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In This Issue

Safety & Soundness

Insurance

Capital Markets & Investment Management

Safety & Soundness

FSB Issues Total Loss-Absorbing Capacity Standard for G-SIBs

On November 9, 2015, the Financial Stability Board (FSB) issued final guidance for a Total Loss-Absorbing Capacity (TLAC) standard that is applicable to global systemically important banks (G-SIBs). The TLAC standard is designed to ensure that if a G-SIB fails it has sufficient loss-absorbing and recapitalization capacity available in resolution to implement an orderly resolution that minimizes impacts on financial stability, ensures the continuity of critical functions, and avoids exposing public funds to loss. The final standard reflects changes made following the public consultation period and the results of comprehensive impact assessment studies. G-SIBs will be required to meet the TLAC requirement alongside the minimum regulatory requirements set out in the Basel III framework beginning January 1, 2019. A provision for G-SIBS headquartered in emerging market economies requires them to meet the requirements beginning January 1, 2015. The FSB states that it will monitor implementation of the TLAC standard and will undertake a review of the technical implementation by the end of 2019. [Press Statement]

Concurrently with the FSB's release, the Basel Committee on Banking Supervision (Basel Committee) released two related documents:

- The Basel Committee's TLAC Quantitative Impact Study (QIS) Report, which analyses the TLAC levels and shortfalls at G-SIBs based on the FSB's consultative version of the TLAC term sheet, published in November 2014. The report also examines the extent to which G-SIBs and non-G-SIBs are currently invested in TLAC instruments.
- A consultative document that would set out proposed prudential treatment of banks' investments in TLAC, including a requirement to deduct their holdings of TLAC instruments, subject to thresholds, from their regulatory capital as well as a requirement that would restrict any Common Equity Tier 1 that is being used to meet the TLAC requirement from being used to meet the regulatory capital buffers. The proposal, TLAC Holdings consultative document, would be applicable to all banks subject to the Basel Committee's standards, including both G-SIBs and non-G-SIBs. Comments are requested by February 12, 2016.

FSB Publishes Report on Implementation and Effects of G20 Financial Regulatory Reforms

On November 9, 2015, the Financial Stability Board published its first annual report to the G20 on the implementation and effects of the G20 financial regulatory reforms. The report describes progress by FSB member jurisdictions in implementing the financial reforms agreed in the wake of the global financial crisis; presents early analysis on the effects of those reforms; and highlights areas for closer monitoring. The report notes that implementation progress across the breadth of reforms has been steady but uneven, with implementation of the Basel III reforms to bank capital and liquidity ahead of schedule, over-the-counter (OTC) derivatives reform well underway but behind schedule, shadow banking reforms at an early stage, and substantial work remaining to implement effective resolution regimes. The report concludes that the most tangible effect of the reforms has been to make the global banking sector more resilient, adding that this improved resilience has been achieved while maintaining the overall provision of credit to the real economy. Three areas identified as needing "close ongoing attention" included:

- Spill-over effects on emerging markets and developing economies created by implementation of reforms;
- The maintenance of an open and integrated financial system in the aftermath of the financial crisis; and
- The causes and financial stability consequences of declining liquidity in the fixed income markets.
  [Press Statement] [Report]

FSB Publishes Progress Report on Implementation of Sound Compensation Principles

The Financial Stability Board (FSB) published its fourth annual progress report on "*Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards*" on November 10, 2015. The Principles and Standards aim to reduce incentives for excessive risk-taking that may arise from the compensation structure in financial institutions. Key findings highlighted in the progress report include:

- Almost all FSB jurisdictions have fully implemented the Principles and Standards for banks and the oversight of compensation practices is now embedded in banks' supervisory frameworks.
- Compensation and risk governance frameworks are being increasingly linked.
- The effectiveness of compensation provisions to prevent misconduct by employees has been largely untested.
- Compared to the banking sector, fewer jurisdictions in the insurance sector have implemented the Principles and Standards. [Press Statement] [Fourth Progress Report]

FDIC Proposes Updates to FAQs for Brokered Deposits

On November 13, 2015, the Federal Deposit Insurance Corporation (FDIC) released Financial Institution Letter 51-2015 to announce that it is seeking comment on proposed updates to a series of Frequently Asked Questions (FAQs) that address identifying, accepting, and reporting brokered deposits. The FAQs were previously released in January 2015 and comments are requested no later than December 28, 2015. [FIL-51-2015]

Insurance

IAIS Concludes Annual General Meeting

The International Association of Insurance Supervisors (IAIS) concluded its Annual General Meeting on November 12, 2015, during which the following supervisory and supporting material was adopted.

