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Financial Markets
Regulatory Outlook 2022

CENTRE *for*
REGULATORY STRATEGY
EMEA

“There is no doubt that time is running out for us to tackle the climate and environmental crises. [...] This means that the time for preparations is over and the time for action is now.”

Frank Elderson, Member of the Executive Board and Vice-Chair of the Supervisory Board, ECB[1]

“Overall, technological advances in finance should be broadly welcome, together with preparations to capture their benefits and mitigate potential risks to the financial system’s integrity and safety”

Bo Li, Deputy Managing Director, IMF[2]

Global foreword

The macro picture

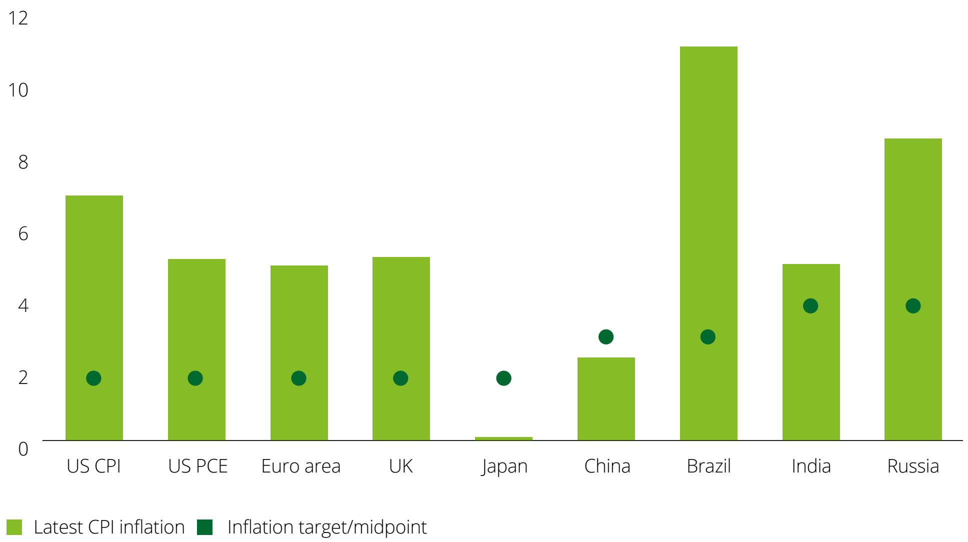
As we head into 2022, the defining features of the global macroeconomic environment are marked regional differences in economic performance combined with significant fragility in the outlook. Following a global contraction in 2020, much of the global economy returned to growth in 2021 and is forecast to continue to grow (albeit more slowly) in 2022 (Chart 1). However, global aggregate figures mask significant variation between countries, and the global economy faces what the International Monetary Fund (IMF) has called a "dangerous divergence in economic prospects"[3] between countries.

Inflationary pressures have in some parts of the world proved more persistent than central banks had previously anticipated (for instance running at 6.8%[4] in the US, and 5.4% in Germany[5] – its highest level for 29 years) (Chart 2). Central banks still generally envisage inflation returning to lower levels in 2022, though potentially remaining above targets, and it is increasingly clear that monetary policy will tighten earlier than previously anticipated through a combination of cuts in asset purchases and rises in interest rates. Meanwhile, some fiscal tightening has already begun, but looks set to proceed at different speeds between countries.

Chart 1. Percentage change in world output (estimated)

Source: IMF, World Economic Outlook October 2021.[6]

Chart 2. Gobal inflation rates vs. targets, percentage change year-on-year



Source: Refinitiv Datastream.[7]

Global foreword

In general, there remains a high degree of uncertainty in current economic projections, and even the tentatively positive economic outlooks are predicated on assumptions that lockdowns and supply chain disruptions continue to ease. The very nature of these supply chain shocks indicates the fragility of the economic recovery – the highly intertwined global economy means that the emergence of problems anywhere could potentially threaten recovery everywhere.

The challenges confronting financial regulators

Looking beyond the general social and economic upheaval of the last two years, the financial services industry and its regulators face major challenges. First, financial services firms must play their part in global efforts to address climate change, to halt biodiversity loss, and to respond to other social and environmental challenges.

Second, it is increasingly clear that the current sector-focused framework governing and regulating financial services will struggle to address the shifting risk landscape as a result of a wave of technological innovation. In what follows, we identify particular challenges around technological and operational resilience, the proliferation of novel forms of digital assets, and the increasingly blurred boundary between financial services, technology firms and other unregulated players.

Regulators are aware of these issues in all regions and are working together to address aspects of them through various fora, although national approaches and priorities vary and some countries may also have to contend with misalignments between the views of legislators and regulators on the way forward for certain issues. Given that these issues are shared across regions, we observe some broad commonalities in the solutions being adopted and the outcomes they are seeking. But these global issues have thus far generally not led to the creation of correspondingly global, coordinated, or cross-sectoral standards. This may well reflect the rapidly changing, complex, and highly technical nature of the challenges facing the sector and its regulators. As we begin 2022, this means that financial services firms will continue to have to deal with an evolving and still fragmented regulatory framework, within which authorities in different parts of the world explore different approaches. We take each issue in turn, beginning with climate, followed by three trends in technological innovation.

Climate change and sustainability

Climate risk is a (and some would assert the) top priority for the global standard setters, with the Financial Stability Board (FSB), Basel Committee on Banking Supervision (BCBS), International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and Financial Action Task Force (FATF) all highly engaged, and new bodies having been incorporated in the form of the Network for Greening the Financial System and more recently the International Sustainability Standards Board (ISSB). A huge amount of regulatory work is also in train across all regions. Regulators are broadly in agreement that climate risks have the potential to generate financial stability risks, that the industry needs to disclose and manage its exposures to these risks, and that the regulatory regime should be used to facilitate the emergence of green finance and eliminate forms of "greenwashing".

The consensus that has been forged on these principles is translating into a wide range of initiatives affecting banks, insurers, and investment managers. Financial risk management tools such as scenario and stress testing are being adopted in many parts of the world, particularly for banks, but

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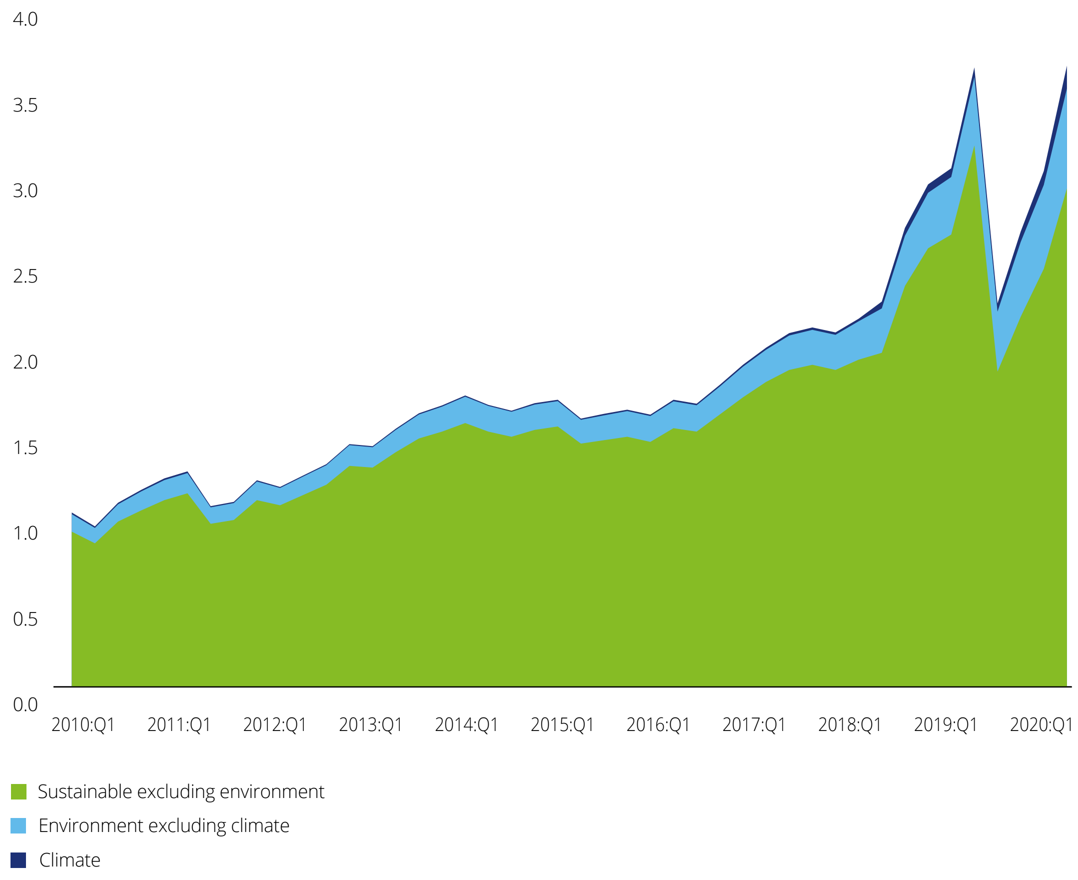
in some instances are also extending to the insurance sector. There is ongoing work to construct regulatory taxonomies for sustainability which have significant implications for investment management, particularly given the substantial increase in sustainability-linked assets under management in recent years (Chart 3). And there are various initiatives designed to improve disclosure across all sectors – voluntary in some jurisdictions, but increasingly mandatory in others.

While many of these are heading in the same direction and are designed to deliver similar outcomes, we expect divergence in the details of national requirements in the short to medium term, despite the considerable interest from global standard setters noted above. Incorporation of the ISSB indicates a renewed commitment to global coordination on sustainability disclosure standards, but it will not deliver a new International Financial Reporting Standard (IFRS) on sustainability overnight. In the meantime, disclosure frameworks aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) are in the process of being made mandatory in some jurisdictions, while others continue to work on their own proposals. Elsewhere, we see fewer prospects of alignment on climate stress testing procedures, the development of which remains at very different stages from country to country, or on the finer details of sustainability taxonomies.

Chart 3. Total sustainability-linked assets under management by fund label (USD trillion)



Source: IMF Gobal Financial Stability Report, October 2021.[8]

Global foreword

As a consequence, the industry faces a classic "future proofing" challenge. It will need to put in place solutions that satisfy its stakeholders in the near term – for instance in relation to measuring climate risks or screening investment portfolios – in the knowledge that the rules will change over the next few years. In general, firms will need to accept that similar "green" products may require different sets of disclosures and other documentation in different parts of the world and prepare accordingly. Furthermore, while climate change is an archetypally global issue, global firms will need to remain attuned to variations in local interpretations of the umbrella term "sustainability", putting a premium on intra-group dialogue and flexible frameworks for sustainability plans more broadly.

Coming to terms with technological upheaval

The second set of major challenges stems from the increasing complexity of the financial services ecosystem as regulated firms digitise, unregulated technology firms enter the market, and new products such as cryptoassets, Decentralised Finance ('DeFi') and non-fungible tokens (NFTs) are developed. Delivery increasingly straddles regulated financial services firms and unregulated technology and FinTech firms, blurring boundaries across the industry, making it clear that the existing financial regulatory framework is in need of realignment. We see several sets of shared concerns across regions, but also varying solutions.

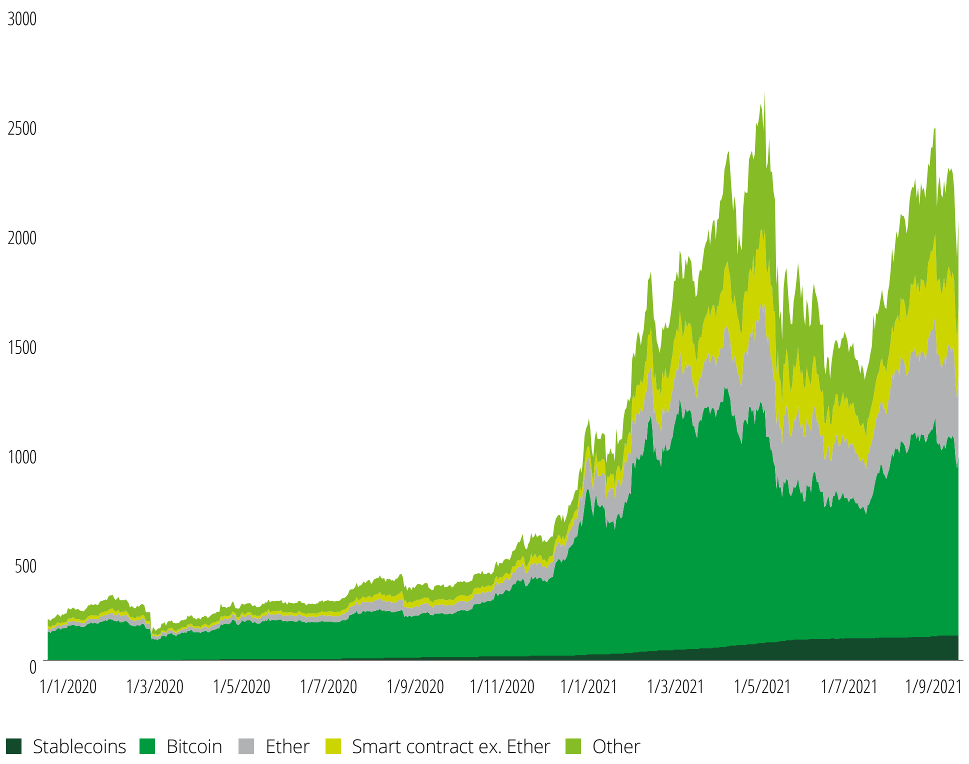
There is a strong supervisory focus across all regions on **operational and technological resilience**. The increased complexity of service delivery, client focus, and the intertwining of financial services with third-party (or even fourth or fifth-party) technological service providers, combine to introduce new points of vulnerability in the system and increase the challenges of overseeing and managing risk. It has become increasingly difficult to understand where risks lie in this highly interconnected system, not only for regulatory authorities but for firms themselves, and the focus on technology risk and operational resilience has heightened accordingly. In the EU, this is encapsulated by the Digital Operational Resilience Act (DORA). US regulators are modernising supervisory guidance, for instance across core information security and cybersecurity. They are also bringing examinations in line with these technological innovations with a focus on FinTech partnerships and digital assets, and generally heightening their scrutiny of technology risk and controls and innovation frameworks. Cybersecurity and operational resilience remain key areas of focus across APAC, although differences in approach are evident between countries in the region.

The direction of travel, if not the details of national approaches, is clear: third-party services will be subject to more scrutiny, implying a need for rigorous assurance work on the resilience of service providers while the extension of regulations and guidance could affect their role as providers of services to financial institutions. The variations in national approaches create challenges for global firms, as individual national regulators may be interested in different aspects of global relationships that exist between firms and their suppliers.

Global foreword

Elsewhere, **novel forms of digital assets – primarily cryptocurrencies and "stablecoin" variants** – remain outside the regulatory perimeter in much of the world, and regulators are considering ways to bring them in, or in some cases seemingly to regulate them out of existence. Coordination work on stablecoins is taking place at the global level through the FSB, the Committee on Payments and Market Infrastructures (CPMI) and IOSCO, but as yet has not led to consistent national or regional actions. Some countries and regions – notably the EU and UK – intend to forge ahead with the regulation of stablecoins[i], while a great deal of uncertainty about the way forward persists in numerous other countries, including Australia and the US. Meanwhile, standard setters have had less to say on other cryptoassets, and national approaches look set to diverge considerably. These differences create challenges for firms looking to understand how best to service the increasing investor demand for crypto assets and services (indicated by the significant rise in the overall value of the market during 2021 – see Chart 4) and the regulatory authorisations needed to provide them. One unintended consequence of these regulatory differences is that regulated firms are taking conservative approaches to developing crypto offerings while unregulated players move to jurisdictions with the fewest restrictions. It has also become more difficult to protect and regulate consumer activity in an environment where retail investors can use Virtual Private Networks (VPNs) to exploit national differences in rules, trading unregulated products overseas on platforms that may otherwise be banned in their home countries, sometimes on the advice of unregulated social media "finfluencers".

