MOODY'S ANALYTICS

INSURANCE NEWSLETTER

Regulatory Insight

Managing Editor
Sandy Sharp
Director-Advisory Services
sandy.sharp@moodys.com

Contact Us

Americas
+1.212.553.1653
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia-Pacific (Excluding Japan)
+85.2.3551.3077
clientservices.asia@moodys.com

Japan
+81.3.5408.4100
clientservices.japan@moodys.com

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Key Developments at a Glance

This newsletter provides information about key developments in insurance regulations worldwide. New articles are sorted by country and associated with keywords. Hyperlinks provide direct access to the information sources.

KEY DEVELOPMENTS

The recent speech by Hans Hoogervorst, Chairman of the International Accounting Standards Board (IASB), at the EY IFRS Kongress in Berlin in September, is a timely reminder of the forthcoming new insurance contracts Accounting Standard. The IASB Chairman outlined the substantial progress made with the International Financial Reporting Standards (IFRS, in areas other than insurance. Although IFRS Standards have not been adopted for domestic use in the United States, there are over 500 foreign companies with US listings that report using IFRS. Mr. Hoogervorst made it clear that the IASB considers insurance accounting as the last major gap in its set of Standards and the IASB is committed to the new Standard. In his speech the IASB Chairman presents some surprisingly detailed examples of the current anomalous reporting that is permitted under the existing, grandfathered, insurance Standard. The Chairman also shows detailed knowledge of the difficulties that exist around issues such as choice of discount rate – particularly in the current environment. With the new insurance contracts Standard due for release soon it is to be hoped that the that the IASB's efforts result in a new Standard that delivers comparability between insurers in different countries and between insurance and other parts of the finance industry.

This month also sees the US Financial Accounting Standards Board (FASB) issue a consultation on insurance accounting with the title "Targeted Improvements to the Accounting for Long-Duration Contracts." The FASB also has a parallel project to the IASB insurance contracts Project, but this consultation appears more tactical in nature.

In Europe, the statement by Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA), to the Committee on Economic and Monetary Affairs (ECON) of the European Parliament, was interesting in its description of the changing role of EIOPA. EIOPA played a leading part in the development of Solvency II, but with the implementation of Solvency II, its role is switching to supervision and ensuring that a level playing field exists across Europe, and that regulatory arbitrage is avoided. In particular, Mr. Bernardino made the case for EIOPA being given a clear mandate to ensure common supervisory practices across EU members.

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International

Key Developments

Monthly Newsletter *- IAIS* *September 16, 2016* *Type of Information: Report*	The International Association of Insurance Supervisors (IAIS) published its September 2016 newsletter. This issue of the newsletter highlights that work on various IAIS activities is in full swing. The IAIS is expected to conclude this year's global systemically important insurer (G-SII) assessment exercise soon. The analysis of field testing results for the Insurance Capital Standard (ICS) is in progress and the IAIS is expected to begin the review of ICS consultation comments shortly. This issue also states that the IAIS is enhancing the substance and presentation of ComFrame and Insurance Core Principles (ICPs), and it will soon communicate more specifics. The IAIS believes the momentum of ICP self-assessment, peer review, multilateral memorandum of understanding (MMoU) and financial inclusion-related work is growing. Additionally, IAIS is proactively considering the impact of FinTech on insurance supervision and the insurance industry. FinTech can be defined as "a collective term for companies that use technology to provide financial services and/or make financial systems more efficient" While engaged on multiple fronts with major projects, the IAIS is carefully planning activities for the coming years by focusing on the following: » The next steps and phase of the G-SII work related to other IAIS workstreams such as the ICS and higher loss absorbency (HLA) » Coordination and prioritization of the growing number of priorities and workstreams » Timeline for implementing key IAIS projects *Keyword: Newsletter*
Amendments to the Insurance Contracts Standard: International Financial Reporting Standards 4 *- IASB* *September 12, 2016* *Type of Information: Statement*	The International Accounting Standards Board (IASB) issued amendments to its existing insurance contracts Standard, International Financial Reporting Standards, or IFRS 4. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches—an overlay approach and a deferral approach. The amended standard will: » Give all companies that issue insurance contracts, the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. » Give companies whose activities are predominantly connected with insurance, an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—International Accounting Standard, or IAS, 39. The new insurance contracts Standard is being drafted and will have an effective date no earlier than 2020. The proposed IFRS Taxonomy update related to the amendments has also been published. The IASB should receive comment letters before November 15, 2016. *Keywords: Insurance Contracts, IFRS 4, IFRS 9*

Speech of Hans Hoogervorst on Insurance Contracts Accounting

- IASB

September 08, 2016

Type of Information: Speech

Mr. Hans Hoogervorst, Chairman of the IASB, spoke at EY-IFRS Kongress in Berlin on IFRS developments worldwide, IASB's work on completion of insurance contracts Standard, and the future agenda of IASB. The Chairman highlighted that one major project remaining on IASB's agenda is to finish the new accounting Standard for insurance contracts and IASB staff are busy drafting the standard. Given the complexity of many insurance contracts, the staff is carefully testing that the wording is accurate and workable based on the input from the industry.

IFRS 4, which is the current insurance Standard, is a holding standard that has grandfathered an array of highly diverse national accounting standards. Consequently, the comparability between insurance companies worldwide is poor. IASB is producing an effects analysis of the new insurance contracts Standard, which will give concrete examples of this lack of comparability. Insurers are aware of the shortcomings of the current accounting rules and many provide investors with supplementary Non-Generally Accepted Accounting Principles (GAAP) measures, such as embedded value estimates. While these Non-GAAP measures can give useful information, they suffer from the usual problem of lack of rigor and comparability. This lack of comparability and the often poor quality of current accounting practices in the insurance industry worldwide is clearly unacceptable. Both investors and the insurance industry know it. Mr. Hoogervorst highlighted that everyone in the industry agrees on the need to fix this problem as soon as possible. Hence, IASB is determined to publish the Standard as soon as possible.

