

# Neofin Advisory

ABOVE AND BEYOND

Regulatory Watch 01 | November 2021

## Regulatory Watch

**Welcome to the first edition of our monthly Regulatory Watch. It covers the key regulatory developments of the month that impact Investment Management and Banking industries, globally, in the EU and the UK.**



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## Executive Summary

The past month has seen a number of significant regulatory developments. International and European priorities remain much the same, as evidenced by recently published work programs of the European Commission, the ESAs, the EBA and ESMA.

**Sustainability stays at the top of the regulatory agenda.** Ahead of COP26 – UN Climate Change Conference taking place this month in Glasgow, policy development on climate risks remained a key focus for regulators and supervisors.

Sustainability is one of the key areas of the *European Commission's Sustainable Finance Strategy*. The Commission adopted new EU rules to strengthen banks' resilience as part of its *Banking Package 2021* that will require banks to systematically identify, disclose and manage ESG risks as part of their risk management. This includes regular climate stress testing by both supervisors and banks.

Earlier this month, the ESAs published *draft Regulatory Technical Standards ('RTS')* regarding disclosures under the *Sustainable Finance Disclosure Regulation ('SFDR')* as amended by the *EU Taxonomy Regulation*. These new RTS will provide disclosures to end investors regarding the investments of financial products in environmentally sustainable economic activities, providing them with comparable information to make informed investment choices and establish a single rulebook for sustainability disclosures.

The UK Government, as COP26 host, multiplied announcements ahead of the summit. HMT Treasury introduced new Sustainability Disclosures Requirements through on *Greening Finance: A Roadmap to Sustainable Investing*, including:

- Becoming the first G20 country to make Task Force on Climate-Related Financial Disclosures ('TCFD') recommended disclosures fully mandatory across the economy by 2025, going beyond the 'comply or explain' approach. The Chancellor set out a roadmap showing how the government would achieve this by 2025, with most of the measures in place by 2023. From 6 April 2022, over 1,300 of the largest UK-registered companies and financial institutions will have to disclose climate-related financial information on a mandatory basis – in line with recommendations from the TCFD. This will include many of the UK's largest traded companies, banks and insurers, as well as private companies with over 500 employees and £500 million in turnover.
- Developing a UK Green Taxonomy and creating the Green Technical Advisory Group to advise on greenwashing and how to implement the taxonomy in a UK context.

HM Treasury also published its strategy for decarbonising all sectors of the UK economy to meet the Net Zero target by 2050 and will publish an update to the *Green Finance Strategy* in 2022, which will include a net zero transition pathway for the UK financial sector.

The Climate Financial Risk Forum ('CFRF'), co-chaired by the PRA and the FCA, published a second round of guides to support UK financial institutions in managing climate-related financial risk. The CFRF Scenario Analysis Working Group is also developing an online climate scenario analysis narrative tool to support smaller firms, planned to launch in the first quarter of 2022.

**Final rules for the new prudential regimes for MiFID investment firms.** In June 2021, the FCA published its first policy statement introducing the Investment Firms Prudential Regime ('IFPR'). The UK Regulators was willing to develop the EU's IFD/IFR with the intention to retain their key principles for the UK regime and keep options open to reflect UK market specificities. This month and as part of IFPR, the FCA published its final rules to streamline and simplify prudential requirements for solo-regulated UK firms authorised under the Markets in Financial Instruments Directive ('MiFID'). Along with the final rules, the FCA also published final *general guidance on the application of ex-post risk adjustment to variable remuneration (FG21/5)* as well as templates for *Remuneration policy statements*. The introduction of IFPR will represent major changes for FCA investment firms in areas such as the approach to risk, capital and minimum liquidity requirements, remuneration policies or reporting and public disclosures; and it is critical that firms adequately prepare for it as it will take effect in January 2022.

**Progress made on Basel III implementation.** Despite the disruptions resulting from Covid-19 and the required shift in regulatory and supervisory priorities, the *BCBS progress report on adoption of the Basel regulatory framework* shows further progress has been made in the implementation of the *Basel III standards*. For reminder, in response to the COVID-19 crisis, the Basel Committee decided in March 2020 to postpone the implementation deadline by one year to 1 January 2023, followed by a five-year phasing-in period of certain elements of the reform.