Chart 4. Market value of crypto assets (USD billion)



Source: IMF Gobal Financial Stability Report, October 2021.[9]

[i] EU regulation of stablecoins will be delivered through the Markets in Crypto-assets Directive (MiCA). UK regulation of stablecoins is in development through HM Treasury and the Bank of England

Global foreword

With respect to **the position of "Big Tech" firms**, the waters are muddied by the fact that they sometimes act as competitors to financial services firms, sometimes as strategic partners, and increasingly as critical third-party service providers.[10] Regulatory debates continue as to whether and how to regulate these firms and the services they provide, focused particularly on the balance between activity-based and entity-based regulation which looks set to vary between regions. Activities-based regimes that may have been deemed suitable for Big Tech firms in their roles as providers of services to financial services firms are increasingly seen as insufficient for Big Tech provision of financial services direct to consumers. This has prompted bodies such as the Bank for International Settlements (BIS) to suggest the need for more entity-based rules.[11] Activities-based approaches have predominated to date, with regulators extending regulatory frameworks and supervisory work to scrutinise activities such as cloud services provision (e.g. under the EU's Digital Markets Act) and the processing of consumer payments data (e.g. via the work of the US Consumer Financial Protection Bureau). However, the Chinese approach of requiring tech firms to "ring-fence" their financial services activities under an in-house financial holding company could inspire similar approaches elsewhere. In general, we expect a widening of the regulatory perimeter to capture critical third-party services that technology firms provide to financial services, and to capture the financial services those technology firms provide directly to customers, with a particular focus on the payments industry.

This cocktail of technology-related change creates significant challenges for financial services policymakers and firms alike. Many regulators recognise the need to walk the fine line of enabling innovation while protecting consumers and safeguarding financial stability.

Moreover, the blurred boundaries of service delivery are bringing together the domains of financial services and other regulators, principally data and competition authorities – most evident in debates around the collection, use and mobility of consumer data. In general, we see a case for policymakers to adapt their current regulatory and supervisory frameworks – including both the contents of regulation and the institutional architecture within which it is applied – to these new circumstances. However, this will inevitably take time.

Conclusion

These issues are shared global challenges: neither climate risk nor technological risk respect national or regional boundaries, any more than COVID has done over the past two years. It is clear that regulators in all regions recognise these problems and are working to address (aspects of) them, but in most areas we see little prospect of common solutions emerging in the short to medium term.

For firms operating across borders, the result is a complex picture of different rules and shifting targets. On current trajectories, it will be increasingly difficult for firms to maintain common systems or common controls in relation to climate and technology risks across different regions. We point out these differences in approaches not as a criticism, but simply as the reality of what is facing an industry and its regulators as they grapple with major and complex upheavals for which there are not yet widely agreed-upon solutions.

These challenges highlight the need – now more important than ever – of linking general strategy with regulatory strategy. The nature of the current environment implies a need for cross-border firms to double down on the tracking of regulatory

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change and industry trends, for instance through risk sensing; it may be particularly advisable for firms to keep their fingers on the pulse on what is happening in countries that might be considered "leaders" on certain topics (for instance the EU and UK on sustainability). But given that resolutions to these challenges will not be swift to emerge, industry needs to be prepared to navigate the evolving environment. Multinational firms will likely have to live with fragmentation and should be prepared to adapt programmes to local approaches. With many of these issues being highly complex, there is also a clear need for ongoing and constructive engagement between industry and the regulatory community: with both sides needing to adapt to a rapidly changing external environment, there is scope for sharing of leading practices and lessons learned.

These significant shifts provide the context for our regional Regulatory Outlooks for the year ahead. In this document, we explore the major themes and details of regulatory strategy for EMEA, but readers with an interest in understanding the landscape in APAC or the Americas can find them in the corresponding Regulatory Outlooks from our teams in those regions.

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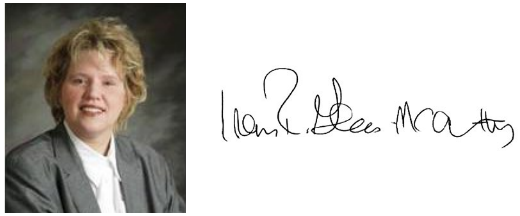

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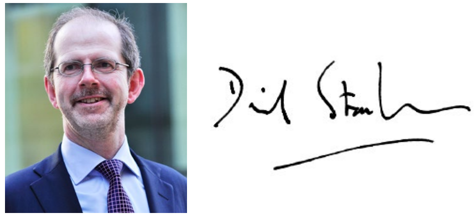

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At a glance

Our Financial Markets Regulatory Outlook 2022 from the EMEA Centre for Regulatory Strategy sets out our view of the trends and regulatory priorities that will shape financial services in the year ahead. The document is structured around ten themes that emerged from our analysis. Click on the titles below for a summary. The themes are explored in more depth in our report.

1 Transition to a sustainable economy

2 Climate-related risk management

3 Innovation

4 Operational resilience

5 Revising the capital framework

6 Market structure

7 Value for money

8 Financial crime

9 Governance

10 They think it's all over... it isn't yet

The view from the industry

To inform this report, we conducted a survey of 93 senior executives and non-executives at financial services firms.[ii] We asked them to rank the top three regulatory topics (out of a list of five) that they expected the Board and ExCo to spend the most time on in 2022. Sustainable finance came out as the top priority (selected by 23% of respondents), narrowly ahead of operational resilience and digitisation (both selected by 22% of respondents). But there were sectoral differences, with insurers putting the other two regulatory topics ahead of sustainable finance. In terms of the topics which featured as a top three priority, operational resilience was the clear winner (selected by 92% of respondents).

Chart 5. Survey respondents by firm type (%)

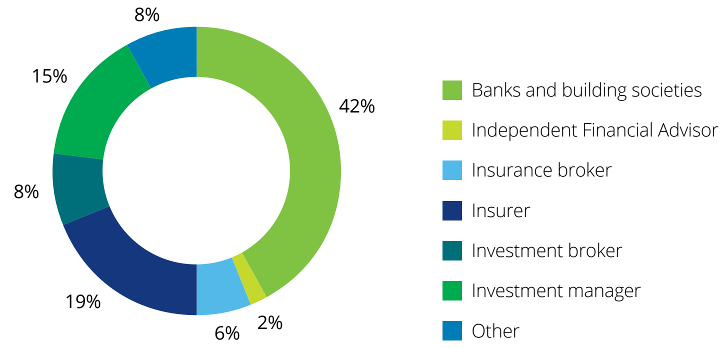


Chart 6. Survey respondents by role (%)

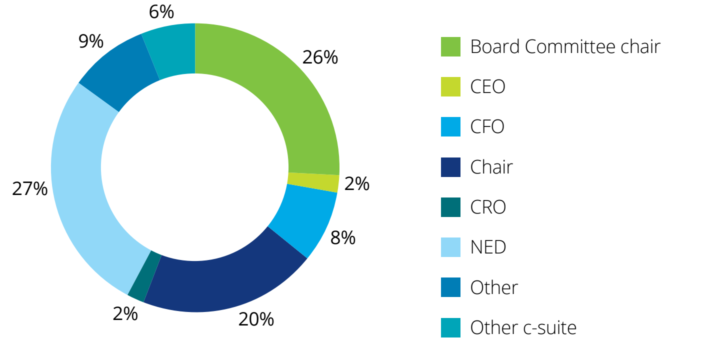
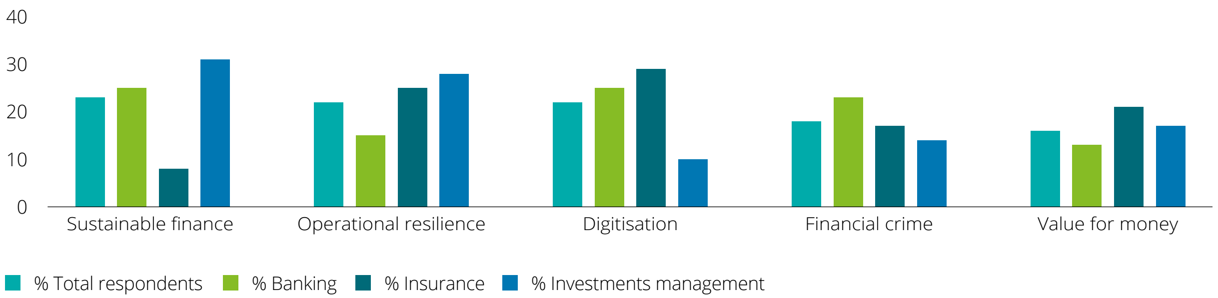
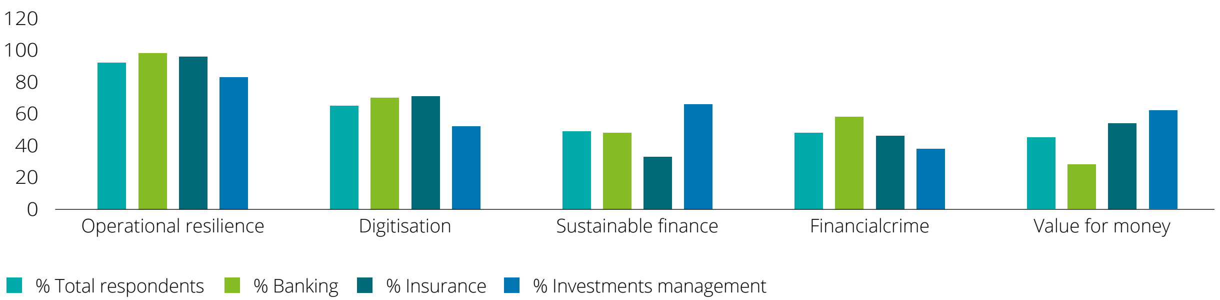


Chart 7. Which regulatory topic do you expect to require most Board/ExCo attention in 2022? (ranked as a top priority)



Source: Deloitte EMEA Centre for Regulatory Strategy Regulatory Outlook 2022 Survey, October 2021

Chart 8. Which regulatory topic do you expect to require most Board/ExCo attention in 2022? (ranked as a top three priority)



Source: Deloitte EMEA Centre for Regulatory Strategy Regulatory Outlook 2022 Survey, October 2021

[ii] For the purposes of simplification, we use the following sector breakdowns throughout the report: the "Banking Sector" comprises Banks, Building Societies and Credit Firms (40 respondents); the "Insurance sector" comprises Insurers and Insurance Brokers (24 respondents); and the "Investment Management Sector" comprises Investment Managers, Independent Financial Advisers, Investment Brokers and/or Inter-Dealer Brokers, Funds, Asset Service Providers and Proprietary Traders (29 respondents). The survey also contained questions on sustainability, digitisation, operational resilience and regulatory divergence. Findings from these questions are set out throughout the report.

1. Transition to a sustainable economy

Turning pledges into plans

In 2022, there will be a marked increase in focus by all stakeholders on the transition to a more sustainable economy, in turn accelerating and broadening opportunities for firms in terms of products, services and clients. TCFD guidance has made it explicit that firms should publish transition plans and the EU and UK are set to introduce disclosure requirements on transition plans for financial services firms and corporates (with varying deadlines over the next few years). As firms disclose more detail on transition plans, the credibility of those plans will come under increasing supervisory and stakeholder scrutiny.

Policymakers and regulators will increasingly look at regulatory options to incentivise and/or facilitate the transition. Central to this will be climate-related and ESG disclosures. In 2022, we expect increased supervisory scrutiny on the quality of firms' disclosures, in particular TCFD, together with the development of new disclosure frameworks, such as the EU CSRD and UK SDR, which cover climate impact as well as climate risks. Firms will increasingly seek third-party validation of their ESG disclosures, even where not mandated. UK regulators will seek to align with international disclosure frameworks, in particular, from the new ISSB, which will consult on a draft climate-related standard in early 2022. EU and UK regulators will continue to develop product-level disclosures and labels to mobilise green finance.

1. Transition to a sustainable economy

Turning pledges into plans

Taxonomies will increasingly underpin regulatory disclosures and shape product development. The EU Taxonomy which applied from the start of 2022, will continue to be developed to support the transition, creating implementation challenges for firms, while the UK will legislate on criteria on climate change mitigation and adaption in 2022, drawing on the EU's approach. While the focus in 2022 will remain on the "E" in ESG, regulatory developments covering the "S" will also gather pace, with the EU working to develop a Social Taxonomy.

Prudential regulators will scrutinise firms' measurement and management of non-financial risk (e.g. liability risk). Conduct regulators will increase supervisory scrutiny to prevent greenwashing and consider how changes in product affordability or access in support of the transition may translate into conduct concerns (e.g. in relation to fair treatment of customers or vulnerable customers).

71% of respondents to our survey had made net zero commitments, with the insurance sector in the lead (79% of respondents), followed by the banking sector (70% of respondents), and then the investment management sector (66% of respondents).

Source: Deloitte EMEA Centre for Regulatory Strategy Regulatory Outlook 2022 Survey, October 2021

1. Transition to a sustainable economy

Turning pledges into plans

Actions for firms

Credible net zero plans and leveraging opportunities

- Develop a Board-reviewed transition strategy and aligned roadmap and a detailed and resourced plan of actions, which includes interim targets.
- Measure emissions across the value chain, focusing on financed emissions, and develop a decarbonisation pathway using science-based targets.
- Integrate net zero considerations into investment, lending and/or underwriting decisions, while giving careful consideration to stakeholder engagement.
- Develop products and solutions which meet regulatory expectations and market demand.
- Cascade net zero plans across the firm, leverage risk management framework and ensure coordination between corporate strategy, business units and control functions.
- Ensure remuneration, incentives and culture are aligned with net zero plans.

Non-financial risk management

- Ensure reputational, liability and conduct risks stemming from climate and environment factors are identified and integrated into risk management frameworks.
- Ensure that Compliance and other key control functions receive training (e.g. on ESG data, non-financial performance metrics, or ESG investment strategies) so that they can assess green product disclosures.

Disclosures and data

- Develop a robust ESG data strategy and target operating model to ensure quality and consistency across data for ESG risk, net zero commitments, taxonomy-alignment, and disclosures.
- Consider regulators' concerns when using ESG ratings and data providers e.g. conduct due diligence of vendors and avoid mechanistic reliance on ESG ratings and data products.

2. Climate-related risk management

"A checkpoint, not a full stop"[12]

It has been clear from the outset that even as banks (and in some jurisdictions, insurers) work towards deadlines for meeting supervisory expectations on climate-related risk management capabilities set by supervisors and by the BCBS, they will in fact be locked into a longer-term process of developing frameworks and toolkits, as methodologies and the availability of data improve and requirements become more stringent. (In fact, the EBA will develop requirements for all ESG risks, but we nonetheless expect climate-related risk to be the point of focus.) In the near term, we expect the focus of supervisors to include firms' plans for adopting interim measures whilst longer-term capabilities are built, and governance frameworks and Board capabilities.

The PRA and ECB have also signalled that firms should pivot from building the toolkit to using it to manage the risks around the transition to a lower carbon economy. The primary lens for this will be firms' net zero transitions plans, which we expect quickly to become a core part of firms' dialogue with supervisors on climate risk. The challenge for firms of maintaining the link between risk management and business strategy when managing significant change to both is particularly acute.

