

Toronto Centre Publications Monitoring Report

June 2018

A synopsis of recently issued supervisory guidance, news releases, working papers and related documents from over 50 global and regional standard setting bodies, national regulators, international organizations and industry groups as well as the latest TC Notes. This report is prepared monthly for the TC Community. With the exception of the TC Notes, the summaries are taken from the organizations' web sites. Toronto Centre does not hold the copyright to these abstracts.

TC Notes

| Date | Organization | Title & Abstract |
|-----------|----------------|---|
| June 2018 | Toronto Centre | <p><u>SupTech: Leveraging Technology for Better Supervision</u></p> <p>The focus of this Note is on how SupTech can help supervisors meet common challenges in discharging their responsibilities, with focus on data collection, data analytics and digitization of processes and working tools. The Note provides examples of current uses of SupTech and uses that are still in trial stage. Finally, it discusses the challenges and risks of embracing SupTech.</p> |

Standard Setting Bodies

| Date | Organization | Title & Abstract |
|---------------|--------------|--|
| June 21, 2018 | FSB | <p><u>FSB Publishes Guidance on Bail-in Execution and Resolution Funding to Promote G-SIB Resolvability</u></p> <p>The FSB published two guidance documents to assist authorities in implementing its <i>Key Attributes of Effective Resolution Regimes</i> for global systemically important banks (G-SIBs). <i>Principles on Bail-in Execution</i> sets out principles to assist authorities as they make bail-in resolution strategies operational. <i>Funding Strategy Elements of an Implementable Resolution Plan</i> covers the development of a resolution funding plan for G-SIBs.</p> |
| June 6, 2018 | FSB | <p><u>FSB Seeks Feedback on Technical Implementation of the TLAC Standard</u></p> <p>The FSB published a call for public feedback on the technical implementation of the FSB's Total Loss-Absorbing Capacity (TLAC) Standard.</p> |

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| June 4, 2018 | FSB | <p><u>FSB Launches Thematic Peer Review on Bank Resolution Planning and Invites Feedback from Stakeholders</u></p> <p>The FSB is seeking feedback from stakeholders as part of its third thematic peer review on resolution regimes. The objective of the review is to evaluate implementation by FSB jurisdictions of the resolution planning standard set out in the FSB <i>Key Attributes of Effective Resolution Regimes for Financial Institutions</i> and in associated guidance in relation to banks. The peer review will cover resolution planning for all domestically incorporated banks in FSB member jurisdictions that could be systemically significant or critical if they fail, i.e. global systemically important banks (G-SIBs), domestic systemically important banks (D-SIBs) and any other banks that could be systemic in failure and that are included in resolution planning at a jurisdictional level.</p> |
| June 21, 2018 | BCBS | <p><u>Progress in Adopting the "Principles for Effective Risk Data Aggregation and Risk Reporting"</u></p> <p>The BCBS published its latest progress report on banks' implementation of the <i>Principles for Effective Risk Data Aggregation and Reporting</i>. The Basel Committee has made the following recommendations: i) banks should continue to implement the Principles according to the roadmaps agreed with their supervisors and consider how implementation would benefit other data-related initiatives and requirements; and ii) supervisors should maintain their emphasis on ensuring that banks fully implement the Principles.</p> |
| June 29, 2018 | EBA | <p><u>EBA Publishes Updated ITS Package for 2019 Benchmarking Exercise</u></p> <p>The EBA published an update to its Implementing Technical Standards (ITS) on benchmarking of internal approaches. The ITS include all benchmarking portfolios that will be used for the 2019 benchmarking exercise. Today's update includes changes and clarifications that the EBA introduced based on the consultation paper that was published on 18 December 2017.</p> |
| June 28, 2018 | EBA | <p><u>EBA Does Not Object to the Swedish FSA Proposed Measures to Address Macroprudential Risk</u></p> <p>The EBA published an Opinion following the notification by Finansinspektionen, the Swedish Financial Supervisory Authority (FSA) of its intention to change the method it currently uses to apply a risk weight floor for Swedish mortgages through Pillar 2 by replacing it with a requirement within the framework of Article 458 of the Capital Requirements Regulation (CRR). Based on the evidence submitted, the EBA does not object to the adoption of the proposed measure, which the Swedish FSA intends to apply to credit institutions that have adopted the Internal Rating-Based (IRB) Approach.</p> |
| June 25, 2018 | EBA | <p><u>EBA Updates Its Guides on Supervisory Data</u></p> <p>The EBA published two updated versions of its guides on data. Both the EBA methodological guide on how to compile risk indicators and detailed risk analysis tools and the EBA guidance note on compiling IMF FSIs with EBA ITS data provide useful insights to users on how to explore supervisory data available through the EBA reporting framework.</p> |
| June 25, 2018 | EBA | <p><u>EBA Publishes Opinion to Hasten the Preparations of Financial Institutions for Brexit</u></p> <p>The EBA published an Opinion relating to the risks posed by lack of preparation by financial institutions for the departure of the UK from the EU. The EBA asks Competent Authorities to ensure that financial institutions take practical steps now to prepare for the possibility of a withdrawal of the UK from the EU with no ratified Withdrawal Agreement in place, and no transition period.</p> |