During the speech, Mr. Hoogervorst highlighted the variety in the measurement of insurance liability by illustrating few examples. Some insurers use discount rates that are based on the expected return of assets, others use risk-free discount rates, while others still use historical rates based on interest rates at the date of inception. Therefore, the devastating impact of the current low-interest-rate environment on long-term obligations is not nearly as visible in the insurance industry as it is in the defined benefit pension schemes of many companies. Discounting an insurance liability that was incurred 15 years ago at a historical interest rate of 5% to 6% does not give relevant information in a time when interest rates are close to (or even below) zero.

In some cases, minimum-return guarantees and other complex features are typically reflected in the insurance liability only when they become worth exercising and even then typically only at an amount that does not reflect their true economic value. For a bank, such treatment of complex financial liabilities would be unthinkable. Therefore, a lack of comparability exists not only among insurance companies, but also between insurance and other parts of the financial industry such as banks.

Keywords: Insurance Contracts

G20 Leaders' Communique: Hangzhou Summit

- G20

September 05, 2016

Type of Information: Statement

The leaders of the group of 20 countries, or G20, met in Hangzhou, China, on September 04-05, 2016 and a communique was published on the Hangzhou Summit. The leaders met to determine further collective actions toward strengthening the G20 growth agenda, pursuing innovative growth concepts and policies, building an open world economy, and ensuring that economic growth benefits all countries and people.

The leaders at the Summit discussed that growth must be supported by effective and efficient global economic and financial architecture. Thus, the G20 is committed to finalizing the remaining critical elements of the regulatory framework and to the timely, full, and consistent implementation of the agreed financial sector reform agenda, including Basel III, the total loss-absorbing capacity (TLAC) standard, and effective cross-border resolution regimes. The leaders welcome the Basel Committee's plan to finalize the Basel III framework by the end of 2016, without significantly increasing overall capital requirements across the banking sector, while promoting a level playing field. They also welcome the second annual report of the Financial Stability Board (FSB) on implementation and effects of reforms.

In addition to enhancing the monitoring of implementation and effects of reforms, the G20 will continue to address the issue of systemic risk within the insurance sector. The communique states that the G20 leaders encourage work on the development of an ICS for internationally active insurers. Additionally, the full and timely implementation of the agreed over-the-counter (OTC) derivatives reform agenda is also in focus, along with the removal of legal and regulatory barriers to the reporting of OTC derivatives to trade repositories and to authorities' appropriate access to data. The leaders also encourage members to close the gap in the implementation of the Principles for Financial Market Infrastructures (PFMI) and welcome the reports by the Committee on Payments and Market Infrastructures (CPMI), International Organization of Securities Commissions (IOSCO), and FSB on enhancing central counterparty resilience, recovery planning, and resolvability.

The G20 leaders commended the joint work of the International Monetary Fund (IMF), FSB, and Bank for International Settlements (BIS) in developing and promoting effective macro-prudential policies, also highlighting the importance of effective macro-prudential policies in limiting systemic risks. The leaders welcome the FSB consultation on proposed policy recommendations to address structural vulnerabilities from asset management activities. The leaders intend to closely monitor and address emerging risks and vulnerabilities in the financial system, including those associated with shadow banking, asset management, and other market-based finance. Additionally, the leaders seek support of G20 members, IMF, and World Banking Group (WBG) for domestic capacity building to help countries improve their compliance with global anti-money laundering and countering the financing of terrorism (AML/CFT) and prudential standards.

The leaders also endorsed the work done in the area of financial inclusion, specifically the G20 High-level Principles for Digital Financial Inclusion, the updated version of the G20 Financial Inclusion Indicators, and the Implementation Framework of the G20 Action Plan on Small and Medium Enterprise (SME) Financing. Member countries are encouraged to consider these principles in devising their broader financial inclusion plans, particularly in the area of digital financial inclusion, and to take concrete actions to accelerate progress on all people's access to finance.

Links: Press Release, Communique, G20 Annex: Agreed Documents
Keywords: Financial Reforms, G20

First Progress Report on the Second Phase of the G20 Data Gaps Initiative

- FSB

September 02, 2016

Type of Information: Report

The FSB published the first progress report on the second phase of the G20 Data Gaps Initiative (DGI-2). The report offers updates on work done on DGI by participating jurisdictions and international organizations to address the post-crisis data gaps. The report also seeks endorsement by the G20 Finance Ministers and Central Bank Governors (FMCBG) for the proposed action plans (set out in Annex 1 of the progress report) for the implementation of DGI-2 recommendations. The DGI-2 action plans set out targets for the implementation of twenty recommendations over a five-year horizon.

The DGI-2 aims to implement the regular collection and dissemination of reliable and timely statistics for policy use and its recommendations address monitoring of risks in the financial sector; vulnerabilities, interconnections, and spillovers; and data sharing and communication of official statistics. The key areas covered in the DGI-2 recommendations are financial soundness indicators, shadow banking data, derivatives and securities statistics, and data on global systemically important financial institutions (including insurers).