Although scenario analysis is itself a core part of the risk management toolkit, it will also continue to be the focus of a separate stream of work. In addition to the CBES in the UK and the ECB's pilot exercise for SSM banks, all banks and insurers will need to adopt scenario analysis or stress testing (in some form) to meet the expectation that they capture climate risk within their ICAAP or ORSA. Firms will need to factor in the possibility that the NGFS will increase the severity of all of its scenarios in

2. Climate-related risk management

"A checkpoint, not a full stop"

light of the IPCC's 2021 report, and that supervisors ask firms to overlay more business-specific details or to consider second order effects (as the PRA plans to do for the CBES).

More generally, policymakers will explore further the options for tackling climate risk within the prudential framework. The final Solvency II proposal and the Commission's proposal on CRD6/CRR3 include mandatory climate risk identification and stress testing, but neither will be finalised this year. When published, we expect the EBA and PRA's initial thoughts on capturing climate risk in the capital framework to include changes to Pillar 1 capital modelling approaches. Pillar 3 and additional reporting are also coming down the track. And firms will see the focus of supervisors broaden beyond climate, to capture nature-related risks as well.

International collaboration through the NGFS and the BCBS is likely to provide an effective platform for international cooperation, although the aspiration of policymakers and supervisors is likely to be towards the interoperability of approaches rather than convergence.

"Whatever combination of physical and transition risks materialises, the macroeconomic consequences and financial risks resulting … will be profound"

"Gradually we will start treating climate-related risks like any other risk and include them in all relevant supervisory requirements."

Frank Elderson

Member of the Executive Board and Vice-Chair of the Supervisory Board, ECB[13,14]

2. Climate-related risk management

"A checkpoint, not a full stop"

Actions for firms

Operating model

- Develop a future state operating model view for risk management capabilities, specifying a plan to implement it that builds in flexibility to accommodate evolving mitigation, adaptation or transitional expectations. Assess plan and current capabilities against benchmarks of good practice as they are made available.

Business performance management

- Climate risk considerations are permeating the regulatory capital architecture. Firms should form an initial view, for example, of how the "greenness" of their balance sheet affects cost of capital or return on capital, and consider how that might influence future balance sheet strategy.

Scenario analysis and capital modelling

- Develop scenario analysis/stress testing capabilities. Approach should be proportionate to the size and complexity of the business, but should engage the Board and all relevant functions.
- Apply scenario analysis to inform climate risk assessment in ICAAP/ORSA.

Nature risk

- Undertake an initial assessment to understand nature risk on the balance sheet. Asses the priorities of supervisors, and where these new risk considerations could usefully be incorporated into existing plans.

3. Innovation

Fitting square pegs into round holes

Innovation continues to move up the EU and UK regulators and supervisors' agendas, but the challenge of applying traditional regulatory frameworks to innovative technologies and business models will slow down their progress. Work to address regulatory concerns associated with specific enabling technologies (e.g. Cloud, AI, DLT) will continue, but in 2022 we expect the focus to expand to the broader risks stemming from digital and business model innovation.

Cryptoassets: Incumbents will continue to build their cryptoassets offerings, initially custody services, whilst crypto native firms try to secure the required regulatory authorisations. UK and EU regulators are struggling to develop a tailored policy framework for the fast-growing unbacked cryptoassets market. In 2022, we expect them to focus on areas that can be practically regulated, such as the approach to market intermediaries (e.g. crypto wallets and exchanges) and systemic stablecoins. However, detailed rules may be delayed to 2023. In the meantime, we expect supervisors to stretch the limits of existing rules to address the risks arising from crypto activities, including regulated firms' management of risks arising from cryptoassets' exposure, especially if unregulated. In the UK, the FCA will leverage firms' MLR registration process and existing supervisory activities for regulated firms to probe crypto strategies, business models, and governance and risk management arrangements rigorously. The relative immaturity of crypto markets and firms' understanding of regulation will pose significant compliance challenges, particularly for new entrants.

"Since around 95% of the US$2.6 trillion crypto market is unbacked, the bulk of these assets are vulnerable to major price corrections. This raises significant issues related to investor protection and market integrity."

Carolyn Wilkins, *external member of the FPC*[15]

"...the [BNPL] option will make up more than half of the embedded finance market by 2026."

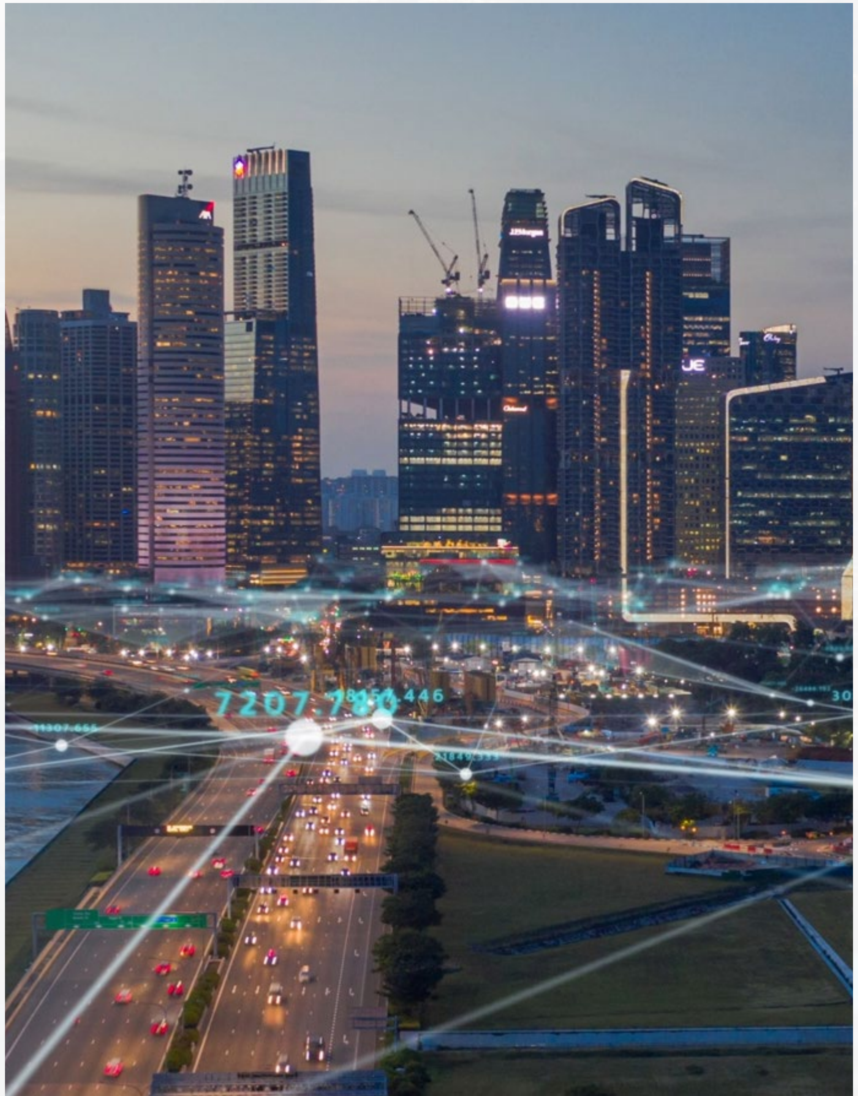
Sifted/Reports Embedded Finance[16]

3. Innovation

Fitting square pegs into round holes

Digital payments: EU and UK authorities are increasingly concerned about the complexity of digital payments chains, the rise of unregulated players and products, and the pace of innovation. Both jurisdictions are conducting extensive reviews of the payments landscape, which in time are likely to lead to a strengthened, technology-savvy, regulatory framework and expanded perimeter. More immediately, we expect supervisors to step up their scrutiny of payments firms' complex business and operating models. There is already evidence of authorisation and supervisory teams focusing on firms offering both regulated and unregulated products or growing rapidly. In the UK, the March 2022 deadline to implement the PRA/FCA operational resilience framework will give supervisors further opportunities to examine firms' TPRM.

Embedded finance: BNPL is at the forefront of the growth of embedded finance. The EU and UK are working to regulate the sector but are unlikely to issue final rules until late 2022 at the earliest. Still, firms entering the BNPL market can expect the introduction of stricter requirements, such as affordability checks, and enhanced transparency and reporting. Embedded finance is also coming under the spotlight more broadly. In early 2022, we expect the ESAs to advise the EC that the growing role of digital platforms in financial services creates risks and dependencies between financial and non-financial firms that supervisors struggle to understand and monitor. As a matter of priority, in 2022, the EBA will develop questionnaires for national regulators to use with regulated firms to build a shared understanding of the risks associated with digital platforms, including operational resilience, regulatory perimeter issues, consumer protection, AML/CFT and data protection and privacy.



3. Innovation

Fitting square pegs into round holes

Actions for firms

Cryptoassets

- Boards should ensure risk appetite, governance, and risk management frameworks address new/enhanced risks (e.g. financial and fraud) arising from cryptoassets – especially if unregulated - and derivatives based on them.
- Incumbents should consider impact of cryptoassets' growth on traditional revenue sources, and potential responses.
- Crypto natives should prioritise robust governance and risk controls to support successful regulatory authorisations.

Embedded finance, including BNPL

- Monitor evolving regulatory/supervisory expectations if working with/relying on digital platforms or BNPL firms.
- Build capabilities, such as data/Open Banking and reporting systems, to prepare for new BNPL regulatory requirements.
- If relying on a platform-based business model, consider reputational and operational risks, and how to ensure good customer outcomes and regulatory compliance.

Digital payments

- Be ready to explain business models, risk and mitigants in detail, including spill-over risks from unregulated activities.
- Demonstrate skills, resources and capabilities to maintain financial and operational resilience, and consumer protection, including through periods of fast growth.
- Identify and address vulnerabilities in operating models, including those arising from regulated/unregulated TPPs.

3. Innovation

The view from the industry

According to our survey's respondents, inadequate technology infrastructure is the most significant challenge firms face in digitising their business, followed by insufficient digital expertise and poor data quality (Chart 9). Regulatory uncertainty or unclear supervisory expectations only feature in fourth place.

These results are consistent with our understanding of the market and client conversations. Whilst firms' digital strategies may face regulatory and supervisory challenges, to adopt innovative technologies or business models, traditional financial services firms must first address the shortcomings of their legacy technology and data infrastructure.

The FCA estimates that over 90% of firms are still reliant on legacy infrastructure and applications in the UK[17]. In the insurance sector, 70% of firms classify most of their infrastructure as legacy, and 100% say they rely on legacy technology in some form.

However, major technological changes are among the top causes of operational failures and disruption. Thus, while our survey indicates that regulation is not the primary barrier to digitisation, firms' technology transformation programmes will come under considerable supervisory scrutiny, especially how they are governed and their impact on firms' operational resilience. Supervisors will also probe how firms' technological infrastructure supports firms' ability to deliver good customer outcomes in line with increasing regulatory expectations (e.g. the UK's new Consumer Duty).

Chart 9. What is the most important challenge that your firm will face in digitalising your business over the next year?

Source: Deloitte EMEA Centre for Regulatory Strategy Regulatory Outlook 2022 Survey, October 2021

4. Operational resilience

From policy to practice

After years of policy development and planning, 2022 is when many financial services firms will need to put into practice their work on new operational resilience frameworks. By the end of March, UK-based firms will need to implement the new approach to operational resilience finalised by regulators last year. By now, firms will need to have identified and mapped their IBS, set impact tolerances for the disruption of each service, carried out preliminary scenario testing to identify vulnerabilities and prepared a self-assessment of their resilience. From March, firms will have three years to update their target operating model, controls, and infrastructure, to address their vulnerabilities and show that they can meet impact tolerances for each IBS. Work to address operational vulnerabilities and design substitute service delivery methods will need to be well underway by the end of 2022. The FPC will add to the regulatory emphasis on firms' ability to face more challenging disruptions through its 2022 exploratory cyber stress testing exercise, which will use a data corruption scenario for the first time.

EU-based firms should focus their attention on the DORA legislation, which we believe will be finalised by the end of 2022. This will give firms a clearer view of the ICT risk management, reporting and testing measures they will have to implement within two years, we expect, after the DORA's finalisation. The ECB will have to determine its supervisory approach to the DORA and how it intends to implement the BCBS's 2020 Principles on Operational Resilience for SSM banks. The synthesis between the DORA and the BCBS Principles that the ECB will develop will give cross-border banks and other firms more clarity on how to integrate the BCBS/UK principles-based approach to operational resilience with more prescriptive ICT risk management requirements.

4. Operational resilience

From policy to practice

UK firms will also have to comply with the final PRA outsourcing and TPRM requirements by the end of March.[18] Complying with these new requirements will be particularly challenging if firms' business and operating models rely heavily on TPPs. To do so, firms will have to assess the materiality and risks of all TPP arrangements, even if outside the PRA's definition of outsourcing. This is no small feat given that, for example, the FCA estimates that TPPs conduct over 30% of firms' software development activities.[19] We expect firms will aim at achieving basic compliance by the March deadlines, but remediation work will continue for the remainder of 2022. By the end of the year, EU-based firms will also need to ensure all their existing Cloud outsourcing arrangements comply with the ESMA and EIOPA guidelines. For all, enhanced governance, management of concentration risks, and effective exit and business continuity plans will be key areas of supervisory scrutiny.

Against this background, firms should consider the strategic impact of the new and enhanced operational resilience regulatory environment on their operating model design. In particular, they will need to assess whether new service delivery methods and dependencies remain sustainable.

Direct regulatory oversight of some critical TPPs seems inevitable – as the EU's DORA exemplifies. The UK is likely to propose a more resilience-based oversight framework. In 2022, EU and UK regulators will further clarify the detail of how critical TPPs will be overseen. However, we do not expect this to lead to supervisors lessening their scrutiny of financial services firms' third-party vulnerabilities and risk management, even where the relationship is with a TPP subject to a new oversight framework.

"...a core principle in the financial regulation of financial institutions' outsourcing and third party dependencies (not just in the UK but around the world) is that financial institutions, their boards and senior management cannot outsource their ultimate accountability and responsibility."

Lyndon Nelson, *Deputy CEO and Executive Director Regulatory Operations and Supervisory Risk Specialists, PRA*[20]

4. Operational resilience

From policy to practice

Actions for firms

Operational resilience

- Prepare for heightened supervisory scrutiny of: (1) the sufficiency of the impact tolerances set or risk appetites articulated for IBSs or critical operations; (2) the sophistication of scenario testing capabilities and the severity of the operational disruption scenarios used; and (3) the resilience implications of TPP relationships.
- EU-based firms: conduct gap analyses based on the final version of the DORA to assess where their ICT risk management, reporting or testing capabilities need improvement.

Third-party risk management

- Update traditional segmentation and TPRM frameworks to capture all TPP relationships, their materiality, and risk exposure including to new risk domains, e.g. TPPs' financial resilience and climate risk.
- Enhance TPRM systems, including through technology solutions (e.g. real-time risk intelligence and reporting).
- If in-scope of multiple outsourcing rules, consolidate all requirements and, where practicable, standardise approach to compliance and thereby increase efficiency.

Operating model design

- Following the March 2022 deadline, UK firms will need to make strategic choices around investment in infrastructure and embedding a resilient target operating model to operate within their impact tolerance. Boards and senior management should consider whether a push for greater operational resilience will hinder their digital transition plans and challenge themselves to identify how, over the medium term, a higher level of resilience could enable digital adoption.