In the EU, the European Commission new *Banking Package* includes a review of EU banking rules (the *Capital Requirements Regulation* and the *Capital Requirements Directive*). The package implements the internal Basel III agreement and specifically aims to ensure that "internal models" used by banks to calculate their capital requirements do not underestimate risks, thereby ensuring that the capital required to cover those risks is sufficient. The proposal aims to strengthen resilience, without resulting in significant increases in capital requirements. It limits the overall impact on capital requirements to what is necessary, which will maintain the competitiveness of the EU banking sector. The package also further reduces compliance costs, in particular for smaller banks, without loosening prudential standards.

In the UK, the 'UK Basel III regime' implements the *Basel III standards* with deviations in timing and substance. In October, the PRA published a series of policy statements ('PS') regarding the implementation of Basel standards. *PS24/21 'Implementation of Basel standards: Non-performing loan securitisations'*, *PS 22/21 'Implementation of Basel standards: Final rules'* and *PS21/21 'The UK leverage ratio framework'*. The policy material included in these PS will take effect on 1 January 2022 except for some of the policy material related to the UK leverage ratio that will apply from 1 January 2023.

These regulatory developments are covered in more detail in this month's edition, alongside other significant updates and are organised by geography: International, European and the UK, main topic: Prudential Regulation, Sustainable Finance, Market developments...

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## I. International

### Sustainable Finance

#### OECD | Reports on ESG investing

On 4 October 2021, the Organisation for Economic Co-operation and Development (OECD) published two reports:

- [ESG investing and climate transition: Market practices, issues and policy considerations](#) that highlights the main findings from recent OECD research on ESG rating and investing. It offers policy considerations to strengthen ESG practices to foster global interoperability and comparability, as well as encourage greater alignment of environmental metrics with a low-carbon transition. This serves as an input report to the G20 Sustainable Finance Working Group and contributes to a broader body of OECD work on sustainable finance and climate transition.
- [Financial markets and climate transition: Opportunities, challenges and policy implications](#) which focuses on the critical contribution financial markets must play towards achieving an orderly transition to low-carbon economies, and the policies needed to support this. It explores the key elements that could factor into market pricing of climate transition risks and opportunities, offers frameworks and case studies, reviews the growing range of market products and practices and puts forward policy options that can support this transition.

#### TCFD | 2021 Status Report

On 14 October 2021, the FSB welcomed the publication of [TCFD 2021 status report](#) by the industry-led Task Force on Climate-related Financial Disclosures (TCFD), which reports on the further progress in TCFD-aligned disclosures by firms. More specifically, the status report finds that:

- **Disclosure increased more between 2019 and 2020 than in any previous year assessed**, consistent with global momentum around climate-related reporting. However, significant progress is still needed as an average of only one in three companies reviewed disclosed climate-related information aligned with the TCFD recommendations.
- **Companies remain more likely to disclose information on their climate-related risks and opportunities**, than on any other recommended disclosure, with over half of the companies reviewed including such information in their 2020 reports.
- **Disclosure of the resilience of companies' strategies under different climate-related scenarios** (*Strategy c* in the TCFD recommendations), although still the least reported recommended disclosure, encouragingly **increased from 5% of companies in 2018 to 13% in 2020**.
- Although the TCFD recommends disclosure of governance regardless of materiality, **the Governance recommendation remains the least disclosed recommendation** with the two Governance recommended disclosures the second and third least disclosed.
- **Materials and buildings companies now lead on disclosure**. The average level of disclosure across the 11 recommended disclosures for fiscal year 2020 was 38% for materials and buildings companies.

- **The insurance industry significantly increased its average level of disclosure by 11 percentage points between 2019 and 2020**, and now leads all groups by at least 15 percentage points in disclosure of risk management processes.
- **Europe remains the leading region for disclosures**, with average level of reporting across the 11 recommended disclosures from fiscal year 2020 now at half of European companies assessed. European companies have increased their average disclosure by 15 percentage points since 2019, and now disclose 16 percentage points more than the next closest region.

## UNEP-FI | PRB Responsible Banking: Building Foundations

On 14 October 2021, UNEP-FI published its first collective [progress report](#) of the Principles for Responsible Banking signatories. It synthesises individual reporting from over 200 signatories, providing a status update on their progress in implementing the PRB framework, and thereby taking steps to align their business strategies with the UN Sustainable Development Goals and Paris Climate Agreement. It also includes an independent view from the Civil Society Advisory Body, a 12-member body supporting signatory banks to implement the Principles and assess progress.