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| June 22, 2018 | EBA | <p><u>EBA Adds PSD2 to its Online Interactive Single Rulebook and Q&A tools</u></p> <p>The EBA has updated its online Interactive Single Rulebook and Q&A tool with the inclusion of the Payment Services Directive (PSD2). Users will now be able to review on the EBA website all the EBA's final Technical Standards and Guidelines associated with the PSD2 by navigating through the Directive on an article by article basis.</p> |
| June 21, 2018 | EBA | <p><u>Identification of EU Bank Business Models</u></p> <p>This paper proposes a standardized classification of business models of the EU banks. Our work is based on a rich and unique dataset collected for the first time for the full population of EU banks at individual level. The proposed approach to classification combines both a qualitative and a quantitative component, which is a new approach compared with relevant literature in business model identification and classification. The qualitative component is based on an expert knowledge of the supervisory authority, which is confirmed or challenged by quantitative indicators. Our findings are that banks' classification through this mixed approach allows better and more granular identification of banks' business models than the clustering methodology, which is more commonly used in the literature. The business model categorization can provide the supervisory and regulatory authorities with a benchmark for classifying institutions for a more structured and consistent approach to regulatory impact assessment, analyzing trends and risks, proportionality, and supervision, ensuring the continuity and comparability of results over time.</p> |
| June 21, 2018 | EBA | <p><u>Sharing the Pain? Credit Supply and Real Effects of Bank Bail-Ins</u></p> <p>We analyze the credit supply and real sector effects of bank bail-ins by exploiting the unexpected failure of a major Portuguese bank and subsequent resolution. Using a matched firm-bank dataset on credit exposures and interest rates, we show that while banks more exposed to the bail-in significantly reduced credit supply at the intensive margin, affected firms compensated the tightening of overall credit with other sources of funding. Nevertheless, SMEs were subject to a binding contraction of funds available through credit lines and reduced investment and employment. These dampening effects are explained by the pre-shock internal liquidity position of smaller firms.</p> |
| June 19, 2018 | EBA | <p><u>EBA Consults on the Conditions to Allow Institutions to Calculate Capital Requirements of Securitised Exposures (Kirb) in Accordance with the Purchased Receivables Approach</u></p> <p>The EBA launched a public consultation on draft Regulatory Technical Standards (RTS) specifying the conditions to allow institutions to calculate capital requirements of the securitized exposures (KIRB) in accordance with the purchased receivables approach laid down in the amended <i>Capital Requirements Regulation</i> (CRR). These draft RTS aim at striking the right balance between the need to acknowledge the specific circumstances under which institutions calculate capital requirements in the context of a securitization transaction and the need to maintain appropriately safe and prudent requirements on the internal modelling of capital requirements.</p> |