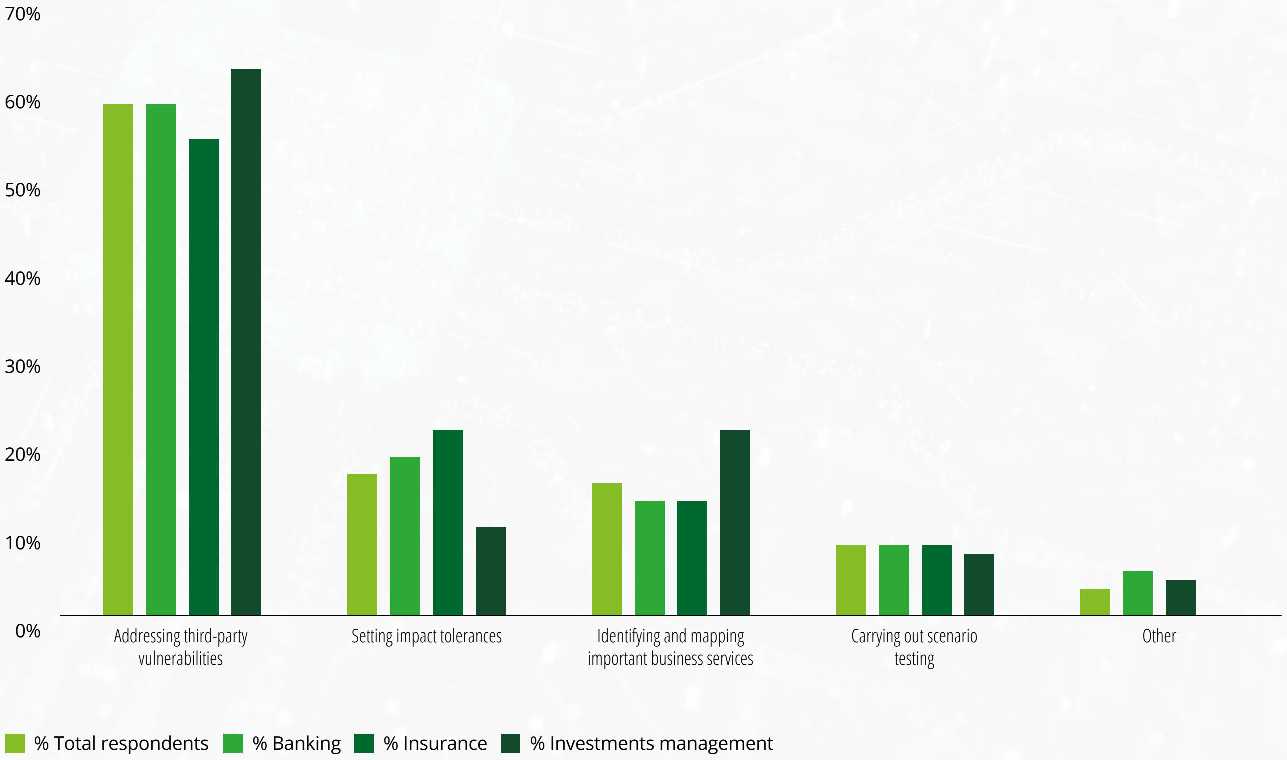
4. Operational resilience

The view from the industry

Addressing TPP vulnerabilities stands out strongly as the most challenging aspect of implementing operational resilience requirements among respondents to our survey. As firms consider how they will meet the impact tolerances they are setting for their IBS, it is clear that they do not yet have all the answers to how vulnerabilities arising from dependencies on TPPs can be addressed. Industry action on this challenge, including improving the effectiveness of pooled audits and real-time risk monitoring of TPPs, will be particularly important in 2022. As will work that regulators do to extend the financial services regulatory perimeter and establish some form of oversight over the most critical TPPs whose size could create concentration risks in the sector.

Identifying and mapping IBS and setting impact tolerances also register as important across sectors, although for UK firms this will need to be completed in the first quarter of the year (by 31 March 2022). It is notable that respondents from the investment management sector ranked identifying IBS as a more important challenge for them relative to other sectors. This is consistent with our understanding that many smaller investment managers are still in the earlier stages of complying with the new UK regulatory framework and have less developed capabilities in sub-sets of operational resilience (such as cyber risk management).

Chart 10. What is the most important challenge your firm will face in implementing operational resilience requirements over the next year?



Source: Deloitte survey of senior executives and non-executives at financial services firms, 2021

5. Revising the capital framework

A year of important decisions

Regulators will make important decisions this year on the future of the prudential framework for banks and insurers as the financial services sector emerges from COVID. For banks, the implementation of Basel 3.1 will predominate in 2022. EU negotiations will progress on CRD6/CRR3 ahead of a 1 January 2025 target date for implementation and the UK PRA is due to consult this year on its approach. While the BCBS deadline for banks to implement Basel 3.1 comes on 1 January 2023, it is now clear that most major financial services jurisdictions will miss it. This will mean that cross-border groups will need to anticipate divergence in the timing of implementation across key markets. Banks will need to ensure they are prepared for the operational challenge of implementing Basel 3.1 and its financial and strategic consequences, and that will demand urgent action on their part given the scale of the challenge. In 2022, they will need to develop a plan for how they will use the extra time created by the likely implementation delays in each jurisdiction and initiate preparatory work that can be done before the final standards are available.

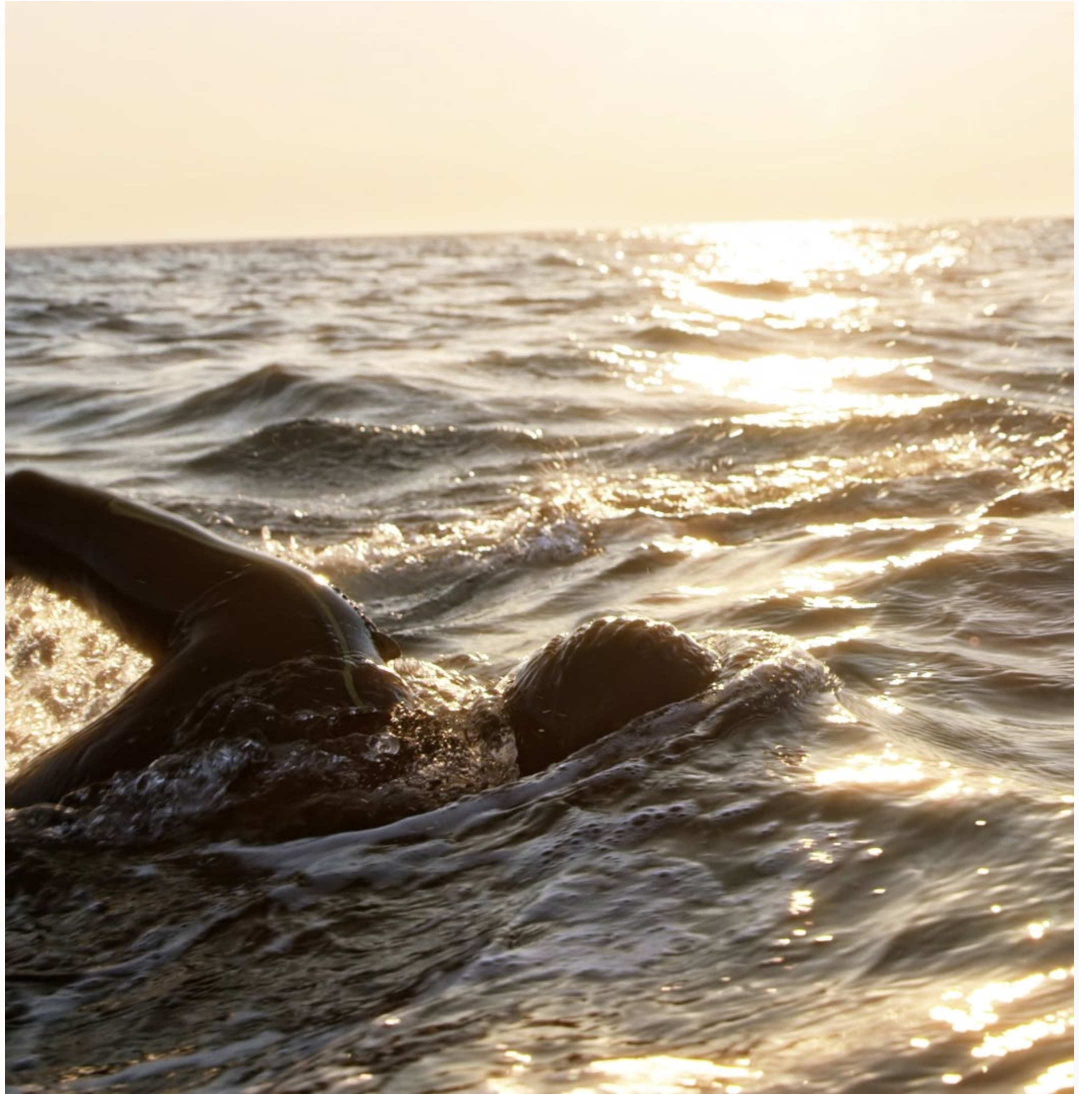
Prudential regulators and legislators will need to reconcile their commitment that Basel 3.1 should not lead to aggregate capital increases for banks with the expected material increase in RWAs that the framework is likely to cause. Concretely, this will force regulators to make difficult decisions on issues such as the design of the Output Floor and the treatment of mortgages and corporate lending that might risk a divergence from the Basel standards. Banks, for their part, can identify where revisions to the Pillar 1 Basel framework may cover risks already accounted for in their Pillar 2 charges and discuss this with supervisors. Banks will also need to be mindful of the compound effect of multiple prudential reforms coming into force alongside the phasing out of transitional arrangements for capital such as that for impairments arising from IFRS9. At the same time, they need to maintain a close eye on managing their existing risks, in particular the potential for significantly increased credit stress (see Spotlight on Credit).

5. Revising the capital framework

A year of important decisions

Beyond the Basel 3.1 package, regulators will continue to evaluate the effectiveness of the post-crisis reforms through COVID, particularly the role of capital buffers. We believe that banks should expect that many national supervisors will continue gradually to increase the CCyB to a higher level than pre-COVID – although most capital increases are unlikely to bite before the end of the year. While the BoE and ECB seem to agree that buffers are not working in the way they were intended, and that they should be more useable in times of stress, we see little prospect this year of the BCBS reopening the design of the capital framework at the global level, given how difficult it is already proving to implement the Basel 3.1 package of reforms.

For insurers, the EU and UK reviews of Solvency II will have important medium-term consequences. While the EU's legislative negotiations will not conclude by year-end, the EC's proposal does at least give EEA insurers a starting point in terms of scope and direction of travel, and transition timelines. In the UK, we expect the PRA to consult on reform options following the completion of its QIS. Divergence between the two jurisdictions is now all but certain, and insurers should spend time understanding the proposed reforms and develop a high-level implementation strategy. Insurers in both the EU and the UK will also have to press ahead with IFRS17 implementation, ahead of the 2023 deadline. Insurers need to consider the concurrent reforms in the round and be strategic in their allocation of resource to these large change projects.



5. Revising the capital framework

A year of important decisions

Actions for firms

Basel 3.1 timetable divergence

- Banks will need to decide how they reconcile the Basel 3.1 target date for implementation coming at the end of the year with the reality that regulators in many jurisdictions either will not be ready to implement the framework or will not require it. Managing this regulatory divergence in timing could impose extra demands on banks' finance risk and compliance activities.

Solvency II "no-regrets" actions

- Insurers should develop an implementation approach for Solvency II reform (e.g., investing in stress testing and modelling capabilities) and ensure the direction of travel of the reforms is factored into other change programmes (e.g., IFRS 17 or group restructuring or reorganisation), allowing for the fact that resources for these projects may overlap.

Basel 3.1 "no-regrets" actions

- IRB banks should begin to prepare immediately for using the standardised approach for the purpose of calculating the output floor. They should also begin to assess how they will understand the "floor capacity" available in their internal capital allocation once the output floor is in force, and the implications for capital intensity and product pricing.

Spotlight on credit risk

The slumbering giant…

The significant decline in credit quality predicted at the start of the COVID pandemic has not materialised - yet. As the economic outlook has improved, banks have partially unwound the significant impairment charges taken in 2020 (see Chart 11). Nevertheless, increased collections activity is expected as economy-wide support schemes run off and customers default on loans. There are increasing expectations of monetary tightening in response to higher inflation, which could result in further customer defaults as interest rates rises flow through into payment stress for lower credit quality customers.

Supervisors in both the UK and the EU have expressed concerns with banks' impairment processes. Boards and senior management should expect robust scrutiny of impairment processes and outcomes in 2022. The BoE's most recent Credit Conditions Survey (Chart 13) reported that lenders expected defaults on lending to households and SMEs to increase in Q4 2021.

At a high level, many of the areas of pressure giving rise to potential credit challenges are driven by problems in availability and costs of supply, rather than demand (see Chart 12).

For manufacturers, the challenges are in costs of, access to and transport of raw materials or components. For service sectors driven by in-person contact, challenges lie in ensuring services can be provided in a manner that preserves the (COVID) safety of both provider and consumer.

Feedback from lenders suggests that most will be in a position to process increased volumes of collections activity. Nevertheless, supervisors will be particularly vigilant about lenders' treatment of customers in financial distress.

The ECB has expressed concerns over both an increasing volume of leveraged lending in EU banks, and declining levels of covenants in leveraged loan documentation. Supervisors are also keeping a watchful eye on credit risk building up in non-bank channels, in particular BNPL products. These have seen significant increases in volumes over the last year and show little sign of slowing[21] (see Innovation). The increasing value and volume of lending being undertaken outside of the banking sector, including through private loan schemes, crowdfunding and peer-to-peer lending, will also be an area of supervisory scrutiny.[22]

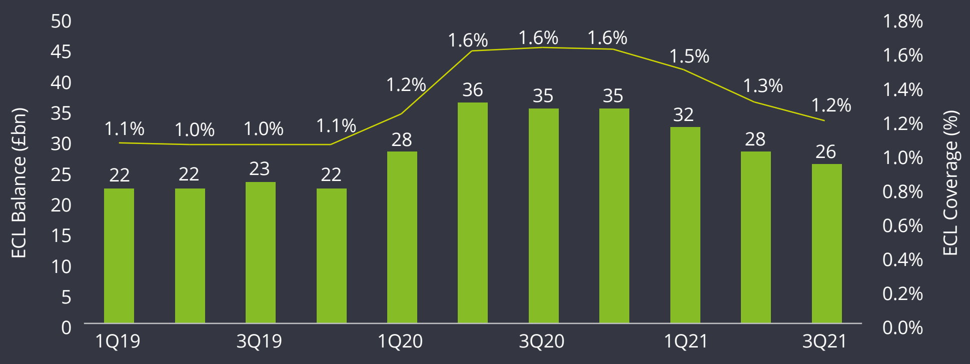
Insurance supervisors continue to be concerned that rating downgrades, should they materialise, could reduce the value of insurers' assets and the level of matching adjustment benefit life insurers can claim, particularly where downgrades occur across the investment grade boundary. While downgrades at any scale have yet to occur, the risk remains.

Supervisory stress tests have indicated that both banks and insurers can withstand a significant rise in credit impairment without breaching capital requirements. Nevertheless, we expect supervisors to continue to challenge firms on their identification and effective management of emerging credit risks.