## Prudential regulation

### BCBS | Report on Basel III implementation progress

On 14 October 2021, the Basel Committee on Banking Supervision (BCBS) issued its [progress report on the adoption of the Basel regulatory framework](#).

The report sets out the jurisdictional adoption status of the Basel III standards as of end-September 2021. It covers the [Basel III post-crisis reforms](#) published by the Committee in December 2017 and the [finalised minimum capital requirements for market risk](#) of January 2019. These reforms are due to take effect from 1 January 2023, as [announced by the Governors and Heads of Supervision in March 2020](#).

The report is complemented by a newly developed dashboard to reflect the full history of Basel III implementation and provide an overview of the progress to date.

## Market developments

### CPMI and IOSCO | Consultation paper on stablecoin arrangements

On 6 October 2021, CPMI and IOSCO published a [consultative report](#) that confirms and clarifies that stablecoin arrangements (SAs) should observe international standards for payment, clearing and settlement systems.

This report is intended for use by systemically important SAs as they design, develop and operate their services and arrangements, including SAs that have the potential to become systemically important after launch; and by regulatory, supervisory and oversight authorities.

## BCBS, CPMI and IOSCO | Review of margining practices

On 26 October 2021, the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published a [consultative report](#) that looks at margin calls in March and April 2020, margin practice transparency, predictability and volatility across various jurisdictions and markets, as well as market participants' liquidity management preparedness.

On the back of a data-driven analysis, the consultative report identifies six potential areas for further policy work:

- Increasing transparency in centrally cleared markets
- Enhancing liquidity preparedness of market participants as well as liquidity disclosures
- Identifying data gaps in regulatory reporting
- Streamlining VM processes in centrally and non-centrally cleared markets
- Evaluating the responsiveness of centrally cleared IM models to market stresses with a focus on impacts and implications for CCP resources and the wider financial system
- Evaluating the responsiveness of non-centrally cleared IM models to market stresses.

This consultation closes on 12 January 2022.

## Conduct | Operational Resilience

### IOSCO | Outsourcing principles update to ensure operational resilience

On 27 October 2021, the Board of the International Organization of Securities Commissions (IOSCO) published [a set of updated outsourcing principles](#) for regulated entities that outsource tasks to service providers. Their application has been expanded and now includes trading venues, intermediaries market participants acting on a proprietary basis and credit rating agencies. While financial market infrastructures (FMIs) are outside the scope of the Principles, FMIs may consider applying the Principles.

The revised principles comprise a set of fundamental precepts and seven principles.

The fundamental precepts cover issues such as the definition of outsourcing, the assessment of materiality and criticality, their application to affiliates, the treatment of sub-contracting and outsourcing on a cross-border basis.

The seven principles set out expectations for regulated entities that outsource tasks and include guidance for implementation. The principles cover the following areas:

- Due diligence in the selection and monitoring of a service provider and its performance
- The contract with a service provider
- Information security, business resilience, continuity and disaster recovery
- Confidentiality Issues
- Concentration of outsourcing arrangements
- Access to data, premises, personnel and associated rights of inspection
- Termination of outsourcing arrangements

## II. European

### Supervision

#### EC, EBA, ESMA | 2022 Work Programmes

On 19 October 2021, the European Commission adopted its [2022 Work Programme](#) that aims at accelerating the green and digital transitions, in line with the UN's Agenda 2030 and the Paris Agreement. It delivers on six headline ambitions:

- The European Green Deal
- A Europe fit for the digital age
- An economy that works for people
- A stronger Europe in the world
- Promoting our European way of life
- A new push for European democracy

The Commission Work Programme structure is set out in the [annexes](#) as follows:

- **Annex I:** 42 new policy initiatives
- **Annex II:** 26 REFIT initiatives to simplify existing legislation
- **Annex III:** 76 priority pending legislative files where the EC want the co-legislators to take action
- **Annex IV:** 6 intended withdrawals of pending proposals

The EC also presented its new “one-in, one-out” approach to EU law-making which aims at minimising the burden linked to the successful achievement of EU policy objectives.

On 5 October 2021, the EBA published its annual [Work Programme for 2022](#), describing the activities and tasks of the Authority as well as its key strategic areas of work for the coming year. For 2022, the EBA has set five vertical priorities:

- Monitoring and updating the prudential framework for supervision and resolution;
- Revisiting and strengthening the EU-wide stress-testing framework;
- Leveraging the European centralised infrastructure for supervisory data (EUCLID);
- Deepening analysis and information-sharing in the areas of digital resilience, fintech and innovation; and
- Fighting AML/CFT and contributing to a new EU infrastructure.