Following the significant progress in closing some of the information gaps identified during the global financial crisis of 2007-08, the G20 FMCBG had endorsed, in September 2015, the completion of the first phase of DGI, along with the launch of the second phase. The DGI-2 action plans acknowledge that countries may be at different stages of statistical development and that the aim is to bring the G20 economies to a higher common statistical standards. The G20 economies that are at an advanced stage of statistical development are encouraged to progress beyond the minimum common standard. Where appropriate, the targets for the implementation of DGI-2 recommendations will be embedded in the relevant reporting templates to facilitate collection and dissemination of data. Non-G20 FSB member economies can also participate in the implementation of DGI 2 recommendations.

Links: Progress Report, DGI Data Templates
Keywords: DGI 2, G20

Second Progress Report on Measures to Reduce Misconduct Risk

- FSB

September 02, 2016

Type of Information: Report

The FSB published the second progress report on its workplan on measures to reduce misconduct risk, which were agreed on in May 2015. The report examines progress made and future actions to take forward the FSB's work plan on misconduct risk. The report's key highlights follow:

- ***Reducing misconduct through incentives:*** The FSB undertook a survey and held a roundtable with financial institutions (focusing on banks and bank holding companies) on the role of compensation tools, such as in-year bonus adjustment, malus, and clawback, in incentivizing good conduct. By the end of 2017, the FSB will consult on supplementary misconduct-related guidance for existing compensation standards; recommendations for consistent national reporting; and collection of data on the use of compensation tools to address misconduct.

- **Improving standards of market practice:** IOSCO continued to explore ways to further strengthen the current global framework to address misconduct by firms and individuals. In January 2017, it will publish the final report of its Market Conduct Task Force, including a detailed regulatory toolkit for wholesale market conduct regulation. Additionally in May 2016, the Foreign Exchange Working Group of the BIS issued its first phase of the Global Code of Conduct for the Foreign Exchange Market, along with the principles for adhering to the new standard. The complete Global Code and the adherence mechanisms will be released in May 2017, which will include principles related to electronic trading (including algorithmic operators and users), trading venues, brokers, and prime brokerage.

- **Reforming financial benchmarks***:* The FSB is monitoring progress in implementing the recommendations set out in its July 2014 report on "Reforming Major Interest Rate Benchmarks" and it will issue the final progress report by the end of 2017. The FSB's July 2016 report includes proposals, plans, and timelines for reform and strengthening of existing major interest rate benchmarks and for additional work on the development and introduction of alternative benchmarks. Additionally, IOSCO has undertaken a number of projects in this area, primarily to assess the degree of implementation of the Principles for Financial Benchmarks by benchmark administrators operating in IOSCO jurisdictions. By the end of 2016, IOSCO will finalize guidance for benchmark administrators on the content of the statements of compliance that administrators are expected to publish and will also publish its follow-up review of the WM/Reuters 4pm London Closing Spot Rate, a key Foreign Exchange benchmark.

The FSB will publish the third progress report on its misconduct workplan in advance of the next G20 Leaders' meeting in July 2017.

Whilst these actions described in the progress report do not directly consider insurers, insurers are part of the wider financial system and are affected by the issues raised. Also, any misconduct-related guidance can be expected to apply to insurers.

Links: Press Release, Foreign Exchange Market Code of Conduct, Report on Interest Rate Benchmarks, Principles for Financial Benchmarks
Keywords: G20, Misconduct Risk

Registration Authorities List *- GLEIF* *August 31, 2016* *Type of Information: Statement*	The Global Legal Entity Identifier Foundation (GLEIF) published the new list of registration authorities. It contains 652 business registers and other relevant registration authority sources and assigns a unique code to each register on the list. The organizations issuing Legal Entity Identifier (LEI) will reference this code in their LEI issuance processes and reporting. The list standardizes the cross-reference provided by the legal entity to its local authoritative source. With this list, GLEIF enables users of the LEI data to more easily link the LEI to other data sources. GLEIF will monitor compliance of LEI issuers with the Registration Authorities List based on the following criteria: » Within twelve months following the date of publication of the Registration Authorities List, 99% of all LEIs issued after that date should indicate the code of the registration authority specified with this list, and the Entity ID used by this authoritative source to identify the entity. » Within 18 months of the date of publication of the Registration Authorities List, 98% of all LEIs issued should meet these requirements. *Link: GLEIF Registration Authorities List* *Keywords: GLEIF Registration Authority, LEI*

Europe

European Union

Key Developments

Annual ECON Hearing of Chairpersons of the European Supervisory Authorities

- ESAs

September 26, 2016

Type of Information: Statement

Economic and Monetary Affairs (ECON) held its annual hearing of the chairs of the European Supervisory Authorities (ESAs) in Brussels: European Banking Authority (EBA) Chair Andrea Enria, European Insurance and Occupational Pensions Authority (EIOPA) Chair Gabriel Bernardino, and European Securities and Monetary Authority (ESMA) Chair Steven Maijoor. The hearing was organized in accordance with Article 50(1) of the ESA Regulations which provides that the Chairs shall make a statement before Parliament and answer any questions put by its members, whenever requested. At this hearing, the chairs of the ESAs discussed, among other things, the work done by their respective organizations toward their mandates.

Statement by EBA Chair. Mr. Enria, in his introductory statement, spoke about EBA's analyses confirming that the regulatory framework must be adjusted to enhance the reliability and comparability of the outcomes of bank internal models. He highlighted that EBA is working to identify possible avenues to increase proportionality in banking regulation. Although, the EBA is convinced that the Single Rulebook already incorporates the principle of proportionality, it is acknowledged that the regulatory framework has become very complex. Hence, there is a need to assess whether the compliance burden on banks with simple business models is really warranted. The EBA will soon issue a discussion paper on this topic. Mr. Enria also emphasized the importance of question and answer (Q&A) facilities for supervisory convergence and how these tools represent the only way to achieve consistency across the Single Market and give transparency to the decisions of supervisors.