Spotlight on credit risk

The slumbering giant…

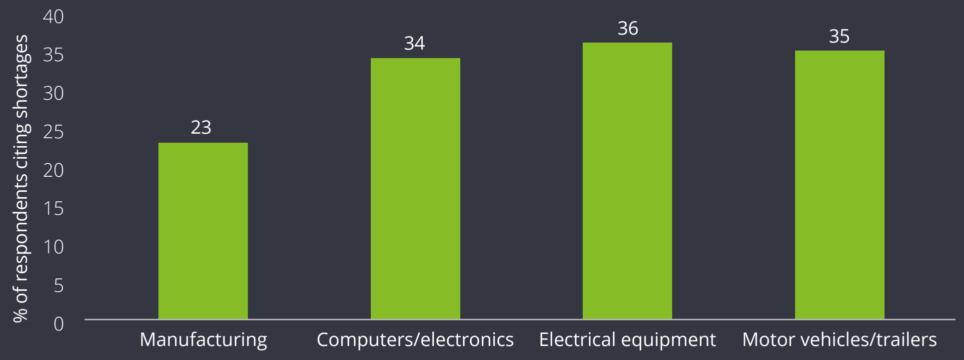
Chart 11. ECL balance and coverage, major UK banks



ECL balance ECL coverage (%)

Source: Deloitte analysis.[23]

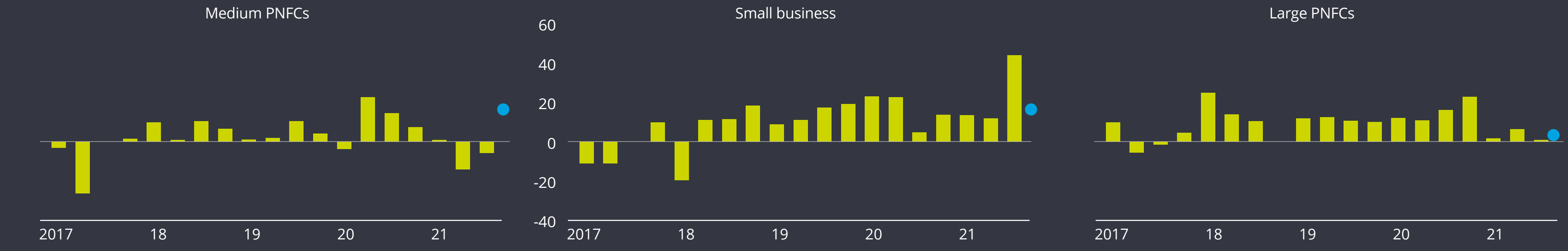
Chart 12. Material and Equipment Shortages are limiting Eurozone Production



Percentage of survey respondents by industry

Source: ECB Economic Bulletin, Issue 4/2021.[24]

Chart 13. Net percentage balance for changes in default rates on loans to firms by size



The responses over the previous three months The expectation over the next three months

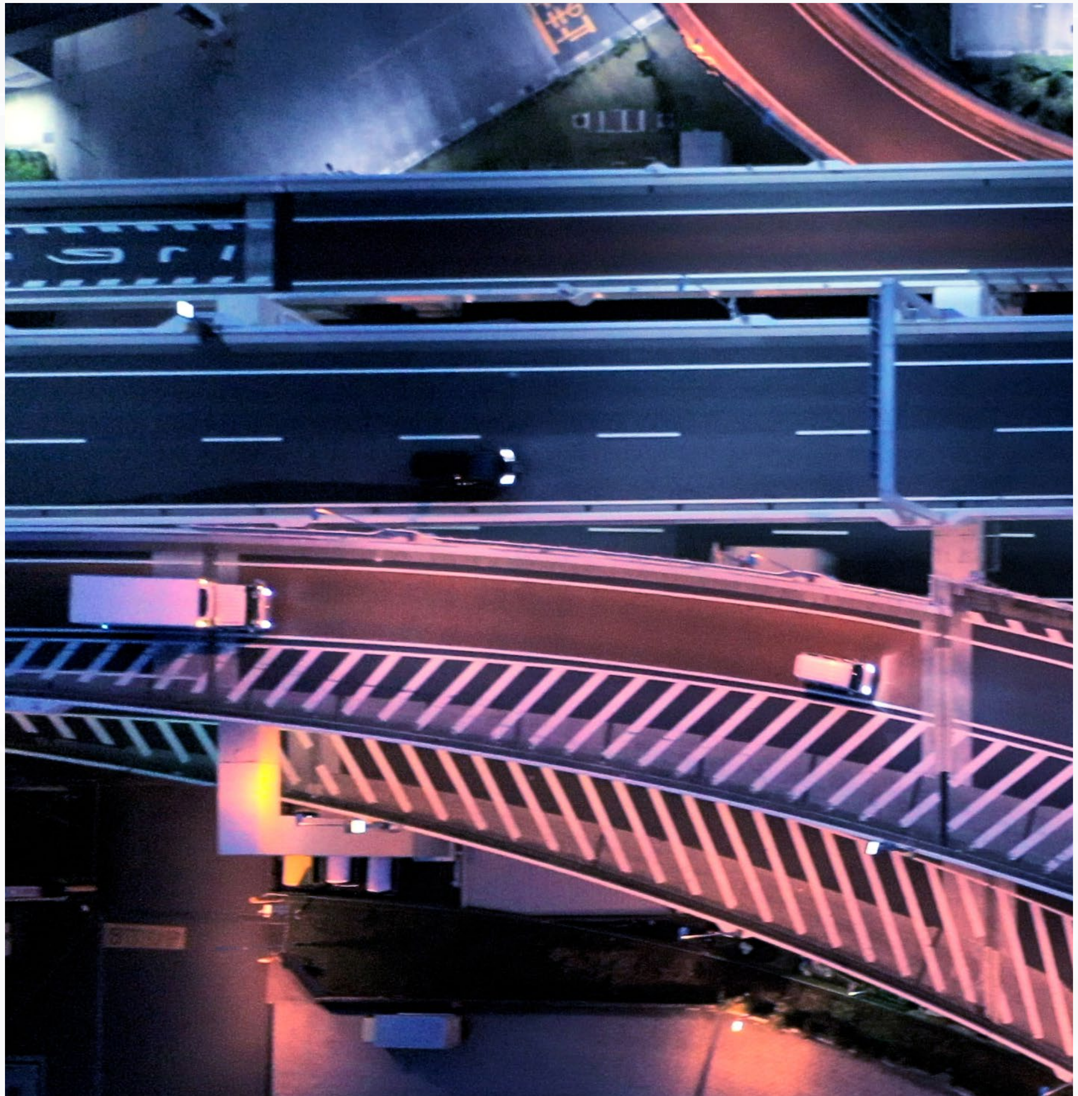
Source: Bank of England, Credit Conditions Survey 2021 Q3.[25]

6. Market structure

Reshaping European capital markets

Capital markets: Regulatory reform is changing the structure of European capital markets. Both the UK and EU are setting out their divergent visions for revising MiFID/MiFIR. In the UK, HMT has already published its wholesale markets review, which will broaden the range of trading strategies available to firms and is intended to cement the UK's position as an "open and global financial centre."[26] The EC has proposed a set of reforms to MiFIR, centred around facilitating the introduction of a consolidated tape, and we expect it to set out a further package of MiFID-related changes later in 2022. Comparing the UK and EU approaches indicates that they are looking at similar areas for reform but are likely to arrive at different conclusions. In many cases the UK seems willing to make more substantive changes, creating a gap between the two regimes which we expect to widen further over time. The importance of regulatory divergence and its affect on firms is explored further in the Spotlight on Regulatory Divergence.

While we do not expect the EU to grant the UK any new equivalence decisions next year, the EU's temporary equivalence decision for UK CCPs is set to expire at the end of June 2022. The EU's financial services Commissioner, Mairead McGuinness, has said that the EU will propose an extension to the temporary equivalence decision in early 2022. However, the EC also stated that the "extension of equivalence does not address our medium-term financial stability concerns"[27], and ESMA has set out a series of policy recommendations to incentivise the use and capacity of EU-based CCPs for the EC to consider in 2022.



6. Market structure

Reshaping European capital markets

Legal entity structures: While the EU's IPU requirements do not take effect until 30 December 2023, firms subject to them need to make significant progress on implementation in 2022. Smaller banks, well below the €40bn threshold for establishing an IPU, will need to do ongoing monitoring (quarterly) and forecasting (annually) of their assets relative to the threshold. Banks close to the €40bn threshold will need to manage their balance sheets to ensure they do not exceed it, but should also have a contingency plan in case they do. Larger banks already above the IPU threshold will need to undertake legal entity restructuring and have effective governance, an integrated risk management process, an ICAAP/ILAAP and RRP for the IPU.

Asset management: Concerns about non-bank financial intermediation and its role in exacerbating market volatility have led the FSB to consider a range of possible reforms to MMFs. Its current range of options posit MMFs either becoming more "investment-like" and so more capable of sustaining losses, or more "cash-like" and so safer but with lower returns to investors. While it will be up to national policymakers to decide which of these options they prefer, either set of reforms could significantly alter the role MMFs play in financial markets, with knock-on effects for banks and other market participants which use them to manage their liquidity.

"With the development of the EU's single market, much of our regulatory approach to capital markets was set in Brussels. Now that we have left the EU, we can tailor our rules more closely to the unique circumstances of the UK, improve standards and make regulation more proportionate."

John Glen MP

Economic Secretary to the Treasury[28]

6. Market structure

Reshaping European capital markets

Actions for firms

Regulatory divergence

- Firms with a presence in both the UK and EU will need to have clear governance and decision-making frameworks to enable them to decide whether it is both possible and cost-effective to have a single, unified approach to regulatory compliance, or whether they need to develop two (or more) different approaches to deal with local particularities.

IPU

- Many banks are likely to find it challenging to integrate what are currently highly siloed individual entities into a single IPU and govern it effectively. Making progress on integration is a priority for 2022.

Legal entity structures

- Banks should optimise their legal entities to ensure they have the right entities, regulatory permissions, risk model approvals and systems to support their clients and achieve sustainable profitability.

MMFs

- MMFs will want to consider how different reform proposals could affect their position in the market and how they can continue to remain attractive to investors. Some reforms may also create operational challenges for MMFs.

Spotlight on regulatory divergence

What will regulatory divergence mean for firms in practice?

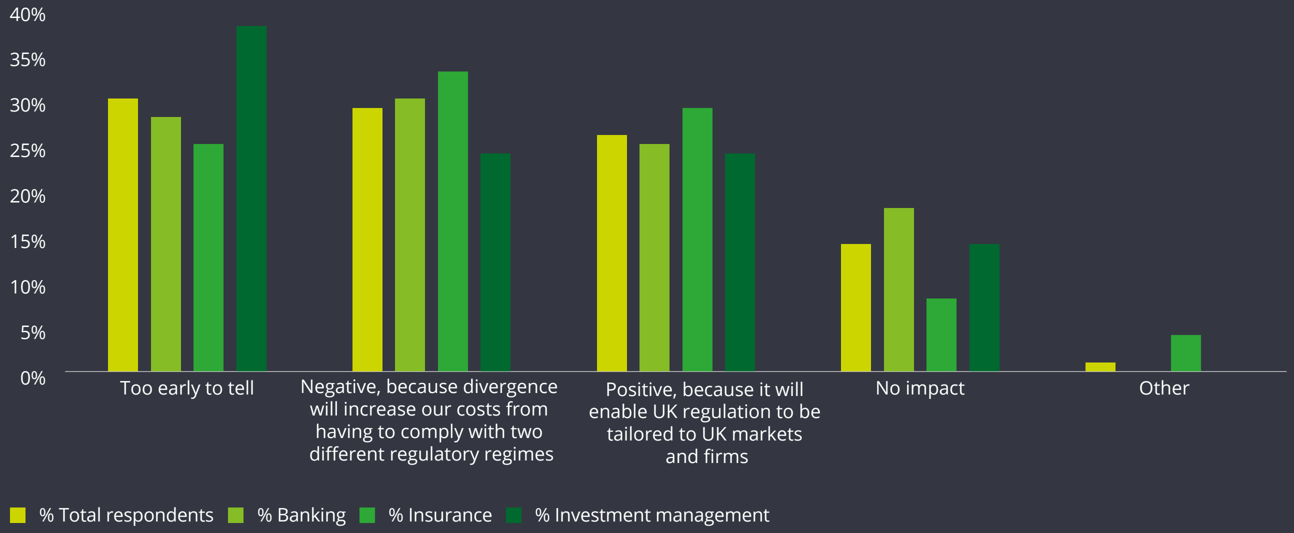
30% of our survey respondents thought it was too early to tell what the impact of regulatory divergence between the UK and EU would be on their firm, while 29% thought it would be negative and 26% thought it would be positive. The almost evenly balanced industry views illustrate that there are likely to be both winners and losers from divergence, and so firms will have differing views.

UK-EU regulatory divergence will only rise over time, meaning firms will increasingly have to assess whether it is possible and cost-effective to have a single, unified approach to regulatory compliance, or whether they will need to develop two (or more) different approaches to deal with local particularities.

The UK Government has embarked on its future regulatory framework review, which intends to make the UK's regulatory regime more responsive. It is also considering giving the UK regulators a secondary competitiveness objective, with the aim of maintaining the UK as a leading international financial sector. Lord Hill's Listings Review has already brought changes to primary markets and HMT's wholesale markets review seeks to tailor MiFID II/MiFIR to UK markets. The UK is also looking to make amendments to its version of the Solvency II regime and has set out its own plans for sustainable finance related regulation.

The EU is seeking to complete the CMU and build the strategic autonomy of its economic and financial system, notably through promoting the international role of the euro and strengthening EU financial market infrastructure. It looks set to become more "closed" to third country firms, making it more difficult for them to access its markets. In addition, the EU will progress a number of scheduled legislative reviews in 2022, including those for MiFID II /MiFIR, Solvency II, AIFMD and UCITS. More broadly, both the EU and UK will take important steps towards implementing the Basel 3.1 agreement.

Chart 14. What do you expect to be the impact on your firm of divergence between UK and EU regulation in 2022 and beyond?



Source: Deloitte survey of senior executives and non-executives at financial services firms, 2021

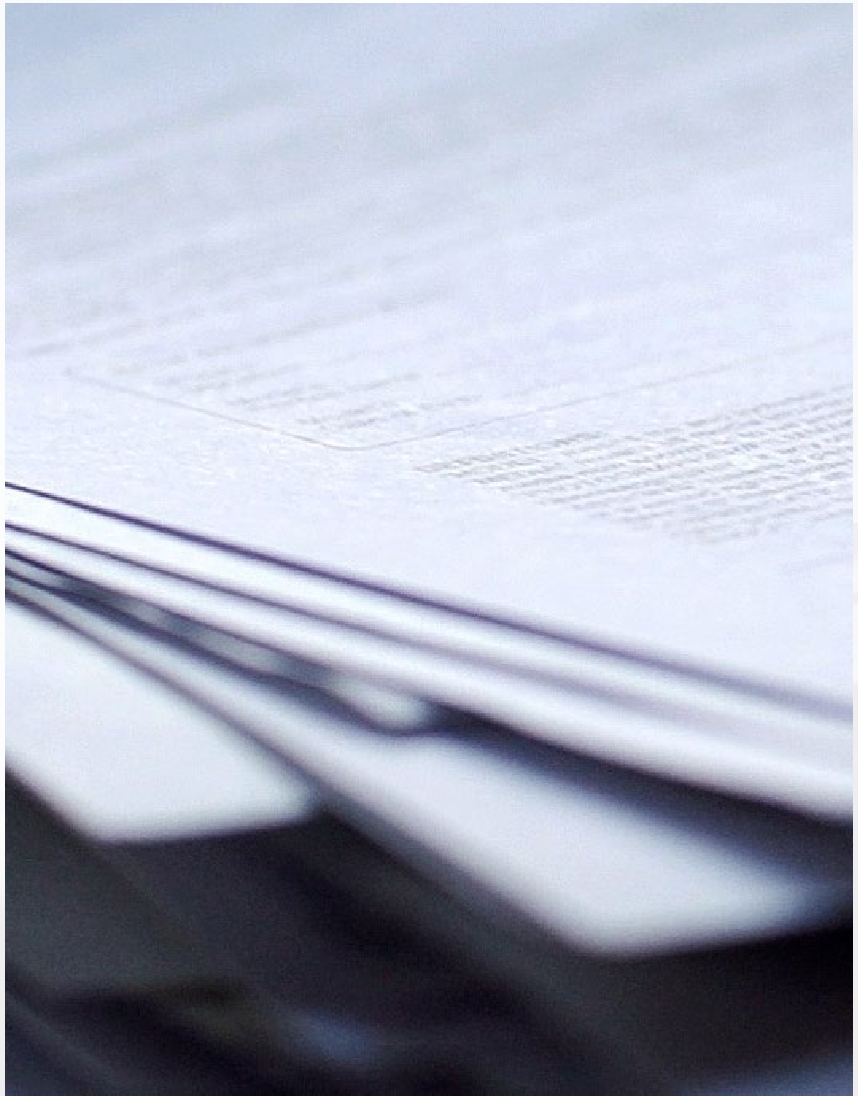
7. Value for money

A greater focus on pricing levels

EU regulatory focus: EU regulators have traditionally focused on improving investor disclosures on costs and product features, but some are now turning their attention to whether pricing levels are justified by the value being delivered to consumers. For example, in 2022 we are expecting feedback from ESMA's common supervisory action on UCITS costs and fees, which has been examining whether investors are paying undue costs. EIOPA has published a supervisory statement on assessing whether unit-linked insurance products are delivering value for money, which firms should consider as part of their product oversight and governance arrangements.