Moreover, the EBA has set two horizontal priorities:

- providing tools to measure and manage ESG risks; and
- monitoring and mitigating the impact of COVID-19.

On 28 September 2021, ESMA published its [2022 Annual Work Programme](#), setting out its priority work areas for the next 12 months.

ESMA will focus on its objectives of enhancing investor protection and promoting stable and orderly financial markets through the following workstreams:

1. **Cross-Cutting Themes** – ESMA will focus on contributing to the EU’s priorities including:
  1. **Capital Markets Union**
  2. **Sustainable finance**
  3. **Innovation and digitalisation**
2. **Supervisory Convergence** – priorities include contributing to a risk-based, consistent and coordinated approach to supervision in the EU, focused on assessing the results of Union Strategic Supervisory Priorities and reviewing its supervisory convergence toolkit
3. **Risk Assessment** – strengthen its risk identification work and co-operation with NCAs and EU and international public authorities, support stress-testing for risk identification and supervisory responses to financial stability risks.
4. **Single Rulebook** – priority areas include contributing to the reviews of the Prospectus and Transparency Directives, MiFID II/MiFIR, PRIIPS, the Short Selling Regulation, and CSDR, as well as maintaining a high degree of transparency when developing regulatory provisions.
5. **Direct Supervision** – ESMA will continue to prioritise the areas where it has been entrusted with supervisory responsibilities notably for Credit Rating Agencies and Securitisation and Trade Repositories. In 2022, it will additionally focus on the new entities coming under its direct supervision – critical benchmarks, Data Reporting Service Providers and Tier 2 CCPs.

## EC | Banking Package 2021: new EU rules to strengthen banks' resilience and better prepare for the future

On 27 October 2021, the European Commission adopted a [review](#) of EU banking rules (the Capital Requirements Regulation and the Capital Requirements Directive). These new rules will ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality. The review consists of the following legislative elements:

- a legislative proposal to amend the Capital Requirements Directive (Directive 2013/36/EU);
- a legislative proposal to amend the Capital Requirements Regulation (Regulation 2013/575/EU);
- a separate legislative proposal to amend the Capital Requirements Regulation in the area of resolution (the so-called “daisy chain” proposal).

The package finalises the implementation of the Basel III agreement in the EU and is comprised of the following parts:

- Implementing Basel III – strengthening resilience to economic shocks
- Sustainability – contributing to the green transition
- Stronger supervision – ensuring sound management of EU banks and better protecting financial stability

The legislative package will then be discussed by the European Parliament and Council.

## Sustainable Finance

### ESAs | New rules for taxonomy-related product disclosures

On 22 October 2021, the European Supervisory Authorities (ESAs) published their [final report](#) with draft Regulatory Technical Standards (RTS) regarding disclosures under the Sustainable Finance Disclosure Regulation (SFDR) as amended by the Regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation). The draft RTS aim to:

- provide disclosures to end investors regarding the investments of financial products in environmentally sustainable economic activities, providing them with comparable information to make informed investment choices; and
- establish a single rulebook for sustainability disclosures under the SFDR and the Taxonomy Regulation.

The draft RTS have been developed in the following areas:

- **According to Article 8(4) SFDR:** Development of additional pre-contractual disclosures relating to the content and presentation of Article 8 SFDR products subject to Article 6 TR, concerning climate objectives and other environmental objectives under Article 9 TR respectively.
- **According to Article 9(6) SFDR:** Development of additional pre-contractual disclosures relating to the content and presentation of Article 9 SFDR products subject to Article 5 TR, relating to disclosures concerning climate objectives and other environmental objectives under Article 9 TR.
- **According to Article 11(5) SFDR:** Development of additional rules on the content and presentation of information required under Article 5 and 6 TR for periodic disclosures relating to climate objectives and other environmental objectives under Article 9 TR respectively.

The ESAs have noted that the European Commission has indicated in a recent letter to the European Parliament and Council that all the SFDR RTS will be adopted in one instrument with an expected application date of 1 July 2022. In light of this, the ESAs acknowledge that the date of application of the draft RTS, originally indicated as 1 January 2022, is likely to be moved forward.