| Date | Organization | Title & Abstract |
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| June 13, 2018 | EBA | <p><u>EBA Provides Clarity to Market Participants for the Implementation of the Technical Standards on Strong Customer Authentication and Common and Secure Communication Under the PSD2</u></p> <p>The EBA published two regulatory products, an Opinion and a Consultation Paper on draft guidelines, to clarify a number of issues identified by market participants in relation to the regulatory technical standards (RTS) on strong customer authentication and common and secure communication (SCA and CSC), which will apply from 14 September 2019. The Opinion focuses on the implementation of the RTS while the Consultation Paper proposes a pragmatic and consistent approach to the four conditions to be met to benefit from an exemption from the fallback option envisaged under Article 33(6) of the RTS.</p> |
| June 11, 2018 | EBA | <p><u>EBA Issues Revised List of ITS Validation Rules</u></p> <p>The EBA issued today a revised list of validation rules in its Implementing Technical Standards (ITS) on supervisory reporting, highlighting those which have been deactivated either for incorrectness or for triggering IT problems. Competent Authorities throughout the EU are informed that data submitted in accordance with these ITS should not be formally validated against the set of deactivated rules.</p> |
| June 1, 2018 | EBA | <p><u>EBA Publishes Final Amended Technical Standards on Supervisory Disclosure</u></p> <p>The EBA published its final draft amended Implementing Technical Standards (ITS) on supervisory disclosure, which specify the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities. The amended draft ITS incorporate the changes to the EU legal framework and the establishment of the Single Supervisory Mechanism (SSM). The amendments introduced in the final draft ITS will enhance transparency, ensure consistency between the templates and instructions and will contribute to reducing the level of different interpretation between reporting.</p> |
| June 28, 2018 | EIOPA | <p><u>EIOPA Calls Upon National Supervisory Authorities to Remind Insurers of Their Duty to Inform Customers About the Impact of the Withdrawal of the United Kingdom from the European Union</u></p> <p>EIOPA published the opinion addressed to national supervisory authorities about the duty of insurance undertakings and insurance intermediaries to inform customers about the possible impact of the withdrawal of the United Kingdom from the European Union.</p> |
| June 27, 2018 | EIOPA | <p><u>EIOPA Submits Draft Regulatory Technical Standards for Professional Indemnity Insurance and for Financial Capacity of Intermediaries</u></p> <p>EIOPA submitted the draft Regulatory Technical Standards to the European Commission adapting the base euro amounts for professional indemnity insurance and financial capacity of insurance intermediaries.</p> |
| June 1, 2018 | EIOPA | <p><u>EIOPA Expects Insurance Undertakings to Avoid Instruments Banned or Restricted by ESMA</u></p> <p>EIOPA published a statement on consumer detriment resulting from policyholder exposure to contracts for differences (CFDs) and binary options. Considering potential future risks to policyholders, EIOPA expects insurance undertakings to avoid as possible direct underlyings of insurance-based investment products, instruments for which ESMA has issued a ban or restriction. In general, uses of product intervention powers in one sector should never be circumvented by repacking the instruments that have been banned or restricted for offer in another sector.</p> |

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| June 2, 2018 | ESMA | ESMA Adopts Final Product Intervention Measures on CFDs and Binary Options ESMA has formally adopted new measures on the provision of contracts for differences (CFDs) and binary options to retail investors. |
| June 2018 | IAIS | Issues Paper on Index Based Insurances, Particularly in Inclusive Insurance Markets IAIS sets out reasons that various promoters have sought to develop index-based insurance, and discusses the scope of index-based insurances. |