Pricing interventions in UK and Ireland: some national regulators have gone much further in intervening on pricing. For example, in the UK, from January 2022 the FCA is introducing a ban on "price walking" in the motor and home insurance markets, meaning that firms must not charge existing customers higher prices than new customers at renewal, unless there is a difference in their risk profile. This is likely to have a significant effect on competition for new customers, and will see longer-tenure customers benefiting from lower prices while other customers are likely to pay more. In 2022, we expect the FCA to monitor closely how insurers are implementing the new rules, and how customers are faring under them. In Ireland, the CBI is consulting on similar rules. In the retail banking sector, the FCA has prohibited banks from charging higher prices for unarranged overdrafts than for arranged overdrafts, and will be carrying out a post-implementation review in 2022.

New UK rules on assessing value: the FCA is introducing a suite of new rules on assessing value. As part of its Consumer Duty, it proposes to require firms to set prices that represent fair value for all products and services sold to retail clients. In the pensions sector, new rules require IGCs to assess the value of workplace pensions against specific criteria, and the FCA and TPR are developing a framework for comparable value metrics



7. Value for money

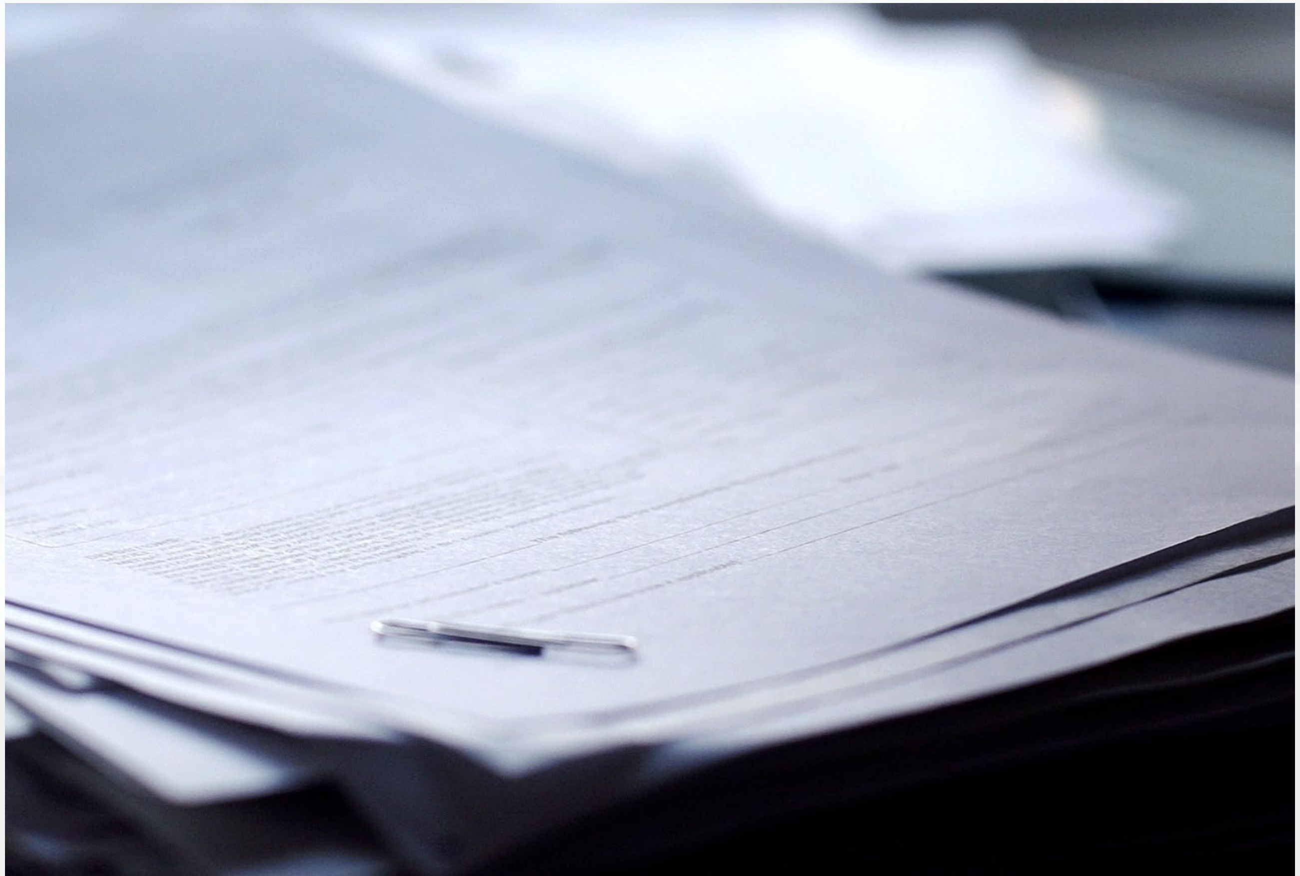
A greater focus on pricing levels

across all DC pensions. In the insurance sector, GI and protection manufacturers and distributers will have to assess the value of their products against specified criteria. GI manufacturers must include distribution costs in their assessment – a major task if they use a lot of distributers. Firms across sectors will need to have a clearly justified methodology for determining value and good quality data to underpin their analysis.

FCA feedback on AFM value assessments: the FCA's first review of value assessments by AFMs found widespread failings. The FCA will expect to see significant improvements when it reviews the sector again in 2022; if it is not satisfied, we expect relevant SMFs to be subject to intense scrutiny. The FCA thinks that profit margins have further to fall before the sector is delivering competitive outcomes for consumers and will be questioning firms on whether they have taken enough action to improve value. If the value assessment process does not deliver sufficient improvement, it may consider other interventions.

Retail investors in funds pay on average 40% more than institutional investors. If a retail client invests €10,000 in a mixed portfolio for ten years, they would receive €18,600 and pay €3,200 in costs.

ESMA, Third Annual Statistical Report[29]



7. Value for money

A greater focus on pricing levels

Actions for firms

UK firms

- GI manufacturers will need to consider how to automate and standardise the date they receive on distribution costs.
- AFM Boards and SMFs will need to evidence that they have robustly challenged the value assessment process for their funds and considered the feedback in the FCA's review.
- UK firms will need to consider how to align their different processes which are related to assessing value (e.g. under product governance, the Consumer Duty, sector-specific value assessments, suitability assessments).

EU firms

- EU firms will need to prepare for more supervisory scrutiny of their pricing levels and be ready to justify how their products deliver value.
- Irish motor and home insurers will need to reassess their pricing strategy in light of the CBI's proposed ban on "price-walking".

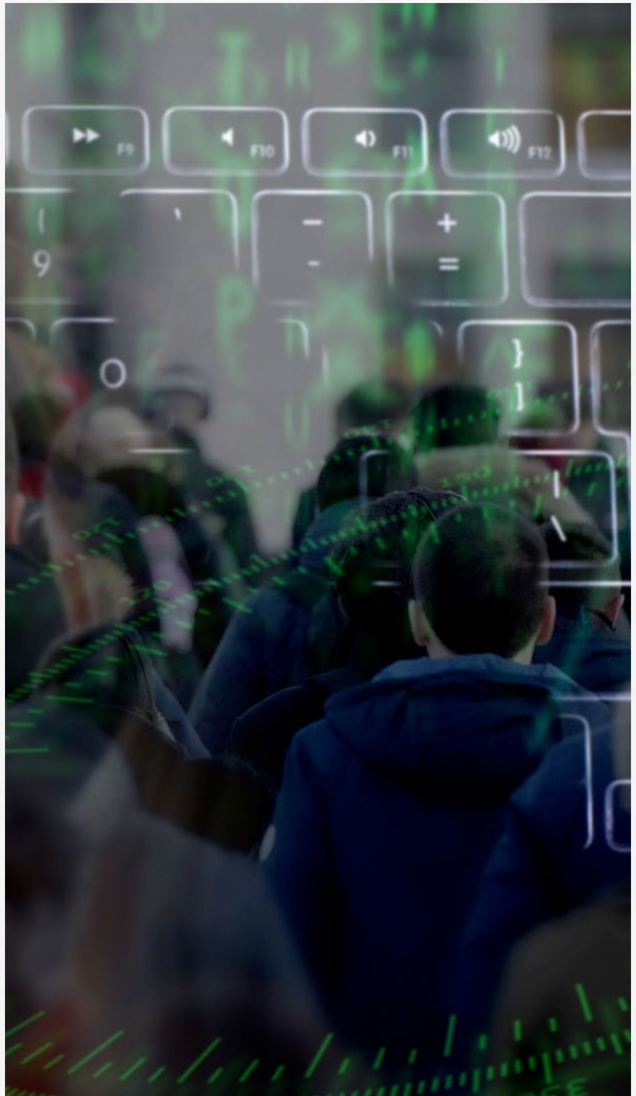
8. Financial crime

It's broken....so fix it

Supervisors' AML/CFT reviews during 2021 identified common failings across firms in every major area investigated: governance and oversight; customer and business risk assessments; transaction monitoring; and suspicious activity reporting. In 2022, scrutiny of banks' AML/CFT process will become more rigorous and intense as supervisors' patience with firms' poor performance in this area grows ever thinner. In the UK the FCA continues to pursue enforcement action and has recently secured its first criminal prosecution of a financial institution for compliance failings. In the EU, AML/CFT is being incorporated into the SREP process. To allay supervisors' ongoing concerns, firms will need to prioritise addressing common control failings and demonstrate that their AML/CFT processes are much more than "tick-box" exercises. This may include the use of outsourcing or KYC utility services, subject to being able to demonstrate that outsourcing maintains or improves the firm's effective performance of its AML/CFT obligations and provides at least equivalent data and information to senior management to enable it to take the right decisions.

Whilst supervisors continue to focus on compliance with existing rules, policymakers are undertaking more systematic overhauls of AML/CTF regimes. In the UK, HMT has issued a call for evidence on the effectiveness of the UK's regime, while the EC has proposed wide-ranging changes to the regulatory structure and supervisory regime for AML/CTF, including creating a new EU-wide regulatory body and a directly applicable regulation. The EC has also consulted on the role and use of Public Private Partnerships to enhance data sharing and improve effectiveness of AML/CTF processes.

While AML/CFT dominates the discussion, it is not the only area under the spotlight: the FCA and EBA have both noted concerns about fraud/scam activity and the need for banks to do more to identify fraud and protect consumers. Particular emphasis has been placed on abuse of COVID support schemes, and in the UK, lenders are expected to report instances of potential fraud by other regulated firms. Market abuse is also under the spotlight: regulators have sanctioned a number of firms for breaches of trade reporting obligations, poor control or transparency of share dealing, and facilitating or failing to prevent market manipulation.



8. Financial crime

It's broken....so fix it

Regulators are also flagging concerns about instant digital payments/Open Banking and the need to strike the right balance between seamless customer journeys and consumer protection. This will be one of the key areas of focus of the EU PSD2 review in 2022. In the UK, the industry is engaging with the FCA on how to address the financial crime challenges posed by (near) instant payments systems, such as Faster Payments. The UK Government also expects widespread adoption of CoP by end-2022. PSR will monitor voluntary adoption but will likely require all PSPs to implement CoP if progress falters. Regulators are also increasingly concerned about cryptoasset-related AML/CTF and fraud risks. The FCA and financial services firms are petitioning the Government to include paid-for financial promotions in the Online Harms Bill including for cryptoassets, but the outcome remains unclear.

Banks' activities remain a priority, but regulators are widening their focus to include insurance companies, investment managers and new players such as FinTechs, e-money and payment firms. EC proposals to amend the supervisory regime for AML/CTF in the EU will increase the sector-wide focus on these issues. Finally, the EU and UK will progress the Digital ID trust and legislative frameworks in 2022.

As details emerge, there will be implications for firms' strategies, operations, and technological capabilities to leverage Digital IDs as a preventative tool against ML/TF and fraud. This will include actively supporting industry and cross-industry collaboration in this area (e.g. with e-commerce platforms).

$994 million

Global fines levied for AML failings in H1 2021.[30]

8. Financial crime

It's broken….so fix it

Actions for firms

AML/CTF processes

Perform a review to ensure:

- all three lines of defence are appropriately engaged and management responds to findings/recommendations;
- processes are risk-sensitive;
- escalation steps are clear;
- customers' interests are central; and
- processes use both internal and external data.

Understand fraud/scam and market abuse challenges

- Ensure processes to identify and prevent fraud and scams are integrated into risk management frameworks.
- Ensure reporting obligations for identified/suspected cases of fraud and scams are followed.
- Review back and middle office processes to ensure reporting and transparency requirements are rigorously enforced.
- Assess and be ready to implement rapidly technology and process changes needed for upgraded Digital ID frameworks.

Confirmation of payee

- If not yet offering CoP, develop a clear roadmap to CoP implementation by end 2022.
- All PSPs should engage early with the PSR concerning any potential setbacks to CoP adoption, including delays in implementing a CoP-only role profile in the Open Banking Directory.

9. Governance

Improving decision-making and oversight

The issues we have examined in our Regulatory Outlook make it clear that 2022 will bring many significant challenges for financial services firms: a highly uncertain economic outlook; a more complex business and technological environment (including an intricate web of relationships with TPPs); and heightened political and social expectations about the role of financial services firms, especially in relation to climate, diversity and the treatment of consumers. Against this background, we expect Boards and Senior Managers to ask the fundamental question of whether their existing governance approach can provide effective oversight, both of their firm's strategic direction and the related risks, and what if anything needs to change if it falls short. We highlight three developments which epitomise this challenge:

- **Operational resilience** - Boards will need to ensure they have access to sufficient information and expertise to understand the resilience profile of their firm and its critical or important business services, including reliance on TPPs. In this context, Boards' understanding of and control over outsourcing to the Cloud will be one of the top supervisory priorities.
- **Climate-related risk** - Boards and Senior Managers will be expected to demonstrate their ability to understand and manage climate-related and wider ESG risks, as well as make progress against their net zero strategy, as supervisors scrutinise these areas in 2022. Firms need to fill gaps in data to ensure decision-makers are provided with MI that is of sufficient quality to support the execution of business strategy and hire or build knowledge and capabilities in relation to climate risk to ensure the Board is equipped to hold informed discussions.
- **Diversity and inclusion** - Boards and Senior Managers must improve their own diversity and inclusion, which supervisors see as fundamental to improving the quality of decision-making and oversight within firms. If they do not see improvement in diversity at senior levels, supervisors in the EU and UK seem to be contemplating using the regulatory approval (fit and proper) process to increase the pressure on firms. They will press hard to understand how Boards and Senior Managers have taken diversity into account in the selection process, although we do not expect supervisors to start rejecting candidates on these grounds just yet.