### ECB | “Dear CEO letter” on participation in the 2022 ECB Climate Risk Stress Test

On 18 October 2021, the ECB sent a [letter](#) to banks including methodological note for carrying out the stress test that comprises three distinct modules:

1. **Module 1** – An overarching questionnaire to assess how banks are building their climate stress test capabilities for use as a risk management tool.
2. **Module 2** – A peer benchmark analysis to compare banks across a common set of climate risk metrics. These metrics include how much banks rely on income from carbon-intensive industries and what volume of greenhouse gas emissions banks finance. Module 2 will provide an indicative proxy for the sustainability of banks’ business models and how exposed banks are to emission-intensive companies.

3. **Module 3** – A bottom-up stress test targeting transition and physical risks. The stress test assesses how extreme weather events would affect banks over the next year, how vulnerable banks are to a sharp increase in the price of carbon emissions over the next three years and how banks would respond to transition scenarios over the next 30 years.

The ECB will conduct the CST 2022 in tandem with other ECB supervisory initiatives on climate-related and environmental risk in 2022. Specifically, the ECB will carry out a Thematic Review of banks' climate-related and environmental risk management practices and will fully include the results in the SREP.

## ECB | Macroprudential bulletin n°15 focused on sustainability

On 19 October 2021, the ECB issued a series of articles exploring the tools and policy reforms needed to manage climate risks and finance the transition towards a greener economy:

- [The challenge of capturing climate risks in the banking regulatory framework: is there a need for a macroprudential response?](#)
- [Travelling down the green brick road: a status quo assessment of the EU taxonomy](#)
- [Towards a macroprudential stress test and growth-at-risk perspective for climate-related risk](#)
- [A theoretical case for incorporating climate risk into the prudential framework](#)
- [Towards a green capital markets union: developing sustainable, integrated and resilient European capital markets](#)

ECB Macroprudential Bulletin provides insight into the work currently undergoing in the field of macroprudential policy.

## Market developments

### ESAs | Call for evidence on the European Commission mandate regarding the PRIIPs Regulation

On 21 October 2021, the ESAs have opened a [call for evidence](#) regarding PRIIPs Regulation.

The ESAs are requesting information from stakeholders on a range of topics including the practical application of the existing KID such as its use by financial advisors or the use of digital media, the scope of the PRIIPs Regulation and the degree of complexity and readability of the KID.

The call for evidence is open until Thursday, December 16, 2021. The ESAs also plan to hold a stakeholder event in Q1 2022 before finalising the advice.

### EBA | Final draft RTS on disclosure of investment policy by investment firms

On 19 October 2021, the European Banking Authority (EBA) published [new regulatory technical standards \(RTS\)](#) on disclosure of investment policy by investment firms.

The final draft RTS put forward comparable disclosures that should help stakeholders understand investment firms' influence over the companies in which they hold voting rights and the impact of investment firms' policies on aspects such as the governance or management of those companies.

These disclosure requirements apply to class 2 investment firms with total assets above EUR 100 million. These firms will have to disclose this information in relation to those companies whose shares are admitted to trading on a regulated market and in which the proportion of voting rights exceeds 5 % of all voting rights issued by the company.

The first disclosure date will be 31 December 2021.

## **EBA | Final draft RTS on the alternative standardised approach for market risk as part of its FRTB roadmap**

On 22 October 2021, the EBA publishes its final draft RTS on [gross jump-to-default \(JTD\) amounts](#) and [on residual risk add-on \(RRAO\)](#). These draft RTS are part of the phase 3 deliverables of the EBA roadmap for the new market and counterparty credit risk approaches and provide technical specifications for the implementation of these two elements of the alternative standardised approach for market risk.

Institutions using the alternative standardised approach for market risk are required to compute, on top of the own fund's requirements under the sensitivities-based method, own funds requirements for default risk and for residual risks.

- **The final draft RTS on gross JTD amounts** specify key inputs needed for computing own funds requirements for default risk.
- **The draft RTS on RRAO** clarify the scope of the RRAO, i.e., for which instruments the own funds requirements for residual risks should be determined.

## **EBA | Consultation on strong customer authentication**

On 28 October 2021, the EBA launched a [public consultation](#) on the amendment of its Regulatory Technical Standards (RTS) on strong customer authentication and secure communication (SCA&CSC) under the Payment Services Directive (PSD2) with regard to 90-day exemption from SCA for account access.

