using the new application forms. Applicants that have started to draft applications in

relation to MiFID using the FCA's previous forms are encouraged to consider whether it is appropriate to switch to the new forms issued on 30 January 2017.

1.5 Culture in financial institutions: speech by Andrew Bailey

On 16 March 2017, the FCA's Chief Executive, Andrew Bailey, spoke at the HKMA Annual Conference for Independent Non-Executive Directors in Hong Kong. The subject of his speech was culture in financial institutions.

Mr Bailey began his speech by discussing what is culture in financial institutions and also set out what he sees as the respective roles of firms' governing bodies and management and public authorities. He then used two case studies, the first on bankers remuneration and the second on governance and responsibility, to illustrate the changes that the FCA is seeing. He concluded his speech by discussing the FCA's role as a regulator.

1.6 The view from the regulator: developing the FCA's approach: speech by Mary Stocks

On 10 March 2017, the FCA published the text of a speech given by its Director of Competition, Mary Stocks, at the AIC Conference on 9 March 2017.

In her speech, Ms Stocks said that the FCA's future mission will help to explain how it interprets its objectives, and how it chooses what its priorities are each year. Work following the mission will help to clarify the FCA's competition remit. Ms Stocks said that competition in the interests of consumers is a process of rivalry that can transform services and markets and the FCA's role is to enable competition, not to control it. Competition is a complement to regulation, not an alternative.

Ms Stocks also said that the FCA is reviewing the comments on its asset management market study and will publish the final report in summer 2017.

2. Bank of England and Prudential Regulation Authority

2.1 Resignation of Bank of England Deputy Governor for Markets and Banking

On 1 March 2017, Charlotte Hogg, at that time the Bank of England's Chief Operating Officer, took up the additional appointment as the Bank's Deputy Governor Markets and Banking. As is usual with such appointments, the House of Commons Treasury Select Committee held a pre-appointment hearing with Ms Hogg on 28 February 2017 and published its report, approving her appointment, on 2 March 2017.

The Select Committee received further evidence on 3 March 2017 in the form of a letter from Ms Hogg, dated 2 March 2017, which among other things, said that Ms Hogg had failed to declare her brother's role at Barclays Bank plc in the Bank of England's records of interests and relationships and thereby failed to comply with the Bank's code of conduct over a period of nearly four years. As a result the Select Committee took evidence from the Chairman and Deputy Chairman of the Court of the Bank of England. On the basis of the further evidence, the Select Committee decided to make a second report on the appointment of Ms Hogg, which was published on 14 March 2017. The conclusions of this report supersede those of the first report.

On 14 March 2017, following the publication of the Select Committee's second report, Ms Hogg tendered her resignation to the Governor of the Bank of England and the Chair of the Court of the Bank of England. In its response the Court of the Bank said that the resignation had been accepted with deep regret.

Following the Treasury Select Committee's report the Bank is reconfiguring reporting lines and internal structures in order to safeguard more effectively the governance of its code of conduct, compliance and disciplinary processes. The new configuration will involve:

- senior management responsibility for Bank-wide risk management moving from the Chief Operating Officer to the Deputy Governor for Prudential Regulation, Sam Woods, in his capacity as chair of the Executive Risk Committee. Mr Woods in turn reports to the Court of the Bank's Audit and Risk Committee (ARCO) on risk matters;
- the Head of Compliance reporting to the General Counsel (who in turn reports to the Governor of the Bank) and the chair of ARCO, who is tasked with ensuring the independence of the Bank's compliance function;
- senior management responsibility for the code of conduct will rest with the General Counsel who will ensure the policies under the code are fully understood and adhered to, and will report on that to the chair of ARCO.

To ensure adherence to the code of conduct at the most senior levels of the Bank, the Bank's Court has commissioned a review which will be carried out by Court's non-executive directors other than the chair. The review will examine:

- the lessons from Ms Hogg's case;
- the extent to which the changes to reporting lines and internal structures outlined above are outlined above are adequate; and
- what the Bank should do to ensure full and timely compliance now and in future, especially amongst senior members of the Bank.

The Bank will make the findings and recommendations of this review public.