9. Governance

Improving decision-making and oversight

As the responsibilities and supervisory expectations of the Board and Senior Managers continue to grow, in relation to both new risks and existing ones, firms need to be alert to the challenges this creates for good governance and decision-making. Directors and Senior Managers are being pulled in even more directions at once, with a potential lack of clarity over individual and collective mandates. Board reporting and MI, already cumbersome and incomplete in some areas, will not be improved merely by expanding them to cover a wider range of risks. Filling gaps in knowledge, expertise and diversity will also prove challenging as firms compete for Board-ready candidates and balance the tension between ensuring sufficient coverage of skills, experience and backgrounds at senior levels with supervisors' own aversion to large Boards.

Diversity will be crucial in our consideration of vulnerability, particularly as we come out of a pandemic that has disproportionately affected women and people of colour.

From the FCA's summary of speech given by Nikhil Rathi

CEO, FCA[31]

9. Governance

Improving decision-making and oversight

Actions for firms

Governance model

- Review the governance model to ensure new risks such as climate are appropriately covered. Consider how the model needs to be altered to ensure risks and issues are reported at the appropriate levels and the Board can focus on key/high priority risks and issues. Some firms are establishing Board committees to focus on specific risks whilst others, wary of proliferation, are considering how they can streamline existing Board committees to deal effectively with new risks.

Management Information

- Review and refresh the end-to-end reporting lifecycle to ensure MI not only focuses on the most relevant risks but adapts to emerging ones. Improving data governance and processes will increase access to better quality, more consistent and granular data, leading to more effective, efficient, near real-time reporting and analytics. A move from retrospective MI to predictive MI is required to anticipate risks and empower Boards to make “decisions informed by data insights.

Diversity, knowledge and expertise

- Align Board diversity and inclusion targets with supervisory and stakeholder expectations. Review the Board candidate selection process, succession plan and the remits of the NomCo and RemCo to ensure they appropriately consider diversity (bearing in mind relevant employment law).
- Perform a gap analysis of Board skills/experience and consider how best to supplement them in light of changing regulatory expectations. Third-party assurance or Board advisors can help the Board gain comfort that regulatory requirements have been met and ensure debate is informed.

10. They think it's all over...it isn't yet

Firms must complete existing regulatory programmes and address re-emerging concerns

We set out below a short selection of key regulatory and supervisory initiatives which are either due to complete in 2022 or reach significant milestones. Our list does not aim to capture all the important "business as usual" supervisory activities which will take place in the year ahead.

Resolvability: 2022 is a critical year for resolvability in the UK given the BoE's commitment that major UK banks will be resolvable this year. The banks submitted self-assessment reports in October 2021 and will have to make public disclosures in June 2022. These provide banks with an opportunity to provide a comprehensive appraisal of their resolvability work to date. In-scope firms must also begin or continue to implement the new OCIR and Operational Resilience policy elements, and join them up to create a coherent and aligned approach to mapping functions, business lines and services. In the EU, the EC is due to publish a legislative proposal revising the BRRD and the broader crisis management framework. Although a conclusion on the package is unlikely to be reached this year, banks should nevertheless assess how the proposed revisions will affect their RRP work and MREL when finalised. Finally, we expect the SRB to ramp up work on its "Expectations for Banks", with banks expected to have built up their capabilities on all aspects by the end of 2023. In particular, resolution authorities will test banks' ability to deliver MI covering liability data for bail-in at short notice by the end of 2022.

As the EU continues to negotiate its insurance recovery and resolution package, EU insurers will need to analyse the proposed reforms, which are far-reaching and introduce a number of new requirements, and assess where to build capacity ahead of implementation. Over the last year, there have also been local developments in Ireland and France in this area, and relevant insurers should spend time understanding how these national regulations will interact with the EU's wider package.

10. They think it's all over...it isn't yet

Firms must complete existing regulatory programmes and address re-emerging concerns

IBOR reform: while most IBOR tenors have now stopped being published, firms will have to deal with both "tough legacy" contracts and the remaining USD tenors which will continue to be published until 30 June 2023. US banking regulators have made it clear firms should not be writing any new USD LIBOR contracts after the end of 2021, leaving the prospect of a "cliff edge" for those counter-parties which may expect them to continue to be offered.

Tough legacy - a wide range of un-remediated contracts that reference one, three or six month GBP or JPY LIBOR - will be able to use a synthetic version of these settings in 2022, but should not necessarily expect these synthetic rates to last for longer. These synthetic settings may be used in all legacy contracts, except for cleared derivatives. Firms which have not yet made significant progress on transition may leave themselves open to legal and regulatory challenge in the year ahead. Regulators will also continue to warn against widespread adoption of credit sensitive rates, and we expect them to show little supervisory tolerance for those firms which offer them. We expect supervisors to continue to ask firms to provide them with granular MI to evidence their progress with transition.

Fund liquidity: following the March 2020 market turmoil, fund liquidity has been high on the regulatory agenda. A range of policy initiatives are in train at FSB/IOSCO, EU, and UK level. Regulators are increasingly challenging investment managers on whether their fund redemption terms are aligned to the liquidity of the fund's underlying assets. The types of fund that are most likely to have to make significant changes to what they offer investors are MMFs and daily dealing funds invested in illiquid assets such as property.

Regulatory reporting: regulators are increasingly focussing on the quality of regulatory reporting. In the UK, the PRA issued a "Dear CEO" letter setting out its view that banks must apply the same standards to regulatory reporting as they do to financial reporting. We expect the PRA to commission further skilled persons reports on regulatory reporting in 2022.

Supervision of international banks operating in the UK: the PRA set out its approach in 2021. Although the PRA allowed firms (particularly those operating under the TPR) more time to meet its expectations, scrutiny of firms is likely to intensify over 2022 – particularly for firms whose gap analyses identified material remediation. For many firms, the need to recalibrate existing booking model documentation and associated controls will be a material task.

10. They think it's all over...it isn't yet

Firms must complete existing regulatory programmes and address re-emerging concerns

Actions for firms

Resolvability

- UK banks should ensure that their first public RAF disclosures are concise and decision-useful for investors. EU banks should continue to build their capabilities on all of the SRB's dimensions of resolvability ahead of the 2023 deadline.

Regulatory reporting

- Firms should ensure that the governance, controls and standards for regulatory reporting are at least as stringent as for external financial reporting, including clearer application of the three lines of defence and more independent review and challenge.

IBOR

- Firms should ramp up efforts to address legacy contracts and ensure clients have clarity well ahead of contract cessation, including about the potential "cliff edge" for new USD LIBOR contracts from 2022, and continue to focus on active conversion through 2022 and beyond.

International banks

- International banks should engage with UK supervisors to ensure that they comply with the PRA's expectations in good time, while continuing to execute their plans to optimise their legal entity footprint in the EU and UK.

Fund liquidity

- Investment managers will need to demonstrate to regulators that their fund redemption terms are aligned to the liquidity of the underlying assets and that they have robust liquidity management processes.

The future of regulation

In the coming years, we expect a growing number of currently unregulated products, technologies and firms to be brought into the regulatory perimeter

While much of this year's Regulatory Outlook covers topics we expect to be of immediate relevance to firms in 2022, here we look further ahead to what we expect to be a growing number of currently unregulated products, technologies and firms, which will or may be brought into the regulatory perimeter over the next five years or so.

The charts on the following pages set out our thinking. Those products or firms in the innermost circle of the chart are certain to be regulated in the near future, as regulators have already finalised their plans to do so. The next two circles have less certainty attached to them. They represent areas where we know of forthcoming consultations or proposals which could lead to new changes to the regulatory perimeter, or in the case of the outermost circle, where there is broader regulatory or social concerns about a type of product or firm that we believe could lead to them becoming regulated in the longer term.

The charts are also split into different quadrants to reflect the new products or activities likely to be brought into the scope of regulation (the upper left hand quadrant) or new entities or persons to whom regulation might apply (the lower left hand quadrant). The lower right hand quadrant captures where a cross-sectoral regulatory regime might include financial services firms in its scope, while the upper right hand quadrant captures the widening of an existing regulatory regime to new products and services.

Underpinning our rationale for the products or firms we think are likely to become regulated in the future are a number of "regulatory drivers", which are pushing regulators and policymakers to broaden the scope of regulation and bring these previously unregulated entities and products into its scope.

One of these drivers is "digitisation and innovation". New technologies and the growth of new innovative and digital products are driving regulators to expand the perimeter to ensure these new types of product, service or firm do not slip through the regulatory net.

"Consumer protection, market integrity and level playing field" concerns are also driving forward regulation. In many cases consumer protection regulators are bringing new unregulated products into scope where they feel consumers are at risk of being harmed, while the need to ensure the integrity of markets and that firms of all types compete on a level playing field are also driving regulators to look at changing the scope of regulation.

> "While change cannot always be predicted, what is predictable is that change will come. And quickly."

Nikhil Rathi
CEO, FCA[32]

Changes to the regulatory perimeter

Digitisation and innovation

Both the EU and UK envisage significant changes to the policy landscape to respond to technological and business model innovation.

Digital assets products and players: EU and UK policymakers are reviewing their regulatory frameworks and perimeters to address the consumer protection, market integrity and systemic risks raised by crypto markets and platforms, including DeFi and stablecoins. They are undertaking major digital payments landscape reviews to inform additional policy and perimeter changes. Central banks are also considering the risks and opportunities of launching their own CBDCs.

Platforms: the EU and the UK are also working on new cross-sectoral digital competition regimes to address the market power of digital "gatekeeper" platforms that can frustrate access to essential services, including financial services.

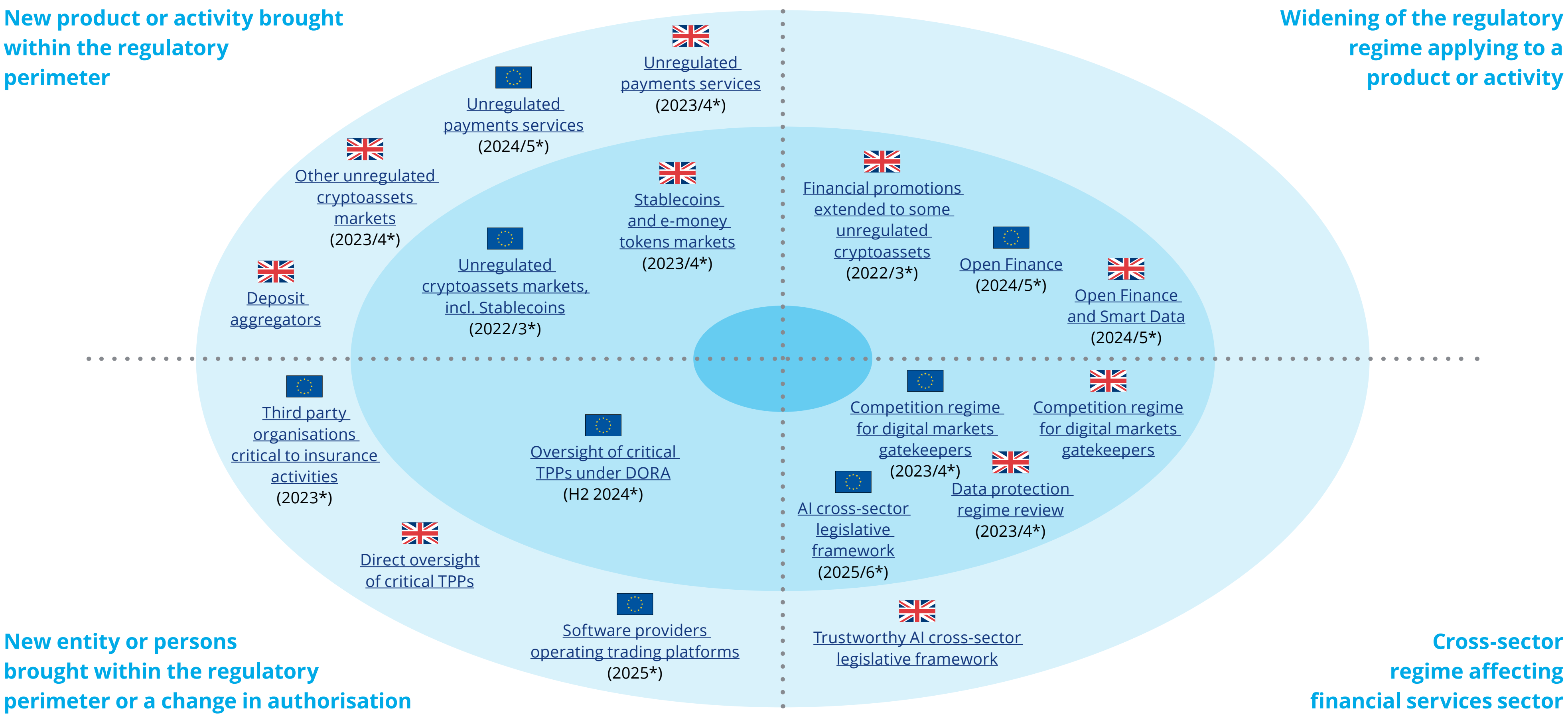
Critical TPPs: to strengthen operational resilience and address concentration concerns, EU and UK regulators are looking to expand the regulatory perimeter to strengthen their oversight of critical TPP schemes.

AI: efforts are also underway to create cross-sector regulatory frameworks for AI. The UK is also consulting on reforms to its data protection regime to remove unnecessary barriers to using personal data in AI applications while building trust in the technology.

Open Finance: finally, both the EU and UK have committed to taking forward Open Finance by extending Open Banking principles to other sectors, although timings are unclear.

Changes to the regulatory perimeter

Digitisation and innovation



Likelihood **Certain** (final text) **Likely** (proposal, consultation or regulatory announcement) **Possible** (regulator has raised concerns or open consultation)

* Date is an estimate; where no date is included it is because there is insufficient information to make an estimate.

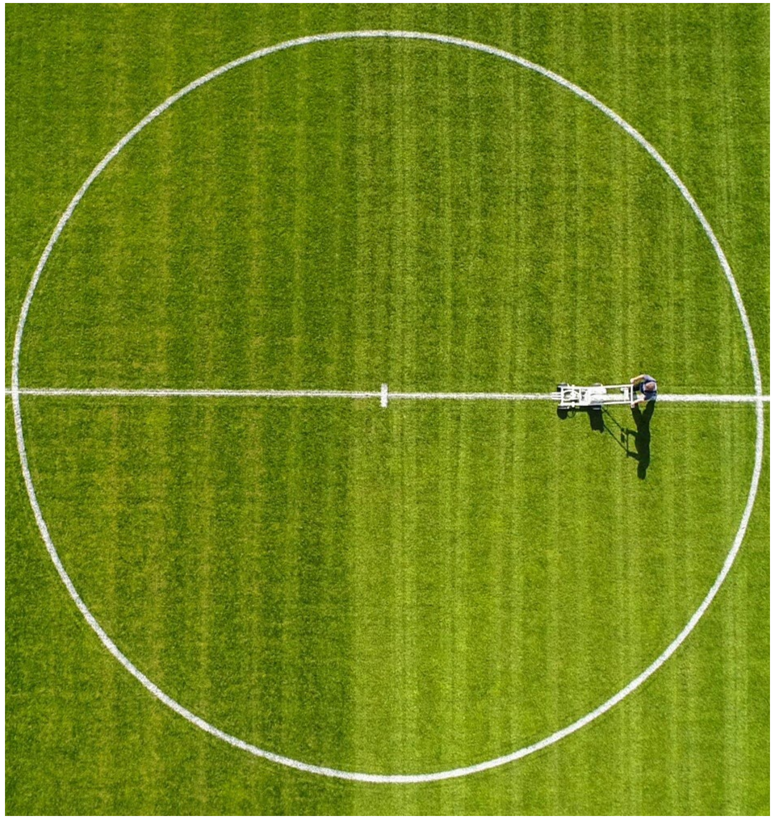
Changes to the regulatory perimeter

Consumer protection, market integrity and level playing field

EU and UK conduct regulators continue to monitor the financial services sector for new and/or unregulated products or services which could harm consumers. Concerns regarding “credit-like” products such as BNPL products have prompted UK regulators to bring them within the scope of their regime. EU regulators are expected to follow suit via changes to the Consumer Credit Directive. UK regulators are also maintaining a watchful eye on similar products including Employer Salary Advance Schemes.