The proposed amendment aims at addressing a number of issues that the EBA has identified in the application of the exemption by some account servicing payment service providers (ASPSPs) across the EU Member States and which have resulted in a negative impact on the services offered by account information service providers (AISPs) under the PSD2.

The consultation runs until 25 November 2021.

## **ESMA | Consultation on shaping advice on retail investor protection**

The European Securities and Markets Authority (ESMA) published a [call for evidence](#) on a number of retail investor protection topics under MiFID II. These views will feed into ESMA's technical advice to the European Commission (EC) on the development of its strategy for retail investment.

ESMA is requesting information from stakeholders on three topics:

1. **Disclosures:** identification of any significant overlaps, gaps, redundancies and inconsistencies across investor protection legislation that might have a detrimental effect on investors;

2. **Digital disclosures:** an assessment of how regulatory disclosures and communications can work best for consumers in the digital age, and proposes options as to how existing rules might be adapted, such as allowing layered information; and
3. **Digital tools and channels:** an assessment of both risks and opportunities with respect to retail investing stemming from both the increasing availability of digital tools and the increasing levels of direct investor participation via online trading platforms and robo-advisors.

The call for evidence is open until 2 January 2022. ESMA will consider the information received when drafting its advice to the EC which will be delivered by 30 April 2022.

## III. United Kingdom

### Sustainable Finance

#### HMT | Greening Finance: A Roadmap to Sustainable Investing

On 18 October 2021, HM Treasury published [a roadmap](#) that sets out the government's long-term ambition to green the financial system and align it with the UK's world-leading net-zero commitment. This will happen in three phases:

- **Informing** – ensuring decision-useful information on sustainability is available to financial market decision-makers;
- **Acting** – mainstreaming this information into business and financial decisions; and
- **Shifting** – financial flows across the economy shifting to align with a net-zero and nature-positive economy.

This document focuses on the first phase, which will be delivered through new economy-wide Sustainability Disclosure Requirements. It sets out implementation pathways for different sectors of the economy and provides more detail on the requirements, including that they will be:

- **Integrated** – investment products, financial services firms, and real economy corporates will be required to report consistent information on sustainability.
- **Streamlined** – the regime will streamline existing disclosure requirements – such as the UK's commitment to make reporting aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) mandatory.
- **Consumer-focused** – investment products will need to set out consumer-focused disclosures showing the impact, risks and opportunities of the activities they finance on sustainability.
- **Credible** – asset managers, asset owners and investment products will be required to substantiate sustainability claims they make.
- **Robust** – disclosure requirements will include reporting under the UK Green Taxonomy, which will provide a robust list of economic activities that count as environmentally sustainable.
- **In line with international standards** – the UK is a strong advocate for international standards for sustainability reporting and is preparing the ground to adopt international standards in this area.

The document also highlights how the UK is leading international efforts to bring about global and systemic change in the financial system, including through the UK's G7 presidency and by rallying the international community ahead of COP26.

The government will update the Green Finance Strategy in 2022. This will go beyond the timescales in this Roadmap and set out an indicative sectoral transition pathway out to 2050 to align the financial system with the UK's net zero commitment.

## HMT | Net Zero Strategy: Build Back Greener

On 19 October 2021, HM Treasury published [its strategy](#) which sets out policies and proposals for decarbonising all sectors of the UK economy to meet the Net Zero target by 2050.

## CFRF | Second set of guides to climate-related financial risk management

On 21 October 2021, the Climate Financial Risk Forum (CFRF) published a [second round of guides](#) to help financial firms manage climate-related financial risk. The Session 2 guides are focused on risk management, scenario analysis, disclosure, innovation, and climate data and metrics and build on the guide that was published on 29 June 2020.

A total of 10 different outputs have been published by the various working groups and are provided below:

- [Risk Management – Risk appetite statements](#)
- [Risk Management - Use cases](#)
- [Risk Management – Climate risk training](#)
- [Scenario Analysis – Implementation guide](#)
- [Scenario Analysis – Data and tools providers spreadsheet](#)
- [Disclosure – Case studies](#)
- [Disclosure – Managing legal risk](#)
- [Innovation – Commentary report](#)
- [Innovation – Case study videos](#)
- [Climate Data and Metrics - Guide](#)

The CFRF Scenario Analysis Working Group is also developing an online climate scenario analysis narrative tool to support smaller firms, planned to launch in the first quarter of 2022.