Statement by EIOPA Chair. Mr. Bernardino spoke about EIOPA's work on the future review of the current supervisory framework. He highlighted that EIOPA is specifically looking at the appropriateness of the models, assumptions, and standard parameters used when calculating the Solvency Capital Requirement (SCR); it is also analyzing the impact of the Long-Term Guarantee measures. Mr. Bernardino also spoke about EIOPA's Solvency II review and the opportunity to explore possible macro-prudential tools and their application in a consistent and complementary manner to the existing framework, avoiding potential overlaps. Mr. Bernardino, during his speech, highlighted that the current governance structure of EIOPA has been fit for purpose to fulfil the regulatory mandate. However, a refinement of this structure is necessary to enable EIOPA to also fulfil its supervisory convergence mandate. Some governance adjustments are also necessary to provide the required independence and checks and balances to further reinforce this process. He emphasized that integrated supervision of the European Union (EU) across all financial services sectors is the key to achieve the aim convergence toward a European supervisory culture and convergence in the interest of the European citizens.

Statement by ESMA Chair. With regard to the Single Rulebook activity, Mr. Maijoor highlighted that over 80 draft technical standards, pieces of technical advice, and opinions have been finalized over the last year. He believes these rules have significantly contributed, along with the long-standing efforts of EU co-legislators and the regulatory community in Europe, toward making financial markets safer, more transparent, and deeper and more competitive. ESMA has contributed significantly toward making the EU financial market open to institutions from non-EU jurisdictions. The extensive advice given to the Commission on the third-country passport under the Alternative Investment Fund Managers Directive (AIFMD), along with the successful recognition process of third-country central counterparties (CCPs), have proven ESMA's technical expertise and capabilities in the area of non-EU market access. ESMA successfully launched its first CCP stress tests, which, in his opinion, constitutes an example of ESMA's expertise in analyzing systemic risks from a macro-prudential perspective. Progress has also been made in investigating new developments related to FinTech. He also highlighted ESMA's direct supervisory tasks. Mr. Maijoor believes that ESMA has not only established an effective supervisory processes but also successfully implemented a robust enforcement process. The most recent enforcement case against Fitch Ratings Ltd resulted in a EUR 1.4 million fine, following another case earlier in 2016 where ESMA took its first enforcement action against a trade repository by fining DTCC Derivatives Repository Ltd EUR 64 thousand for data access failures. As per Mr. Maijoor, ESMA's ability to impose sanctions is an important deterrent tool in combating misbehavior by regulated firms. However, the fines that ESMA can currently impose on credit rating agencies (CRAs) and trade repositories are too low to fully serve this purpose. ESMA believes that the right way forward would be to calculate fines as a minimum percentage of the turnover of the CRA or the trade repository.

Links: Statement by Gabriel Bernardino
Keywords: ECON Hearing

Parliament Returns Draft Law on Packaged Retail Investment Products to the European Commission *- European Parliament* *September 14, 2016* *Type of Information: Statement*	The ECON Committee, on September 05, 2016, rejected the European Commission's (EC) proposed regulatory technical standards (RTS) on packaged retail and insurance-based investment products (PRIIPs) and issued the motion for resolution, which was approved unanimously. On September 14, 2016 the measure was put to a full plenary vote of the European Parliament. The European Parliament backed the ECON Committee's view that the proposed RTS are inadequate. Therefore, the legislation was rejected. The Members of Parliament passed the resolution (602 votes to 4, with 12 abstentions), calling for changes to the legislation on PRIIPs, which specifies standards that investment providers must meet to provide greater transparency and clarity to investors. The EC will now have to propose new RTS for implementing the PRIIPs legislation, which is expected to come into force on December 31, 2016. *Links: Press Release, Objection to Delegated Act – Text Adopted* *Keywords: Customer Protection, PRIIPS, RTS*
Regulation on Implementing Transitional Measure for the Equity Risk Sub-Module of Solvency II *- EC* *September 10, 2016* *Type of Information: Regulation* *Regulatory Status: Final Rule*	The EC published, in the *Official Journal of European Union,* the final implementing technical standards (ITS) on the procedures for implementing the transitional measure for the equity risk sub-module (EU Regulation 2016/1630), in accordance with Directive 2009/138/EC. Article 1 of the regulation states that where insurance and reinsurance undertakings wish to use the transition measures, they shall keep a record of the equities referred to in Article 173 of Delegated Regulation (EU) 2015/35 and the dates of their purchase. To allow for the application of the transitional measure set out in Article 308b(13) of Directive 2009/138/EC (Solvency II), insurance and reinsurance undertakings should be able to show to their supervisory authorities that the purchase of the equities subject to that transitional measure took place on or before January 01, 2016. Therefore, insurance and reinsurance undertakings should keep records identifying any changes affecting the amount of equities that are subject to the transitional measure. Records should be updated each time the SCR is calculated in accordance with the standard formula, to identify the equities subject to the transitional measure. For equities held through collective investment undertakings (CIUs), or other investments packaged as funds where the look-through approach is not possible, Article 173(2) of Commission Delegated Regulation or CDR (EU) 2015/35 sets a methodology to identify the amount of equities purchased before January 01, 2016. The relevant date of purchase to be identified and documented should be the date of purchase of the units or shares of those CIUs or other investments packaged as funds. *Comments Due Date:* *Effective Date: September 30, 2016* *First Reporting Date: N/A* *Link: Final Rule* *Keywords: CIR 2016/1630, Equity, Solvency II*