2.2 Credit union reporting clarifications: PRA update

On Friday 10 March, the Prudential Regulation Authority (PRA) published a document outlining reporting clarifications following feedback received on the Bank of England's Electronic Data Submission (BEEDS) portal.

The document covers three main areas:

- validation and plausibility;
- completing the return itself; and
- who to contact with queries.

The PRA says that nothing in the document represents a change in policy from the reporting regime set out in the PRA's November 2016 policy statement, PS31/16, on credit union regulatory reporting.

The PRA has also published updated templates which include several technical improvements and are available on the credit unions - financial returns webpage. The PRA says that credit unions who have already submitted their returns using the templates issued via BEEDS in mid-January 2017 do not need to resubmit them.

3. Banking

3.1 Identification and management of step-in risk: Basel Committee second consultation paper on guidelines

On 15 March 2017, the Basel Committee on Banking Supervision published a second consultation paper on the identification and management of step-in risk. The Basel Committee published its first consultation paper in December 2015.

The proposed framework will help to mitigate potential problems at shadow banks from spilling over to banks. This work is part of the G20's initiative to strengthen the oversight and regulation of the shadow banking system with the aim of mitigating systemic risks, in particular, those arising from banks' involvement with shadow banking entities.

The new proposals set out a framework for identifying and managing step-in risk, that is, the risk that a bank might support unconsolidated entities, beyond any contractual obligation, in order to protect itself from any reputational damage arising from its connection to such entities. If not appropriately anticipated, the materialisation of step-in risk could erode a bank's capital and liquidity position.

Building on the comments received during the first consultation, the Basel Committee has expanded the identification criteria to take into account the risk characteristics of the entities involved in addition to the banks' relationships with them. In terms of a prudential response, the Basel Committee has adopted a tailored rather than a standardised approach. To this end, the framework entails no automatic Pillar 1 capital or liquidity charge additional to the existing Basel standards but makes use of existing prudential tools by informing or supplementing them.

Comments are requested by 15 May 2017.

4. European Union

4.1 CSDR: Commission Delegated and Implementing Regulations published in the Official Journal

On 10 March 2017, the following Commission Delegated and Implementing Regulations supplementing the Regulation on improving securities settlement and regulating central securities depositories (CSDs) (CSDR) were published in the Official Journal of the European Union:

- Commission Delegated Regulation (EU) 2017/389 of 11 November 2016 supplementing the CSDR as regards the parameters for the calculation of cash penalties for settlement fails and the operations of CSDs in host Member States. The Delegated Regulation will enter into force on the twentieth day following that of its publication in the Official Journal. It will apply from 10 March 2019, subject to several derogations;
- Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing the CSDR with regard to regulatory technical standards (RTS) on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services. The Delegated Regulation will enter into force on the twentieth day following that of its publication in the Official Journal;
- Commission Delegated Regulation (EU) 2017/391 of 11 November 2016 supplementing the CSDR with regard to RTS further specifying the content of the reporting on internalised settlements. The Delegated Regulation will enter into force on the twentieth day following that of its publication in the Official Journal;
- Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing the CSDR with regard to RTS on authorisation, supervisory and operational requirements for CSDs. The Delegated Regulation will enter into force on the twentieth day following that of its publication in the Official Journal. Article 54 will apply from the date of entry into force of the delegated acts adopted by the Commission under Articles 6(5) and 7(15) of the CSDR, whichever is the later;
- Commission Implementing Regulation (EU) 2017/393 of 11 November 2016 laying down implementing technical standards (ITS) with regard to the templates and procedures for the reporting and transmission of information on internalised settlements in accordance with the CSDR. The Implementing Regulation will enter into force on 10 March 2019;
- Commission Implementing Regulation (EU) 2017/394 of 11 November 2016 laying down ITS with regard to standard forms, templates and procedures for authorisation, review and evaluation of CSDs, for the co-operation between authorities of the home Member State and the host Member State, for the consultation of authorities involved in the authorisation to provide banking-type ancillary services, for access involving CSDs, and with regard to the format of the records to be maintained by CSDs in accordance with the CSDR. The Implementing Regulation will enter into force on the twentieth day following that of its publication in the Official Journal. Article 11(1) will apply from the date of entry into force of the delegated acts adopted by the Commission under Articles 6(5) and 7(15) of the CSDR, whichever is the later.