The PRA and FCA have convened and facilitated CFRF discussions but do not accept liability for the views expressed in the Session 2 guides, which do not necessarily represent the view of the regulators and do not constitute regulatory guidance. The guides are based on current good practice, which will continue to evolve.

## PRA | Climate Change Adaptation Report 2021

On 28 October 2021, the PRA published a [report](#) which sets out its response to the risks posed by climate change to its operations and policy functions.

- **Part A of the report examines:** the risks posed by climate change to PRA regulated firms; the progress they have made in their management of these risks; what the PRA's response to these risks has been; and the PRA's supervisory strategy from 2022.
- **Part B of the report examines:** the relationship between climate change and the banking and insurance regulatory capital regimes; whether there are gaps that should be addressed; and the PRA's planned future work in this space.

## Prudential Regulation

### **PRA | PS21/21 - The UK leverage ratio framework**

On 8 October 2021, the PRA published a [policy statement](#) that contains feedback from the Financial Policy Committee and the PRA on responses to CP14/21 ‘Consultations by the FPC and PRA on changes to the UK leverage ratio framework’. It also contains the FPC’s and PRA’s final policy, as follows:

- amendments to the PRA Rulebook (Appendix 1);
- an updated Supervisory Statement (SS) 45/15 ‘The UK leverage ratio framework’ (Appendix 2);
- the FPC direction and recommendation (Appendix 3);
- an updated FPC Policy Statement ‘The FPC’s powers over leverage ratio tools’ (Appendix 4);
- an updated SS34/15 ‘Guidelines for completing regulatory reports’ (Appendix 5); and
- updated reporting and disclosure templates and instructions (Appendix 6).

This PS is relevant to all Capital Requirements Regulation (CRR) firms and CRR consolidation entities on an individual, consolidated, and where relevant, sub-consolidated basis.

The policy material included in this PS will take effect on Saturday 1 January 2022.

### **PRA | PS22/21 - Implementation of Basel standards: Final rules**

On 14 October 2021, the PRA published a [policy statement](#) with final Rulebook instruments, Statements of Policy (SoPs), Supervisory Statements (SSs), and reporting templates and instructions, which were published as near-final in PS17/21 ‘Implementation of Basel standards’.

This PS is relevant to UK banks, building societies, and PRA-designated investment firms (collectively ‘firms’), as well as UK financial holding companies and UK mixed financial holding companies of certain PRA-authorized firms.

### **PRA | PS23/21 - Credit risk: The identification of the nature, severity, and duration of an economic downturn for the purposes of Internal Ratings Based (IRB) models**

On 20 October 2021, the PRA published a [policy statement](#) that provides feedback to responses to Consultation Paper (CP) 7/21 ‘Credit risk: The identification of the nature, severity, and duration of an economic downturn for the purposes of Internal Ratings Based (IRB) models’ (page 2 of 2). It also contains the PRA’s final policy, as follows:

- a new UK Technical Standards Instrument (Appendix 1);
- an updated Supervisory Statement (SS) 11/13 ‘Internal Ratings Based (IRB) approaches’ (Appendix 2); and
- versions of the relevant European Banking Authority (EBA) Guidelines as they stood at the end of the transition period (Appendices 3–5).

This PS is relevant to UK banks, building societies, and PRA-designated UK investment firms.

## **PRA | PS24/21 - Implementation of Basel standards: Non-performing loan securitisations**

On 21 October 2021, the PRA published a [policy statement](#) that provides feedback to responses to Consultation Paper (CP) 10/21 ‘Implementation of Basel standards: Non-performing loan securitisations’. It also contains the PRA’s final policy, as follows:

- a new Non-Performing Exposures Securitisation Part of the PRA Rulebook (Appendix 1); and
- an updated Supervisory Statement (SS) 10/18 ‘Securitisation: General requirements and capital framework’ (Appendix 2).

This PS is relevant to UK banks, building societies, and PRA-designated investment firms (collectively, ‘firms’), as well as UK financial holding companies (FHCs) and UK mixed financial holding companies (MFHCs) of certain PRA-authorized firms.

## **PRA | CP20/21 - Trading activity wind-down**

On 8 October 2021, the PRA launched a [consultation](#) on its proposed expectations in respect of firms’ engagement in trading activities that may affect the financial stability of the UK. It also proposes that firms engaged in trading activities be able to carry out a full or partial orderly wind-down of their trading activities in recovery and post-resolution restructuring.