National Regulators

| Date | Organization | Title & Abstract |
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| June 27, 2018 | OSFI | LICAT and MCT 2021 Review for IFRS 17 This letter communicates OSFI's plan to implement International Financial Reporting Standard (IFRS) 17 in its insurance capital guidelines: Guideline A – <i>Life Insurance Capital Adequacy Test</i> (LICAT) for life insurers, and Guideline A – <i>Minimum Capital Test</i> (MCT) for property and casualty (P&C) insurers. |
| June 20, 2018 | OSFI | Overview of the Pension Plans Survey Findings - 2017 The overall results from the 2017 survey are positive, with most areas improved or comparable to results from the previous study conducted in 2014. Among other areas, high positive ratings pertain to effectiveness in supervising plans, timeliness in responding to enquiries, guidance that provides a clear indication of OSFI's expectations, and the ability to communicate in the official language of choice. |
| June 8, 2018 | OSFI | OSFI Releases a Discussion Paper on Reinsurance This paper discusses areas where changes are being considered in OSFI's current reinsurance framework. Key proposals aim to address risks associated with large exposures and concentration, particularly in the property and casualty (P&C) insurance sector. Adjustments to the capital framework for P&C insurers are also being considered. |
| June 1, 2018 | OSFI | Guideline A – Life Insurance Capital Adequacy Test OSFI is releasing a draft 2019 LICAT guideline for public consultation. Proposed changes to the guideline include: i) changes resulting from the implementation of IFRS 16 – Leases, effective January 1, 2019; ii) adding conditions for the recognition of funds withheld reinsurance, as part of OSFI's initiative related to reinsurance review; iii) specifying that mortality risk components apply to any group life insurance products; and iv) other minor edits or clarifications. |
| June 19, 2018 | Bank of England | Fees Regime for the Supervision of Financial Market Infrastructure (FMI) This policy statement provides feedback to responses to the March 2018 consultation paper <i>Fees Regime for Financial Market Infrastructure Supervision 2018/19</i> . It also sets out the final policy of the fees regime for the supervision of FMI. |

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| June 13, 2018 | Bank of England | <u>The Bank of England's Policy on Valuation Capabilities to Support Resolvability</u> The Bank has released its final Statement of Policy on valuation capabilities to support resolvability. The policy includes principles for the data, information, models, governance, documentation, and assurance firms will need to have in place to support timely and robust resolution valuations. |
| June 6, 2018 | Bank of England | <u>ISO 20022 Consultation Paper: A Global Standard to Modernise UK Payments</u> The Bank of England has, in conjunction with the New Payments System Operator (NPSO) and the Payment System Regulator (PSR), launched a six-week consultation on the adoption of a common global 'language' or messaging standard, known as 'ISO 20022', for payments in the UK. |
| June 5, 2018 | Bank of England | <u>Evaluation of the Bank of England's Resolution Arrangements</u> The report shows that significant progress has been made over the past decade, with Bank staff leading the way in international fora on developing the policy framework for resolution and taking steps to put policy into practice. The Bank's work with the industry means that firms are more resolvable now than they were during the crisis, and costs of failure would increasingly be absorbed by investors, rather than taxpayers. However, much also remains to be done if the major UK banks are to be fully resolvable by 2022. |
| June 28, 2018 | PRA | <u>Changes to the PRA's Large Exposures Framework</u> This policy statement provides feedback to responses to Consultation Paper (CP) 20/17 <i>Changes to the PRA's Large Exposures Framework</i> . It contains updates to: i) PRA rules on <i>Large Exposures and Regulatory Reporting</i> ; ii) SS 16/13 <i>Large Exposures</i> ; and iii) SS 34/15 <i>Guidelines for Completing Regulatory Reports</i> . It also contains a simplified worked example of the application of the large exposures (LE) limits at the level of the UK consolidated group. |
| June 28, 2018 | PRA | <u>Guidelines for Completing Regulatory Reports</u> Supervisory Statement (SS) 34/15 was updated following Policy Statement (PS) 14/18 <i>Changes to the PRA's Large Exposures Framework</i> to remove the requirement to submit data item FSA018. |
| June 28, 2018 | PRA | <u>Large Exposures</u> This supervisory statement was updated following publication of Policy Statement 14/18 <i>Changes to the PRA's Large Exposures Framework</i> . |
| June 15, 2018 | PRA | <u>Algorithmic Trading</u> This supervisory statement sets out the PRA's expectations of a firm's risk management and governance of algorithmic trading. |
| June 15, 2018 | PRA | <u>Algorithmic Trading</u> This policy statement provides feedback to responses to CP 5/18 <i>Algorithmic Trading</i> . It contains the final Supervisory Statement (SS) 5/18 <i>Algorithmic Trading</i> . |
| June 13, 2018 | PRA | <u>Resolution Planning: MREL Reporting</u> This policy statement provides feedback to responses from the Consultation Paper (CP) 1/18 <i>Resolution Planning: MREL Reporting</i> . It also sets out the PRA's final expectations for the reporting on the minimum requirement for own funds and eligible liabilities (MREL). |