Rejection of European Commission's Proposed Amendments to Technical Standards on Non-Centrally Cleared Over-the-Counter Derivatives *- ESAs* *September 09, 2016* *Type of Information: Statement*	The ESAs rejected the EC's proposed amendments to the final draft RTS on risk mitigation techniques for OTC derivatives not cleared by a central counterparty. The proposed amendments were originally submitted for endorsement on March 08, 2016. The ESAs disagree with the EC's proposal to remove concentration limits on initial margins for pension schemes and emphasize that these are crucial for mitigating potential risks pension funds and their counterparties might be exposed to. The other key comments of the ESAs are: » The calculation of the threshold against non-netting jurisdictions should consider both legacy and new contracts. » With reference to covered bonds, the additional condition included in the EC's proposed amendments would have the effect of ranking derivatives counterparties after bond holders, which is contrary to the reasoning established in European Market Infrastructure Regulation (EMIR) to grant a preferred treatment to cover bonds. » The ESAs recommend providing clarity that non-centrally cleared derivatives concluded by CCPs are not covered by this regulation. » More clarity should also be brought to the application of the RTS to transactions concluded with third country counterparties, in particular non-financial counterparties. » The delayed application to intragroup transactions should be maintained to allow national competent authorities to complete the relevant approval process before the obligation will start applying. » Introduction of a number of wording changes proposed by the EC may lead to a different application of the provisions compared to their original text of the RTS and, therefore, it is advised to amend them accordingly. A version of the draft RTS containing all the corrections in detail is included as an Annex to the Opinion. This Opinion was prepared in accordance with Article 10 of the ESAs Regulations, empowering the three Authorities to consider the amendments and to provide further technical input, if needed. *Links: News Release, Opinion* *Keywords: Clearing, OTC Derivatives*
Report on Risks and Vulnerabilities in the European Union Financial System *- ESAs* *September 07, 2016* *Type of Information: Report*	The Joint Committee of the ESAs published a report on risks and vulnerabilities in the EU financial system. The ESAs highlight the main risks to the EU financial system that have persisted over a relatively long period and result from the lasting effects of the 2007 financial crisis. The report focuses on recent developments concerning the low-growth and low-yield environment and its potential effects on financial institutions' profitability and asset quality. Additionally, the report highlights concerns related to the interconnectedness in the EU financial system. The EU financial system is also vulnerable to more immediate risks such as the result of the UK referendum on EU membership, which has added political and legal uncertainties to the ones already affecting the financial system. *Link: Press Release* *Keywords: Risks and Vulnerabilities*

Rejection of European Commission's Proposed Standards on Packaged Retail and Insurance-Based Investment Products

- ECON

September 05, 2016

Type of Information: Statement

The European Parliament's ECON Committee rejected the EC's proposed RTS on PRIIPs and issued the motion for resolution. The motion was approved unanimously. The proposal was rejected on the grounds of it being misleading and flawed. The vote on the motion for resolution took place after a discussion with the EC and EIOPA in the ECON Committee.

These RTS address the presentation, content, review, and revision of key information documents (KIDs) and the conditions for fulfilling the requirement to provide such documents. The RTS are designed to accompany the PRIIP legislation, which is expected to be effective from December 31, 2016. Investment providers would have to meet these RTS to provide greater transparency about investment products and clearer information to investors.

John Berrigan of the EC said the ideal solution would be to concurrently introduce both the level one legislation and the technical standards. However, as a "second best option," the EC could allow the introduction of the main legislation without the technical standards. Many members of the European Parliament were skeptical about such an arrangement; thus, it was decided to delay the introduction of the main legislation until an agreement was reached on the technical standards. The opposition mainly centered on the KIDs, which are meant to provide consumers with information about the features, risks, and costs of an investment product. There was a doubt about whether the KIDs adequately reflect the risks of investing.

The measure will now be put to a full plenary vote in September and Parliament must now either support or reject the motion.

Links: Press Release, Motion for Resolution
Keywords: Customer Protection, PRIIPs, RTS

Updated Q&As on Legislative Acts in Banking and Finance

- EC

September 02, 2016

Type of Information: Q&A

The EC updated Q&As on a number of legislative acts in the areas of banking and finance and these acts are:

- Markets in Financial Instruments Directive (MiFID)
- Capital Requirements Directive (CRD)
- Directive on payment services in the internal market (Payment Services Directive)
- Directive on the taking up, pursuit, and prudential supervision of the business of electronic money institutions (E-Money Directive)
- AIFMD

Link: Q&A on Legislation
Keywords: Single Rulebook

Published Answers to Regulation-Related Questions

- EIOPA

September 01, 2016

Type of Information: Q&A

This month EIOPA published answers to questions on the following topics:

- Guidelines on reporting for financial stability purposes
- Guidelines on recognition and valuation of assets and liabilities other than technical provisions
- Final report on the ITS on templates for submission of information to supervisory authorities (CP-14-052)
- Final report on the ITS on procedures, formats, and templates of solvency and financial condition report (CP-14-055)

The Q&A tool of EIOPA can be used to submit questions on the regulatory tools that have been published by EIOPA. These include guidelines, but also particular (regulatory) processes such as the publication of the risk-free rate. All stakeholders, including financial institutions and supervisors, can submit questions. The Q&A tool is intended to ensure consistent and effective application of regulations in the European economic area.