The proposals in this CP would result in a new Supervisory Statement (SS) on trading activity wind-down (TWD) (Appendix 1), a Statement of Policy (SoP) (Appendix 2), and amendments to SS9/17 ‘Recovery Planning’ (Appendix 3). The amendments to SS9/17 are in respect of the orderly wind-down of trading activities.

The proposed expectations in this CP are relevant, although may not apply directly, to all PRA-authorized UK banks, their qualifying parent undertakings and PRA-designated investment firms that are engaged in trading activities, and relevant third country branches (more detail on the proposed application of the expectations can be found in Chapter 2). This CP is also relevant to policymakers and practitioners that would expect to be involved in a firm’s resolution. It is not relevant to credit unions.

This consultation closes on Friday 21 January 2022.

The PRA proposes that the implementation date for the changes resulting from this CP would be Wednesday 1 January 2025. Subject to consultation responses, the PRA intends to publish its final policy in H1 2022.

## **Conduct**

### **FCA | Investment Firms Prudential Regime final rules**

On 22 October 2021, the FCA published its final rules to streamline and simplify prudential requirements for solo-regulated UK firms authorized under the Markets in Financial Instruments Directive (MiFID). This is part of the Investment Firms Prudential Regime (IFPR), a major change for FCA investment firms. If you’re an FCA investment firm, it’s critical that you prepare for the regime which comes into force on 1 January 2022.

The IFPR will refocus requirements and expectations away from the risks that firms face, to also consider and look to manage the potential harm firms can pose to consumers and markets.

The FCA has converted the near-final rules from the first two policy statements of the Investment Firms Prudential Regime (IFPR) into final rules.

The final rules are in the legal instruments – [FCA 2021/38](#) and [FCA 2021/39](#). You can read a [summary](#) of minor updates made since the FCA published the near-final versions of the instruments in [PS21/9](#). A third Policy Statement will be published by the end of 2021.

The FCA also published an updated version of our [General guidance on the application of ex-post risk adjustment to variable remuneration](#), which brings FCA investment firms into scope of the guidance.

Also, now available are:

- a Remuneration Policy Statement template, which FCA investment firms can use to document their remuneration policies and practices
- a template, which FCA investment firms can use to record their material risk takers

The IFPR will apply to the following:

- MiFID investment firms authorised and regulated by us
- Collective Portfolio Management Investment Firms (CPMIs)
- regulated and unregulated holding companies of groups that contain either of the above

The IFPR will not apply to PRA designated investment firms. They will remain subject to prudential supervision by the PRA.

## **FCA | FG21/5: General guidance on the application of ex-post risk adjustment to variable remuneration**

On 22 October 2021, the FCA published [general guidance](#) setting out the FCA's expectations of the way in which firms comply with the requirements on ex-post risk adjustment (also referred to as performance adjustment). Where firms consider an alternative approach to be justified in meeting the requirements on ex-post risk adjustment in the Dual-regulated firms Remuneration Code or the MIFIDPRU Remuneration Code, this should be consistent with the general requirement to promote sound and effective risk management set out in SYSC 19D.2.1R and SYSC 19G.2.8R.

This guidance applies to FCA investment firms in scope of the MIFIDPRU Remuneration Code in SYSC 19G. It has effect from 1 January 2022.

## **FCA | PS21/13: LIBOR transition and the derivatives trading obligation**

On 15 October 2021, the FCA published a [policy statement](#) which modifies the list of derivatives subject to the derivatives trading obligation (DTO) in line with Articles 28 and 32 of UK MiFIR.

This affects:

- financial counterparties
- non-financial counterparties that are, or may become, subject to the DTO

It will be of interest to:

- trading venues
- central counterparties (CCPs)

These changes will come into force on 20 December 2021.

## **FCA | PS21/14: A new authorised fund regime for investing in long term assets**

On 25 October 2021, the FCA published a [policy statement](#) including final rules for an innovative new category of open-ended authorised funds, the Long Term Asset Fund (LTAF), designed to invest efficiently in long-term, illiquid assets.

This policy statement will primarily be of interest to:

- asset managers with experience of managing illiquid, long-term assets
- depositaries
- potential investors in long-term asset funds, like pension providers and trustees of DC or hybrid pension schemes, and sophisticated or wealthy investors
- investment advisers and private wealth managers
- insurers who write unit-linked insurance business
- fund distributors

The new Handbook rules and guidance will come into force on 15 November 2021. The FCA plans to consult on any proposals for rule changes in the first half of 2022.