4.2 MiFID II Directive: corrigendum published in the Official Journal

On 10 March 2017, a corrigendum to the text of the MiFID II Directive was published in the Official Journal of the European Union.

The corrigendum makes two minor amendments to the text of Articles 34(9) and 35(12) of the version of the MiFID II Directive published in the Official Journal.

4.3 MLD5: ECON and LIBE report

On 10 March 2017, the European Parliament published a report on the proposed Fifth Money Laundering Directive (MLD5) prepared by the Parliament's Committees on Economic and Monetary Affairs (ECON) and Civil Liberties, Justice and Home Affairs (LIBE).

The report contains a draft Parliament legislative resolution, together with opinions from the Committee on Development, the Committee on International Trade and the Committee on Legal Affairs.

4.4 EMIR: European Commission adopts Delegated Regulation amending three Delegated Regulations as regards the deadline for compliance with clearing obligations for certain counterparties dealing with OTC derivatives

On 16 March 2017, the European Commission adopted a Delegated Regulation which amends three Commission Delegated Regulations on the clearing obligations that financial counterparties with a limited volume of activity in over-the-counter (OTC) derivatives need to comply with under the Regulation on OTC derivatives, central counterparties and trade repositories (known as EMIR).

The Delegated Regulation extends for two years, until 21 June 2019, the phase-in periods for financial counterparties with a limited volume of derivatives activity, that is, classified in category 3 under the EMIR Delegated Regulations. It therefore aligns the three compliance dates for category 3 firms in the Delegated Regulations regarding interest rate swaps and credit default swaps, which had specified start dates of 21 June 2017 with regard to OTC interest rate derivatives denominated in EUR, GBP, JPY, and USD and for 9 February 2018 with regard to OTC index credit default swaps and OTC interest rate derivatives denominated in NOK, PLN and SEK.

The Council of the European Union and the European Parliament must now consider the Delegated Regulation. If neither of them objects to it, it will enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

4.5 BRRD: ECB opinion on European Commission's legislative proposal as regards the ranking of unsecured debt instruments in insolvency hierarchy

On 23 November 2016, the European Commission published a Proposal for a Directive amending the Bank Recovery and Resolution Directive (BRRD) as regards the ranking of unsecured debt instruments in insolvency hierarchy. The proposal covers specifically the targeted amendments to the BRRD related to the insolvency ranking of holders of debt instruments issued by EU banks for the purposes of complying with the BRRD and total loss absorbing capacity requirements concerning loss absorption and recapitalisation capacity of banks.

On 10 March 2017, the European Central Bank (ECB) published an opinion, dated 8 March 2017, on the Commission's legislative proposals.

In its general comments, the ECB welcomes the proposed Directive and says that the reform should be adopted as soon as possible to assist credit institutions in their preparations for meeting the new requirements. However, it considers that the proposed Directive only provides for partial harmonisation and that additional reforms would be useful to promote further harmonisation in the hierarchy of creditor claims in bank insolvency. In particular, a general depositor preference rule, based on a tiered approach, should be enshrined in EU legislation.

In addition to a number of technical drafting points, the ECB makes a number of specific observations on various matters.

4.6 CSDR: ESMA publishes first set of Q&As

.On 13 March 2017, the European Securities and Markets Authority (ESMA) published its first set of questions and answers (Q&As) on implementation of the Regulation on improving securities settlement in the EU and on central securities depositories (CSDR). This follows the publication in the Official Journal of the European Union of the CSDR Level 2 package (except for settlement discipline which is still pending), see item 4.1 above.

The focus of this set of Q&As is on CSD requirements provisions, which enter into force on 30 March 2017 and will trigger the CSD authorisation process. Prospective CSD applicants will have until the end of September 2017 to apply for authorisation.

The purpose of the Q&As document is to promote common supervisory approaches and practices in the application of the CSDR. It provides responses to questions posed by the general public, market participants and national competent authorities relating to the practical application of the CSDR.

This document is intended to be continually edited and updated as and when new questions are received. The date on which each section was last amended is included for ease of reference.