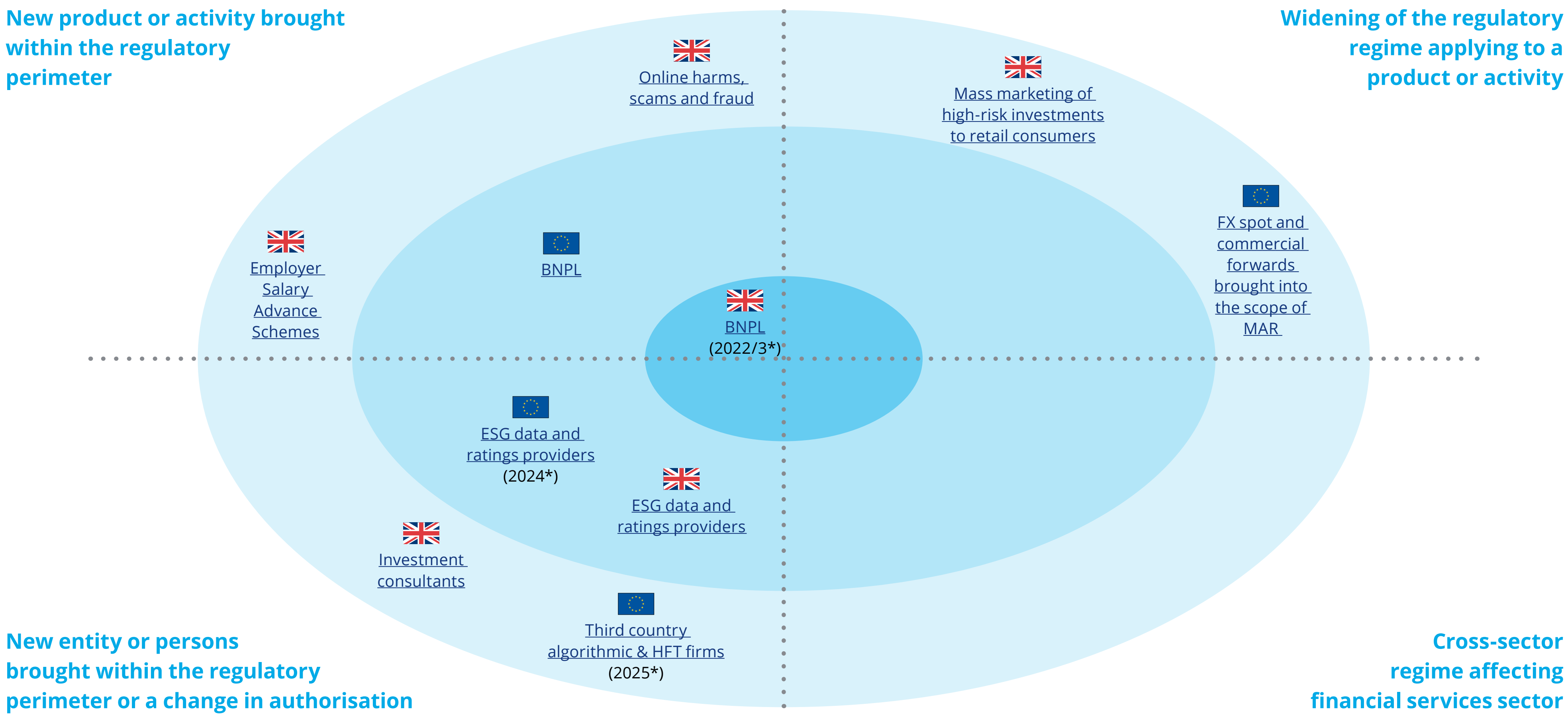
Long-term socio-economic changes and technology advances have resulted in significant benefits, but have also led to more consumers buying inappropriate, high-risk investments and made them more vulnerable to investment scams. To address these harms, the FCA is considering strengthening its financial promotion rules for high-risk investments and is seeking to persuade the UK government to extend the Online Harms Bill to cover paid for content. It is also pressing for Investment Consultants - which provide unregulated services that can significantly influence the investment strategies of asset owners and asset managers - to be brought within the scope of its regime.

Market integrity concerns have caused EU regulators to look at bringing third country algorithmic and HFT firms into the perimeter and FX spot and commercial forwards contracts into the scope of MAR. Furthermore the increasing importance of ESG-related data to the growth of sustainable finance has prompted both EU and UK regulators to suggest ESG ratings and data providers might merit being regulated in future.



Changes to the regulatory perimeter

Consumer protection, market integrity and level playing field



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* Date is an estimate; where no date is included it is because there is insufficient information to make an estimate.

Regulatory Deadlines 2022

Below are the major deadlines firms need to comply with in 2022

Q1 2022

- IFPR to apply for firms in scope (01 Jan) [applies to MiFID investment firms & CPMI firms]
- FCA's ban on price walking to apply (01 Jan)
- EU Taxonomy delegated act on climate change mitigation and adaptation to apply (01 Jan)
- Interim MREL targets for G-SIBs and top-tier banks under BRRD2 apply (01 Jan)
- UK banks (excl. mid-tier banks) must comply with the BoE's end-state MREL requirements (01 Jan)
- Entry into force of the BoE's policy statements on continuity of access to FMIs, funding in resolution, restructuring planning and management, governance & communication (01 Jan)
- BoE deadline for major banks to be resolvable (01 Jan)
- Provisions of Basel III included in CRR2 (including SA-CCR, NSFR) due to apply to UK banks (01 Jan)
- IRB approach to credit risk – new requirements apply (01 Jan)
- UK banks must comply with policy changes related to the IRB approach to credit risk (PD and LGD estimation, definition of default, and the "hybrid" approach for residential mortgage modelling (01 Jan)
- MiFID II Quick Fix to apply in EU, which includes rules on best execution, position limits, product governance and research (28 Feb)
- Firms in UK are expected to comply with FCA and PRA's new finalised rules on operational resilience (31 Mar)
- FCA temporary registration regime for existing businesses undertaking cryptoassets activities end date (31 Mar)
- UK financial services regulators propose to end the use of the TTP by 31 Mar (the formal deadline is 31 Dec)
- In-scope firms expected to comply with PRA's final policy on outsourcing and TPRM (31 Mar)

Q2 2022

- UK banks must publish a summary of their resolvability self-assessment, submitted to the PRA in October 2021 (Jun 2022)
- EBA ITS on Pillar 3 reporting of climate and ESG risks to apply (28 Jun)
- ECB deadline for use of non-approved internal models previously authorised by UK regulators (30 Jun)
- ESMA's temporary recognition of three UK CCPs will expire (30 Jun), although the EC is set to announce an extension in early 2022

Q3 2022

- PRIIPs RTS to become applicable (01 Jul)
- Amendments to UCITS and AIFMD Delegated Acts incorporating sustainability risk apply (1 Aug)
- Amendments to MiFID II Delegated Acts on ESG suitability and organisational requirements and to IDD and Solvency II Delegated Acts on integrating ESG considerations apply (2 Aug)
- The FCA will make new rules in relation to the new Consumer Duty (by 31 July)

Q4 2022

- Amendments to MiFID II Delegated Acts on product governance requirements in relation to ESG apply (22 Nov)
- Latest end date for UK financial services regulators' TTP (31 Dec)
- First Pillar 3 reporting of banks' ESG risks will be published following the application of the ITS in June 2022 (31 Dec)
- In-scope firms expected to ensure existing Cloud outsourcing arrangements comply with EIOPA and ESMA guidelines on outsourcing to CSPs (31 Dec)
- Deadline for SSM banks to comply with ECB Guide on climate and environmental risks (Q4 2022)

Legend

Investment Management | Banking | Insurance | Capital Markets

Further reading

Our insights on key topics

Transition to a sustainable economy	COP26 | Stocktake of climate-related policy developments for UK and EU firms How Risk and Compliance functions can support the journey to Net Zero COP26 and a step change in regulatory expectations on net zero transition plans for financial services firms HM Treasury's Green Finance Roadmap	The EU sets out its new sustainable finance strategy The EU puts its stamp on a new European green bond framework Climate change and wholesale insurance broking
Climate related financial risk	Climate and capital: The PRA shifts gears The strategic implications of the Green Asset Ratio for EU banks Climate-related financial risk in banking | The state of play on capital requirements Nature-related financial disclosures: the new frontier for ESG risks Don't forget about social risks | Why banks should take a holistic approach to developing their ESG risk management capabilities	ESG risk disclosures for banks | The path to transparency The Economics of Biodiversity: the Dasgupta Review Climate Change and Banks | The questions Boards should be asking Climate Change and Insurance | The questions Boards should be asking Climate Change and Asset Management | How boards should respond to emerging supervisory expectations
Innovation	The new EU AI Act | What do financial services firms need to know? Insurers' digital business models: How to meet supervisory expectations Building Trustworthy AI Open Banking and liquidity risk | UK FCA and PRA write to CEOs about Deposit Aggregators Strengthening the resilience of digital payments: the emerging regulatory response	Open Finance: it ain't easy Resilience and innovation: PRA's finalised policy on outsourcing and third-party risk management A new policy and regulatory strategy for FinTech: the Kalifa review UK Open Banking: post-Brexit regulatory boost
Operational Resilience	International regulatory alignment on operational resilience - making steady progress Resilience by Design	Cyber Insurance Underwriting
Capital	Implementing Basel 3.1 in the EU: Delay, Defer, Diverge - and more... Five key questions around the EU's implementation of Basel 3.1 Basel 3.1 and standardised RWAs: time to get serious	The EU's Solvency II proposal: Key take-aways and what's next Difficult decisions ahead: what do HMT's Response to its Call for Evidence and the PRA QIS tell us about the progress of the UK Solvency II review?

Further reading

Our insights on key topics

Market Structure	The EU puts establishing a consolidated tape at the heart of it Capital Markets Union MiFIR reforms What do the FSB's proposals to reform MMFs mean for banks? FSB proposes wide-ranging reforms to money market funds HMT introduces a new focus on competitiveness and accountability as part of its Future Regulatory Framework Review HM Treasury's wholesale markets review and the reshaping of the UK's MiFID regime	Ruling the waves or waiving the rules part 3: The FCA fires the starting gun on MIFID reform European Capital Markets | The regulatory considerations for banks as they move beyond Brexit Ruling the waves or waiving the rules? The UK's options for deregulation and competitiveness after Brexit: Part 2 – Prudential regulation The European Commission sets out the way ahead for the EU's economic and financial system
Value for Money	FCA fund value assessments: a focus on performance, economies of scale and quality of service Good Value? A suggested framework for financial services firms to assess the value for money of their products	Improving Customer Outcome Testing | A practical guide for Boards
Governance	The FCA's New Consumer Duty: key issues and actions for firms Diverse and inclusive workplaces: a key objective for both the PRA and FCA	FCA has strong concerns over governance, conflicts of interest and expertise in host authorised fund managers

Glossary

AFM
Alternative Fund Manager

AI
Artificial Intelligence

AIFMD
Alternative Investment Fund Managers Directive

AML
Anti-Money Laundering

BCBS
Basel Committee on Banking Supervision

BNPL
Buy Now Pay Later

BoE
Bank of England

BRRD
Bank Recovery and Resolution Directive

CBDC
Central Bank Digital Currency

CBES
Climate Biennial Exploratory Scenario

CBI
Central Bank of Ireland

CCP
Central Counterparty

CCyB
Countercyclical capital buffer

CMU
Capital Markets Union

CoP
Confirmation of Payee

COP 26
Conference of the Parties - United Nations Climate Change Conference

CPMI
The Committee on Payments and Market Infrastructure

CRD
Capital Requirements Directive 6

CRR
Capital Requirements Regulation

CSPs
Cloud Service Providers

CSRD
Corporate Sustainability Reporting Directive

CTF
Counter Terrorism Financing

DC
Defined Contribution

DeFi
Decentralised Finance

DLT
Distributed Ledger Technology

DORA
Digital Operational Resilience Act

EBA
European Banking Authority

EC
European Commission

ECB
European Central Bank

ECL
Expected Credit Loss

EIOPA
European Insurance and Occupational Pensions Authority

EMR
Electronic Money Regulations

ESAs
European Supervisory Authorities

ESG
Environmental, Social, Governance

ESMA
European Securities and Markets Authority

EU
European Union

FCA
Financial Conduct Authority

FMI
Financial Markets Infrastructure

FPC
Financial Policy Committee

FSB
Financial Stability Board

GBP
British Pound

GI
General Insurance

G-SIBs
Global Systemically Important Banks

HFT
High Frequency Trading

HMT
Her Majesty's Treasury

IAIS
International Association of Insurance Supervisors

IBOR
Interbank Offered Rate

IBS
Important Business Services

ICAAP
Internal Capital Adequacy Assessment Process

ICT
Information and Communication Technologies

Glossary

IFPR
Investment Firms Prudential Regime

IFRS
International Financial Reporting Standards

IGC
Internal governance committee

IMF
International Monetary Fund

IOSCO
International Organization of Securities Commissions

IPCC
Intergovernmental Panel on Climate Change

IPU
Intermediate EU Parent Undertaking

IRB
Internal Ratings Based

ISSB
International Sustainability Standards Board

ITS
Implementing Technical Standards

JPY
Japanese Yen

KYC
Know Your Client

LGD
Loss Given Default

LIBOR
London Inter-Bank Offered Rate

MAR
Market Abuse Regulation

MIFID II
Markets in Financial Instruments Directive II

MIFIR
Markets in Financial Instruments Regulation

MLR
Money Laundering Regulations

MMF
Money Market Fund

MREL
Minimum requirement for own funds and eligible liabilities

NGFS
Network for Greening the Financial System

NSFR
Net Stable Funding Ratio

OCIR
Operational Continuity in Resolution

ORSA
Own Risk and Solvency Assessment

PD
Probability of Default

PNFC
Private non-financial corporation

PRA
Prudential Regulation Authority

PRIIP
Packaged Retail Investment and Insurance-based Products

PSD2
Payment Services Directive 2

QIS
Quantitative Impact Study

RAF
Resolvability Assessment Framework

RRP
Recovery and Resolution Plan

RTS
Regulatory Technical Standard

RWA
Risk Weighted Assets

SA-CCR
Standardised Approach for measuring Counterparty Credit Risk

SDR
Sustainability Disclosure Requirements

SFDR
Sustainable Finance Disclosures Regulation

SME
Small and Medium sized Enterprise

SMF
Senior Management Function

SREP
Supervisory Review and Evaluation Process

SSM
Single Supervisory Mechanism

TCFD
Task Force on Climate-related Financial Disclosures

TP
Third Party

TPP
Third Party Provider

TPR
The Pensions Regulator

TPRM
Third Party Risk Management

TTP
Temporary Transition Power

UCITS
Undertaking for the Collective Investment in Transferrable Securities

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