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| June 13, 2018 | PRA | <p><u>The Bank of England's Approach to Setting a Minimum Requirement for Own Funds and Eligible Liabilities (MREL)</u></p> <p>This document sets out the Responses to Consultation and the updated Bank of England's policy for exercising its power to direct relevant persons to maintain a minimum requirement for own funds and eligible liabilities (MREL) under section 3A(4) of the <i>Banking Act 2009</i>.</p> |
| June 13, 2018 | PRA | <p><u>Resolution Planning</u></p> <p>Supervisory Statement 19/13 was updated following PS11/18 <i>Resolution Planning: MREL Reporting</i>, and takes effect from Tuesday 1 January 2019.</p> |
| June 19, 2018 | FCA | <p><u>FCA Reveals Urban-Rural Differences in How Consumers Experience Financial Services</u></p> <p>The FCA has published the latest analysis from its Financial Lives survey. This report puts the spotlight on the financial situation of people across the UK and highlights where in the UK people may be more vulnerable.</p> |
| June 18, 2018 | FCA | <p><u>Our Response to Law Commission Recommendations on Pension Funds and Social Investment</u></p> <p>In June 2017, the Law Commission made recommendations to government and the FCA on pension funds and social investment. A final joint response to this has now been published.</p> |
| June 5, 2018 | FCA | <p><u>FCA Sets Out Plans for Regulation of Claims Management Companies</u></p> <p>The FCA has published draft rules outlining how it will regulate claims management companies (CMCs) when regulation passes to the FCA on 1 April 2019. The FCA's proposals will require CMCs to provide a potential customer with a short summary document containing important information such as an illustration of fees charged and an overview of the services the CMC will provide. This document will need to be provided before any contract is agreed.</p> |
| June 29, 2018 | APRA | <p><u>Cash Investment Options' Non-Cash Holdings: Industry Guidance</u></p> <p>As part of a targeted desktop review, APRA has identified examples in the industry where 'cash' investment options appear to include exposure to underlying investments that would not generally be considered cash or cash-like in nature.</p> |
| June 6, 2018 | APRA | <p><u>APRA Releases New Prudential Standards to Strengthen the Role of the Appointed Actuary Within Insurers</u></p> <p>APRA has released a final package of measures to clarify and strengthen the role of the Appointed Actuary within general, life and private health insurers. APRA has released details of two new prudential standards: <i>Prudential Standard CPS 320 Actuarial and Related Matters</i> (CPS 320) and <i>Prudential Standard GPS 340 Insurance and Liability Valuation</i> (GPS 340). They are accompanied by <i>Prudential Practice Guide CPG 320 Actuarial and Related Matters</i>.</p> |
| June 28, 2018 | Federal Reserve Board | <p><u>Federal Reserve Releases Findings from Study of Small Business Owners' Perspectives on Online Lenders and Products</u></p> <p>The Federal Reserve Board and the Federal Reserve Bank of Cleveland published <i>Browsing to Borrow: "Mom & Pop" Small Business Perspectives on Online Lenders</i>. The report examines small business owners' perceptions of online lenders and their understanding and interpretation of the information that online lenders use to describe their credit products.</p> |