5. Financial crime

5.1 Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 consultation and draft regulations

On 15 September 2016, HM Treasury published a consultation paper on transposition of the Fourth Money Laundering Directive (MLD4), which outlined how the Government intended to implement the directive and the Fund Transfer Regulation (FTR), which accompanies it. The Government sought views and evidence on the steps it proposed to take or should take, to transpose MLD4 and those aspects of the FTR that need to be transposed into national law.

On 15 March 2017, HM Treasury published a consultation paper on the Money Laundering Regulations 2017, which gives an outline of the responses to the 2016 consultation and the Government's policy positions, together with a draft version of the Regulations, the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

A number of key decisions emerged from the consultation, including:

- a requirement for Her Majesty's Revenue and Customs (HMRC) to act as the registry authority for all trust and company service providers, who are not registered by HMRC themselves or the FCA;
- an extension of the fit and proper test to agents of money service businesses, which will be carried out by HMRC;
- retaining letting agents within the scope of the new regulations where they carry out estate agency work within section 1 of the Estate Agents Act 1979 (as amended);
- the exemption of all gambling service providers from the requirements of MLD4, except remote and non-remote casinos;
- a decision not to allow pooled client accounts to be automatically subject to simplified due diligence, but instead for this to be applied on a risk based approach.

The draft regulations have been informed by the responses submitted and reflect the Government's policy decisions.

Comments on the consultation paper and on the draft regulations, in particular views on whether the drafting delivers the Government's stated aims, as well as comments on the further policy questions posed in the consultation paper, are requested by 12 April 2017. The Government's final policy decisions will be implemented through legislation to come into force by 26 June 2017.

5.2 Money laundering: HM Treasury publishes response to call for information and cutting red tape review, together with new call for information

On 21 April 2016, HM Treasury published an action plan for anti-money laundering (AML) and counter-terrorist finance setting out how the public and private sector would work together to take priority areas for reform forward and tackle money laundering in all its forms. It focused on three priorities: a more robust law enforcement response, reforming the supervisory regime; and increasing the UK's international reach.

Through the action plan, the Government launched a call for information on the UK's AML supervisory regime. The call for information focused on the system of appointing supervisors, the powers of supervisors to incentivise compliance, adoption of the risk-based approach, and how supervisors interact with supervised businesses.

On 15 March 2017, HM Treasury published the Government's response to the call for information and the cutting red tape review (see

also item 5.3 below for the report on this review):

- chapter 2 of the document considers how different AML supervisors interpret their obligations in the Money Laundering Regulations (the Regulations) in various ways, which can create inconsistencies. It also sets out the Government's intention to address these inconsistencies, and strengthen the regime, by clarifying the obligations on all supervisors through the Regulations. See item 5.1 above for the new draft Regulations;
- chapter 3 considers views on the effectiveness of supervisors, and feedback from respondents on the effectiveness of statutory supervisors including the Financial Conduct Authority (FCA). It also considers inconsistent approaches to supervision in sectors where several supervisors are active. This chapter sets out the Government's response, including the intention to create a new Office for Professional Body AML Supervision (the Office), hosted by the FCA, to work closely with professional body supervisors to help, and ensure, they meet the high standards expected of an AML supervisor, as well as to facilitate collaboration between professional body AML supervisors, statutory supervisors, and law enforcement. It also seeks further views on the powers this new Office should have to carry out this task effectively. Comments are requested by 26 April 2017, and details of how to submit responses are provided in annex B to the document;
- chapter 4 focuses on the quantity and quality of AML/counter financing of terrorism guidance issued by industry and supervisors, which, as both the cutting red tape review and the call for information highlighted, can create unnecessary burdens for business whilst introducing risk into the regime. The Government will work with supervisors to address any unnecessary and contradictory guidance, ensuring businesses are provided with guidance that clearly sets out how they can tackle money laundering risks. The FCA has also published proposed new guidance (see item 1.1 above) on the treatment of domestic and foreign politically exposed persons (PEPs), their family members and their known close associates. This will ensure that the provisions on PEPs are implemented in a proportionate and risk-based manner, so such persons and their families are not unreasonably hindered in legitimate access to financial services.

5.3 Cutting red tape: review of the UK's AML and CTF regime: Government response

On 16 March 2017, the Department for Business, Energy and Industrial Strategy published a report, together with annexes which provides a summary of views and evidence submitted to the Cutting Red Tape review of the anti-money laundering and counter financing of terrorism (AML/CFT) regime, which was launched in 2015.