Link: Q&A on Regulation
Keywords: Solvency II, Single Rulebook

Ireland

Key Developments

Technical Notes as Part of the Financial Sector Assessment Program

- IMF

September 29, 2016

Type of Information: Report

The IMF published several technical notes as part of the Financial Sector Assessment Program (FSAP) of Ireland:

» **Insurance Sector and Update on the Assessment of Observance of the Insurance Core Principles (ICP):** The note highlights that the insurance sector in Ireland is well-developed, with insurance penetration in Ireland being almost three times the EU average. It also provides an assessment of the observance of ICPs, highlighting that important advancement has been made toward the observance of ICPs 9 and 23 while for some principles further action is required.

» ***Update on the Assessment of Implementation of the IOSCO Objectives and Principles of Securities Regulation:*** The assessment found that Ireland exhibited a high level of implementation of the IOSCO principles. The legal framework was deemed robust and provided the Central Bank with broad supervisory, investigative, and enforcement powers. The Central Bank and the Irish Stock Exchange had developed sound systems for market surveillance.

» ***Asset Management and Financial Stability:*** This technical note takes stock of the risks to domestic and international financial stability associated with the asset management industry in Ireland and offers policy recommendations to the Irish authorities to strengthen the industry oversight.

» ***Macro-Prudential Policy Framework:*** This technical note evaluates the current macro-prudential policy framework and the need for further policy actions by the Central Bank of Ireland and the ECB. It assesses the systemic risk monitoring framework, macro-prudential policy toolkit, and the institutional arrangement and international collaboration. It also covers the overall stability analysis and maps identified vulnerabilities into specific policy recommendations.

» ***Financial Safety Net, Bank Resolution, and Crisis Management:*** This technical note states that the introduction of the single rulebook for financial services regulation within the EU and the establishment of the banking union have transformed the Irish framework for dealing with failing banks. The new regime reflects an EU-wide initiative to strengthen supervision, harmonize prudential rules, establish a uniform bank resolution regime, and build the supporting arrangements for implementation within the banking union (euro area countries). The note also provides recommendations to the Irish authorities to enhance arrangements at the national level to facilitate effective resolution.

» ***Nonbank Sector Stability Analyses:*** The technical note states that the cross-border interlinkages via the Irish-domiciled funds industry and multinational companies are a key feature of the financial network. Ireland plays a key role in the global funds industry as a significant hub. The tight linkages between the rest of the world and non-financial corporations reflect the large presence of foreign-controlled multinational companies in Ireland. The direct bilateral connection between the rest of the world and Irish households is insignificant, but the household sector is indirectly exposed to global shocks through their balance sheets of insurance companies and pension funds.

» ***Stress Testing the Banking System:*** The stress tests examined the resilience of the Irish banking system to solvency, liquidity, and contagion risks. This technical note includes suggestions in the area of risk analysis and financial sector policy to further enhance bank stress testing and cross-border network analysis.

» ***Banking Supervision and Update on the Assessment of Observance of the Basel Core Principles***: The note highlights the effective implementation of the Single Supervisory Mechanism in Ireland. It also includes recommendations to enhance the supervision of the banking activities conducted in Ireland, with a direct bearing on its financial stability.

Links: Insurance Sector and Update on the Assessment of Observance of the Insurance Core Principles, Asset Management and Financial Stability, Financial Safety Net, Bank Resolution, and Crisis Management, Update on the Assessment of Implementation of the IOSCO Objectives and Principles of Securities Regulation, Stress Testing the Banking System, Macro-Prudential Policy Framework, Nonbank Sector Stability Analyses, Banking Supervision and Update on the Assessment of Observance of the Basel Core Principles

Keywords: FSAP, Stress Testing, Technical Notes

United Kingdom

Key Developments

Consultation and Supervisory Statement on Dealing With a Market Turning Event in the General Insurance Sector *- PRA* *September 21, 2016* *Type of Information: Regulation* *Regulatory Status: Proposed Rule*	The Prudential Regulation Authority (PRA) published a consultation paper (CP32/16) setting out the draft supervisory statement on its expectations of general insurance firms, in relation to the significant general insurance loss events that might affect the solvency and future business plans of firms. The draft supervisory statement sets out the PRA's expectations of how such firms might plan for, and respond to, such an event. The PRA also issued a supervisory statement (SS12/16) specifying its expectations of firms in relation to internal model changes. This includes its expectations on how firms might deal with any temporary deficiency in its internal model that might arise following an external event such as a market turning event. It sets out the PRA's expectations of how such firms, particularly those operating in the global specialty insurance and reinsurance market known as the London market, might plan for and respond to the loss event. This statement may be of interest to the UK Solvency II firms seeking approval to use an internal model in the future and to the UK Solvency II firms that are part of European Economic Area (EEA) or non-EEA groups with a group internal model. *Comments Due Date: December 21, 2016* *Effective Date: N/A* *First Reporting Date: N/A* *Links: CP32/16, SS12/16* *Keywords: CP32/16, Solvency II, SS12/16*
Speech of the Executive Director David Rule on Managing Risks in a Soft Market *- PRA* *September 21, 2016* *Type of Information: Speech*	The Bank of England's David Rule spoke about risks facing insurers in the current low-interest-rate environment and managing these risks in a soft market. At the General Insurance Research Organisation conference in Dublin, he addressed the audiences for the first time as the Executive Director for Insurance Supervision. He mentioned that, for life insurers, the low-rate environment can create solvency pressures. The key challenge for insurers is to preserve or even grow their activities while avoiding the "Winner's Curse" of underpricing to get the business. He emphasized that the PRA is a not a price-regulator, but it is concerned to see that firms are adequately managing their exposures—that they can identify and quantify the risks being covered, manage and control overall exposures, and estimate likely claims costs under different loss scenarios. Mr. Rule emphasized that the new requirements under Solvency II and the Senior Insurance Managers Regime are timely additions to the insurance regulatory regime. Mr. Rule also announced that PRA is publishing its supervisory statement on changes to internal models, setting out its expectations for firms applying for approval of a major change to their approved internal models or an extension of scope to an approved internal model (for example, to cover new business units or risks). The PRA's proposed approach includes monitoring the internal model SCR against a number of objective measures such as premium levels, technical provisions, Minimum Capital Requirement (MCR) and the standard formula SCR. He also said, "All risk measures have their limitations. So we plan to use a range of measures alongside other supervisory review process initiatives, such as the analysis of internal model outputs." *Link: Speech* *Keywords: Internal Models, Solvency II*