- *Higher Loss Absorbency (HLA) Requirement*: The initial version of the HLA was concluded in October when it was approved by the IAIS Executive Committee and the Financial Stability Board. Now that the HLA has been adopted by the full IAIS membership it is expected to be endorsed by the G20 later this month.
- *Revisions to the ICPs:* Revisions were adopted to ICP 4 (Licensing), ICP 5 (Suitability of Persons), ICP 7 (Corporate Governance), ICP 8 (Risk Management and Internal Controls), ICP 23 (Group-wide Supervision), and ICP 25 (Supervisory Cooperation and Coordination) in order to take into account recent developments in group supervision, corporate governance, and risk management as well as principles, standards, and guidance issued by other standards setting bodies.
- *Application Paper on the Regulation and Supervision of Captive Insurers:* This paper provides guidance to insurance supervisors on the application of aspects of regulation and supervision specifically relevant to captive insurers or reinsurers.
- *Paper on Conduct of Business Risk and its Management:* This paper aims to raise awareness of conduct of business risk and its impact, conduct risk management and the supervisor's role. It also discusses the inter-linkages with, and complementary approaches to, prudential risk management and supervision.
- *Paper on Conduct of Business in Inclusive Insurance*: This paper describes the features of the inclusive insurance market, discusses the various elements of the inclusive insurance life cycle and presents issues that have been identified from a conduct of business perspective that are relevant to the fair treatment of the inclusive insurance customer.
- *Issues in Regulation and Supervision of Microtakāful (Islamic Insurance):* This paper, which was jointly developed with the Islamic Financial Services Board, provides regulatory and supervisory authorities and industry representatives with

insights on the types of issues that arise from Microtakāful practices. It describes the various types of Microtakāful models and supervisory frameworks as well as prevalent issues faced by Microtakāful providers and regulatory and supervisory authorities. [Press Statement]

Capital Markets and Investment Management

SEC OCIE Issues Risk Alert on Outsourcing Chief Compliance Officer

On November 9, 2015, the Securities and Exchange Commission's (SEC) Office of Compliance Inspections and Examinations (OCIE) released a Risk Alert highlighting observations from examinations of advisers and funds that have outsourced their chief compliance officer (CCO) position. The OCIE notes there has been a growing trend in the investment management industry to outsource compliance activities, including the role of the CCO, to third-parties including consultants and law firms. The Risk Alert findings are based on nearly 20 examinations of SEC-registered investment advisers and investment companies that outsourced their CCO positions to unaffiliated third parties. [Risk Alert]

Basel Committee Proposes Capital Treatment for STR Securitizations

The Basel Committee on Banking Supervision (Basel Committee) released a consultative document on November 10, 2015, governing *Capital treatment for "simple, transparent and comparable" securitizations.* The proposal explains the rationale for incorporating the "simple, transparent, and comparable" (STC) criteria into the Basel Committee's revised securitization framework published in December 2014 and proposed options for doing so. Comments are requested through February 5, 2016. [Press Statement] [Consultative Document]

In July 2015, the Basel Committee and the International Organization of Securities Commissions jointly released final guidance on criteria for identifying STC securitizations. The Basel Committee states the criteria are designed to mitigate securitization risks, including uncertainty related to asset risk, structural risk, governance, and operational risk. Transactions that comply with these criteria are expected to have lower structural and model risk. Through the consultative document, the Basel Committee proposes to supplement the July 2015 STC criteria with additional criteria for the specific purpose of differentiating the capital treatment of STC from that of other securitization transactions. In particular, the proposal would reduce minimum capital requirements for such STC securitizations by reducing the risk weight floor for senior exposures, and by rescaling risk-weights for other exposures.

IOSCO Publishes Final Report on Standards for Custody of CIS Assets

The International Organization of Securities Commissions (IOSCO) published a final report on the Standards for the Custody of Collective Investment Schemes' Assets (CIS Assets) on November 10, 2015. The report seeks to clarify, modernize, and further develop international guidance for the custody of CIS assets consistent with IOSCO's core Objectives and Principles of Securities Regulation, published in June 2010. It established eight standards that it expects would be reviewed under the regulatory framework to ensure that investors' assets are effectively protected. The report also identifies some of the key risks associated with the custody of CIS assets, such as operational risk, misuse of CIS assets, risk of fraud or theft, and information technology risk. [Press Statement] [Standards for CIS Assets]

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