The purpose of the review was to identify any aspects of the supervisory regime (not the underlying regulations but the way in which they are enforced) that make it less effective whilst imposing unnecessary burdens on legitimate, law-abiding businesses. A summary of the findings of the review is given on pages 4 and 5 of the document.

6. Financial regulation

6.1 Mobile payments in Europe: version 5 of EPC White Paper

On 14 March 2017, the European Payments Council (EPC) published version 5 of its White Paper on mobile payments.

The aim of the document is to contribute to the evolution of an integrated market for mobile payments across the Single Euro Payments Area (SEPA). The EPC has extended the scope to include new types of mobile proximity payments. The document provides a detailed analysis of each focus area for mobile payments and an analysis of how mobile ecosystems could evolve and interact to support SEPA card payments and SEPA credit transfers. It also incorporates new use cases based on the EPC SEPA Instant Credit Transfer scheme.

The EPC consulted on the document in 2016 and the new version incorporates comments received to this consultation. It has also been aligned with the new version 8.0 of the SEPA cards standardisation volume.

The EPC plans to engage further with relevant industry bodies to contribute to the development of open specifications and guidelines for the interoperability of mobile payments, which can be used by the payment industry and all interested parties.

7. Insurance

7.1 EU insurance regulation inquiry: House of Commons Treasury Select Committee publishes letter from Sam Woods

On 16 March 2017, the House of Commons Treasury Select Committee published the text of a letter it has received from the Bank of England's Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority (PRA), Sam Woods, in connection with the Select Committee's inquiry into EU insurance regulation.

In the letter, which is dated 3 March 2017, Mr Woods provides additional evidence requested by the Select Committee at a hearing on 22 February 2017. This additional evidence relates to the PRA's views on the 23 areas that the Association of British Insurers (ABI) recommended for reform and the PRA's plans to further consider the costs and benefits of reporting requirements.

Mr Woods says that these issues will have to be considered by the Prudential Regulation Committee and they will be considered as soon as possible. However Mr Woods says that it might be useful to the Select Committee for him to set out his preliminary views in the letter.

Mr Woods says that he plans to conduct a review of the PRA's implementation of Solvency II reporting requirements, with a view to identifying ways in which insurers' reporting burdens might be reduced while fully meeting the PRA's statutory objectives. Mr Woods says that the PRA is constrained in many respects by the Solvency II Directive, but this does leave it some flexibility, especially on quarterly reporting burdens, which the PRA has already taken advantage of to some extent. The PRA remains open to discussions with the ABI and other stakeholders and will survey a sample of insurers to gather information on the impact of reporting through the firm. It will also review the ongoing usefulness of the data collected in supporting the PRA's supervisory functions, and the extent to which the information collected helps the PRA to meet and balance its objectives. Mr Woods says that he intends to progress this work as a matter of priority and will provide a response to the Treasury Select Committee on the outcomes of the review.

In relation to the 23 areas of concern the ABI identified, Mr Woods sets out his views on each of these in the appendix to the letter. The Select Committee also asked Mr Woods to identify which of these recommendations he considered would not be within the PRA's gift to address. The areas where the PRA is constrained include assessments against the matching adjustment eligibility criteria. However, set against this requirement, the PRA has been flexible within its limits, for example by allowing firms to restructure illiquid assets so that they can qualify. In other areas the PRA is constrained in its ability to provide definitive domestic guidance on the directly-applicable Solvency II Delegated Regulation, which means, for example, that it is unable to provide more clarity on the treatment of some US securitisations than the Delegated Regulation provides. In other areas, particularly reporting, there are some very clear constraints, but there also exists some opportunity to apply proportionality.

7.2 Lloyd's model change guidance notes and 2017 submission requirements

On 10 March 2017, the Society of Lloyd's published a document containing model change guidance notes and 2017 submission requirements.

In February 2016, Lloyd's published guidance for the model change process that was to be followed in the live Solvency II regulatory environment. Whilst 2016 was a successful year for the model change process, Lloyd's has identified a number of improvements for the 2017 process.