Consultation Paper Proposing Updates to Supervisory Statements SS25/15 and SS26/15 *- PRA* *September 21, 2016* *Type of Information: Regulation* *Regulatory Status: Proposed Rule*	In a recent consultation paper (CP31/16), the PRA proposed updates to two supervisory statements: SS25/15 titled "Solvency II: regulatory reporting, internal model outputs" and SS26/15 titled "Solvency II: ORSA and the ultimate time horizon." The proposals in this consultation paper follow the analysis of the year-end 2015 PRA internal model output data request, which concluded post the publication of SS25/15 and SS26/15. The analysis identified both data quality and technology issues of sufficient materiality to propose the updates to the supervisory statements. The PRA proposed the following updates to SS25/15 and SS26/16: » Consolidation of internal model outputs and ORSA ultimate time-horizon outputs into one workbook » Separating entity line of business level and outputs at Solvency II line of business level » Clarification that same reserve and premium risk outputs are expected at firm and at Solvency II line of business level » Changes to template identification codes » A new qualitative template to allow firms to provide more information about the lines of business used in the non-life underwriting risk part of their internal model The PRA also proposed to amend the non-life templates and the associated instruction files in SS25/15 and SS26/15. These numerous minor and consequential changes are set out in the appendices to the consultation. *Comments Due Date: December 21, 2016* *Effective Date: N/A* *First Reporting Date: N/A* *Link: CP31/16* *Keywords: CP31/16, Solvency II*
Feedback on Responses Received for Consultation Paper on Solvency II: External Audit of the Public Disclosure Requirement *- PRA* *September 09, 2016* *Type of Information: Statement*	The PRA published a policy statement (PS24/16) providing feedback on responses received to the consultation paper (CP23/16) titled "Solvency II: external audit of the public disclosure requirement." This policy statement is relevant to firms in the scope of Solvency II including the Society of Lloyd's (collectively called insurers), auditors, and those individuals or firms who are likely to use the Solvency and Financial Condition Report (SFCR). The rules apply to insurers with financial year ends on or after November 15, 2016. Earlier, the PRA consulted in November 2015, on CP43/15 "Solvency II: External audit of the public disclosure requirement." The responses received to CP43/15, along with the PRA proposals on dealing with those responses, were covered in CP23/16. In CP23/16, the PRA consulted on rules and a supervisory statement for external audit of the Solvency II public disclosure. The appendices to this policy statement set out the final rules and supervisory statement to implement the proposals consulted on in CP23/16. *Links: PS24/16, CP23/16, CP 43/15* *Keywords: PS24/16, Solvency II*

Americas

United States of America

Key Developments

Proposed Changes to Accounting Guidance for Long-Duration Contracts Issued by Insurance Companies *- FASB* *September 29, 2016* *Type of Information: Regulation* *Regulatory Status: Proposed Rule*	The Financial Accounting Standards Board (FASB) proposed the Accounting Standards Update (ASU) (Topic 944) to improve financial reporting for insurance companies that issue long-duration contracts, such as life insurance, disability income, long-term care, and annuities. The Exposure Draft contains proposals for improving insurance accounting by: » Improving the timeliness of recognizing changes in the liability for future policy benefits by requiring that updated assumptions be used to measure the liability » Eliminating the usage of an asset rate (that is, an insurance company's expected investment yield) to discount liability cash flows, and instead requiring that cash flows be discounted at a high-quality fixed-income instrument yield » Simplifying and improving the accounting for certain options or guarantees in variable products (such as guaranteed minimum death, accumulation, income, and withdrawal benefits) by requiring the benefits to be measured at fair value instead of using two different measurement models » Simplifying the amortization of deferred acquisition costs » Increasing transparency by improving the effectiveness of disclosures To elicit additional feedback on its proposals, the Board plans to hold public roundtable meetings in the first quarter of 2017. The Board will determine an effective date for the Accounting Standards Update after re-deliberating on the comments received during the comment period and from the public roundtable meetings. *Comments Due Date: December 15, 2016* *Effective Date: N/A* *First Reporting Date: N/A* *Links: News Release, Exposure Draft* *Keywords: Insurance Contracts, Long Duration Contracts*
Study on Banking Activities and Investments *- U.S. Agencies* *September 08, 2016* *Type of Information: Report*	The U.S. agencies (Board of Governors of the Federal Reserve System or FED, Federal Deposit Insurance Corporation or FDIC, and Office of the Comptroller of the Currency or OCC) published a report to the Congress and the Financial Stability Oversight Council (FSOC) on the activities and investments that banking entities may engage in under applicable law. Each agency prepared the section of the report relative to the banking entities that it supervises. Each of the three sections includes a discussion of permissible activities, risk mitigation, legal limitations, and specific recommendations as required by the Dodd-Frank Act. Section 620 of the Dodd-Frank Act requires the federal banking agencies to conduct the study and report to Congress on the types of activities and investments permissible for banking entities, the associated risks, and how banking entities mitigate those risks. For the purpose of this study, banking entities include insured depository institutions, and any company that controls an insured depository institution, or is treated as a bank holding company under the International Banking Act of 1978. The study also covers any affiliate or subsidiary of such companies. *Links: Press Release, Report to the Congress and the FSOC* *Keywords: Dodd-Frank Act, Section 620*