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| June 14, 2018 | Federal Reserve Board | <u>Federal Reserve Board Approves Rule to Prevent Concentrations of Risk Between Large Banking Organizations and their Counterparties from Undermining Financial Stability</u> The final rule, which implements part of the Dodd-Frank Act, is generally similar to the proposal, and applies credit limits that increase in stringency as the systemic footprint of a firm increases. Like the proposed rule, a global systemically important bank holding company, or GSIB, would be limited to a credit exposure of no more than 15 percent of the GSIB's tier 1 capital to another systemically important financial firm, reflecting Board staff's analysis of the increased systemic risk posed when the largest firms have significant exposure to one another. |
| June 5, 2018 | FDIC Federal Reserve Board CFTC OCC SEC | <u>Agencies Ask for Public Comment on Proposal to Simplify and Tailor “Volcker Rule”</u> Five federal financial regulatory agencies are jointly asking for public comment on a proposal that would simplify and tailor compliance requirements relating to the "Volcker Rule." The proposed changes are intended to streamline the rule by eliminating or modifying requirements that are not necessary to effectively implement the statute, while maintaining the core principles of the Volcker Rule as well as the safety and soundness of banking entities. |
| June 19, 2018 | SEC | <u>Strategic Plan 2018-2022</u> The SEC's new strategic plan focuses on its mission, vision, values and goals. |
| June 26, 2018 | HKMA, HKSFC | <u>Regulators Conclude Consultation on Further Enhancements to the OTC Derivatives Regulatory Regime</u> The HKMA and the Securities and Futures Commission issued conclusions to a joint consultation on further enhancements to the over-the-counter (OTC) derivatives regulatory regime in Hong Kong. |
| June 11, 2018 | HKMA | <u>Implementation of Cyber Resilience Assessment Framework</u> The HKMA has provided additional information about the implementation of the Cyber Resilience Assessment Framework (C-RAF) under the Cybersecurity Fortification Initiative (CFI). |
| June 7, 2018 | HKMA | <u>Banking (Disclosure) (Amendment) Rules 2018 and Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2018</u> The Rules and the Amendment Notice will come into operation on 30 June 2018. |
| June 2018 | Monetary Authority of Singapore | <u>Guidelines on Provision of Financial Advisory Service and Design of Advisory and Sales Forms</u> MAS proposes to issue guidelines to provide greater clarity on what would constitute the provision of financial advisory service under the <i>Financial Advisers Act</i> (Cap. 110). The guidelines set out the context and circumstances which MAS considers when assessing if a person is acting as a financial adviser. |

International Organizations

| Date | Organization | Title & Abstract |
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| May 2018 | CGAP | <p><u>Basic Regulatory Enablers for Digital Financial Services</u></p> <p>This Focus Note takes a close look at four building blocks in regulation — basic regulatory enablers, and how they have been implemented in practice. Each of the enablers addresses a specific aspect of creating an enabling and safe regulatory framework for digital financial services (DFS). The publication's focus is on DFS models that specifically target excluded and underserved market segments. It analyzes the frameworks adopted by 10 countries in Africa and Asia where CGAP has focused its in-country work on supporting a market systems approach to DFS. The four basic enablers are: i) nonbank e-money issuance; ii) use of agents; iii) risk-based customer due diligence (CDD); and iv) consumer protection.</p> |

Other

| Date | Organization | Title & Abstract |
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| May 2018 | Financial Inclusion on Business Runways, Mastercard Foundation, Bankable Frontier Associates | <p><u>Artificial Intelligence: Practical Superpowers - The Case for AI in Financial Services in Africa</u></p> <p>This report is relevant for fintech companies and financial service providers in Africa who are interested in or looking to move into AI. The paper presents a practical and compelling case for companies to seriously consider AI in their business by: i) identifying the main use cases in financial services through industry players in Africa; ii) providing real examples of applied machine learning through the global consulting firm BFA's portfolio of work with low-income customers and inclusive fintech companies; and iii) covering the challenges and introducing an AI readiness framework for firms to take next steps and test-drive AI demos from the MSME and Pay As You GO sectors.</p> |
| June 2018 | McKinsey and Company | <p><u>Blockchain Beyond the Hype: What is the Strategic Business Value?</u></p> <p>There are many misconceptions about blockchain. Companies can decide whether to invest in blockchain by focusing on specific use cases and their market position, according to this recent article from McKinsey.</p> |