During the 2016 process, Lloyd's saw some model change management information that indicates there needs to be some tightening of model change parameters in order for Lloyd’s, as the regulated entity, to have a robust oversight of syndicate models and their input into the authorised Lloyd’s internal model. Additionally there are a number of process and timing changes that are required in order to provide an appropriate service level. Paragraph 1.3 gives details of the eight key changes for the 2017 year of account and onwards. Further detail of each change is given in section 2 of the document

The document collates all model change guidance previously issued together into one document. The document provides practical guidance and does not seek to repeat existing Solvency II requirements on model change. Lloyd's says that managing agents should continue to refer to the Solvency II requirements and the model change section of Lloyd’s minimum standards (MS) MS5: Scope, change and use.

Lloyd’s is aware that many agents have already completed their annual documentation policy review and the changes detailed in the document will require further amendments to an agent’s model change policies. Lloyd’s is aware that such changes will constitute a major model change in its own right. Lloyd’s asks agents to implement the changes and complete the full internal governance and sign off process during the first half of 2017 and then submit a model change application to Lloyd’s. Appendix 3 to the document contains a template for approval of a major model change.

7.3 FinTech developments in the insurance industry: IAIS report

On 14 March 2017, the International Association of Insurance Supervisors (IAIS) published a report which highlights the potential impact of innovative financial technologies (FinTech) on insurance sector competitiveness, consumer choice, interconnectedness, business model viability and regulatory oversight. The report also examines the challenges and opportunities insurance supervisors face in this rapidly changing insurance environment.

The report refers to the variety of emerging technologies and innovative business models that have the potential to transform the insurance business as InsurTech. These include the internet of things, telematics, the use of Big Data, Robo advisors, distributed ledger technology, blockchain and smart contracts.

The report contains a description of these innovations, their drivers and possible impacts based on a scenario analysis. The findings of the report are intended to inform the IAIS, the entire insurance supervisory community and other stakeholders allowing further strategic consideration and discussion of possible future work.

The report says that insurance supervisors may face the following challenges in the near future:

- supervisors need to understand how innovations work and are applied in order to ensure adequate assessment of new product and business models;
- supervisors will also need to balance the risks of new innovations against the benefits for policyholders and the insurance sector as a whole, and consider how to create the proper environment to foster innovation for example, through regulatory sandboxes or innovation hubs;
- supervisors and policymakers will need to evaluate and, where appropriate, adjust their regulatory framework from a prudential and conduct of business perspective to adequately address changed risks and business models;
- supervisors need to arrange proper technical resources, knowledge and skills to be able to deal with FinTech in the future. The collaboration with other stakeholders

needs to be stepped up to build up and maintain an adequate understanding of innovations.

8. Securities markets

8.1 Unique transaction identifier: FSB consultation on proposed governance arrangements

On 13 March 2017, the Financial Stability Board (FSB) published a consultation paper on proposed governance arrangements for the unique transaction identifier (UTI). The consultation sets out proposals for the governance arrangements for a global UTI, as a key harmonised identifier designed to facilitate effective aggregation of transaction reports about over-the-counter (OTC) derivatives markets. The consultation paper has been prepared by the FSB's Working Group on UTI and unique product identifier governance (GUUG).

The primary purpose of the UTI is to uniquely identify individual financial transactions in reports to trade repositories (TRs). In particular, a UTI helps to ensure the consistent aggregation of OTC derivatives transactions by minimising the likelihood that the same transaction will be counted more than once (for instance, because it is reported by more than one counterparty to a transaction, or to more than one TR).

The consultation paper:

- identifies key criteria for the UTI governance arrangements and identifies the rationale for a number of those criteria;
- identifies UTI governance functions to be performed, including a mapping of those functions into three broad areas of governance;
- proposes the allocation of some functions to specific bodies; and
- identifies options for the allocation of some other functions.

As part of the key criteria, the FSB proposes that to maximise the benefits and minimise the costs and burdens associated with the use of the UTI, the governance arrangements should seek to avoid unnecessary complexity and should take due account of existing resources and arrangements where possible.

Comments are requested by 5 May 2017. The FSB intends to have an industry roundtable on UTI governance on 25 April 2017. After the consultation, and taking into account feedback, the GUUG expects to prepare final recommendations on UTI governance arrangements for adoption by the FSB later in 2017.

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