Canada

Key Developments

Report on Assessment of Measures to Combat Money Laundering and Terrorist Financing *- IMF* *September 15, 2016* *Type of Information: Report*	The IMF published a report on the observance of standards and codes (ROSC) for the Financial Action Task Force (FATF) recommendations for anti-money laundering and countering the financing of terrorism (AML/CFT) in Canada. The report assesses the compliance level and effectiveness with respect to the 40 FATF recommendations and recommends how the AML/CFT framework could be strengthened. The assessment was conducted using the FATF 2013 assessment methodology. The detailed assessment report (DAR), on which this document is based, was adopted by the FATF Plenary on June 23, 2016. The assessment highlights that the Canadian authorities have a good understanding of most of the country's money laundering and terrorist financing risks. The AML/CFT cooperation and coordination are generally good at the policy and operational levels. Canada was found Compliant with 11 FATF recommendations, Largely Compliant with 18 recommendations, Partially Compliant with 6 recommendations, and Non-Compliant with 5 recommendations. Furthermore, out of the 11 Immediate Outcomes, the effectiveness of only one was found to be low. All high-risk areas are covered by AML/CFT measures, except legal counsels, legal firms, and Quebec notaries. This constitutes a significant loophole in the country's AML/CFT framework. The four possible levels of compliance are Compliant, Largely Compliant, Partially Compliant, and Non-Compliant. The FATF assesses effectiveness primarily on the basis of eleven Immediate Outcomes, with each of these representing one of the key goals that an effective AML/CFT system should achieve. Additionally, the four possible ratings for effectiveness are High, Substantial, Moderate, and Low. *Links: ROSC, DAR, FATF 2013 Assessment Methodology* *Keywords: AML/CFT, DAR, ROSC*
Final Version of the Life Insurance Capital Adequacy Test Guideline *- OSFI* *September 12, 2016* *Type of Information: Guideline*	The Office of the Superintendent of Financial Institutions (OSFI) issued the final version of its Life Insurance Capital Adequacy Test (LICAT), a capital adequacy guideline for federally regulated life insurance companies. The LICAT guideline will replace the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline, in place since 1992. The new guideline will be effective from January 01, 2018. The final version of the guideline incorporates several revisions resulting from comments received during the six-week public consultation process, which ended on May 09, 2016. The OSFI developed the LICAT to better align capital and risk measures with the economic realities of the life insurance business, while taking into account international advancements in the development of solvency frameworks. The guideline was developed in consultation with life insurers and other industry stakeholders, notably, l'Autorité des marchés financiers (AMF), which is Quebec's financial services regulator, and Assuris, which is a not-for-profit organization that protects Canadian policyholders if their life insurance company fails. Under the LICAT, the amount of capital required to be held in the life industry, as a whole, is not expected to change significantly compared to that required under the MCCSR. However, the new framework may require individual institutions to evaluate their overall plans based on the business lines in which they are engaged, the risks they choose to take on, and how these are managed. Similar to the MCCSR, OSFI will regularly review the effectiveness of the LICAT guideline and update it to keep abreast of developments in the life insurance industry and evolving risk measurement and management practices. *Link: Media Release* *Keyword: LICAT*

Glossary

AIFMD	Alternative Investment Fund Manager Directive
AMF	Autorité des Marchés Financiers—the Québec Financial Regulator
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
BIS	Bank for International Settlements
CCP	Central Counterparty
CDR	Commission Delegated Regulation
CIR	Commission Implementing Regulation
CIU	Collective Investment Undertaking
CPMI	Committee on Payments and Market Infrastructures
CRA	Credit Rating Agency
CRD	Capital Requirements Directive
DAR	Detailed Assessment Report
DGI	Data Gaps Initiative
EU	European Union
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECON	Economic and Monetary Affairs
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pension Authority
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Agencies
ESMA	European Securities and Monetary Authority
FASB	Financial Accounting Standards Board
FATF	Financial Action Task Force
FDIC	Federal Deposit Insurance Corporation
FED	Board of Governors of the Federal Reserve System
FMCBG	Finance Ministers and Central Bank Governors
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
GAAP	Generally Accepted Accounting Principles
G20	Group of 20 Countries
G-SII	Global Systemically Important Insurer
GLEIF	Global Legal Entity Identifier Foundation
HLA	Higher Loss Absorbency
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICP	Insurance Core Principle
ICS	Insurance Capital Standard
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ITS	Implementing Technical Standards
KID	Key Information Document
LEI	Legal Entity Identifier
LICAT	Life Insurance Capital Adequacy Test
MCCSR	Minimum Continuing Capital and Surplus Requirements
MCR	Minimum Capital Requirement
MiFID	Markets in Financial Instruments Directive
OCC	Office of the Comptroller of the Currency
OSFI	Office of the Superintendent of Financial Institutions
OTC	Over-the-Counter
PFMI	Principles for Financial Market Infrastructures
PRA	Prudential Regulation Authority
PRIIPs	Packaged Retail And Insurance-Based Investment Products
Q&A	Questions & Answers
ROSC	Report on the Observance of Standards and Codes
RTS	Regulatory Technical Standards
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SME	Small and Medium Enterprise
TLAC	Total Loss-Absorbing Capacity
WBG	World Banking Group