The Washington Report

Americas FS Regulatory Center of Excellence

The two weeks ended July 7, 2017

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Contents

1. Safety and soundness

1.1 Agencies post public sections of resolution plans

On July 5, 2017, the Federal Reserve Board (Federal Reserve) and the Federal Deposit Insurance Corporation (FDIC) posted the public portions of the annual resolution plans submitted by the eight financial firms that were required to file their plans on July 1, 2017. As required by the Dodd-Frank Act, resolution plans, also known as living wills, describe the firm's strategy for resolution under bankruptcy during financial distress or failure of the firm. The public section of the plan provides information about the firm's material entities, core business lines, and plan execution.

The requirement for resolution plans is applicable to bank holding companies with total consolidated assets of $50 billion or more and nonbank financial companies designated by the Financial Stability Oversight Council (FSOC) for supervision by the Federal Reserve. The Federal Reserve separately announced that two nonbank financial firms designated by the FSOC for oversight by the Federal Reserve would receive a one-year extension on the submission of their next resolution plan, which will now be due December 31, 2018.

[Press Statement]

1.2 Federal Reserve releases results of Comprehensive Capital Analysis and Review (CCAR)

On June 28, 2017, the Federal Reserve Board (Federal Reserve) released results of its annual Comprehensive Capital Analysis and Review (CCAR) exercise that assesses the capital adequacy and capital planning practices of large U.S. financial institutions. The Federal Reserve did not object to any of the capital plans of the 34 bank holding companies participating in the CCAR, but it did require one firm to address identified weaknesses in its capital planning process and resubmit its capital plan by the end of 2017.

[Press Statement] [Review Report]

1.3 BCBS reports on implementation of Basel standards

On July 4, 2017, the Basel Committee on Banking Supervision (BCBS or Basel Committee) published a report to G20 Leaders on the progress and challenges with respect to the implementation of the Basel III regulatory reforms since August 2016. The report summarizes the outcome of the Basel Committee's Regulatory Consistency Assessment Program (RCAP), which monitors the progress made by members in adopting the Basel III standards; assesses the consistency of banking regulations with Basel III standards; and analyzes the prudential outcomes of those regulations.

The key findings indicate:

- Continuing progress with respect to implementation of the Basel III standards in a full, timely and consistent manner;
- Banks continue to build larger and better-quality capital and liquidity buffers while reducing leverage.
- Basel III standards for capital, liquidity and global systemically important banks (G-SIBs) have been transposed into domestic regulations within the time frame set by the Basel Committee.
- Key aspects, such as definition of capital, the capital conservation buffer, and the Liquidity Coverage Ratio (LCR), are now enforced by all member jurisdictions.
- Continuing efforts to adopt other Basel III standards, including those relating to margin requirements for non-centrally cleared derivatives, the Net Stable Funding Ratio (NSFR), the leverage ratio and revised Pillar 3 disclosure requirements.
- Most banks studied are likely to comply with the LCR and NSFR ahead of the 2019 deadline.

Adoption of some standards are proving to be a challenge in a number of jurisdictions. The report highlights that:

- Domestic rules on the standardized approach for measuring counterparty credit risk (SA-CCR), capital requirements for exposures to central counterparties (CCPs), and capital requirements for equity investments in funds are yet to be finalized in many jurisdictions.
- Several Basel standards around capital requirements for market risk and limits on large exposures and securitization are yet to be transposed into domestic regulations. The delay puts pressure on jurisdictions that have implemented the standards according to the agreed time lines.

The BCBS also published a report entitled *Assessment of Basel III LCR regulations – United States of America*, which assesses the implementation of the LCR in the United States. The LCR regulations, issued in December 2016 and effective from April 2017, are applicable to all internationally active U.S. banking organizations. The report found that U.S. LCR regulations are assessed as "compliant" with the Basel framework, the highest of the four possible grades. All four components of the LCR were also assessed as compliant. These are the definition of high-quality liquid assets (HQLA), liquidity outflows, liquidity inflows, and disclosure requirements.

[Press Statement] [Report] [Press Statement] [LCR – US]

1.4 OCC report highlights risks facing national banks and federal savings associations

On July 7, 2017, the Office of the Comptroller of the Currency (OCC) published its *Semiannual Risk Perspective* report, which highlights key risk issues facing the federal banking system as identified by the OCC's National Risk Committee. Strategic, credit, operational, and compliance risks remain top concerns for the banking system:

- Strategic: Expanding products and services, new delivery channels, mergers and acquisitions, and competition from alternative finance such as FinTech have kept strategic risks high on the list;
- Credit: Credit risk has increased as banks have loosened underwriting standards and practices across commercial and retail portfolios in an effort to achieve loan growth and maintain or grow market share;
- Operational: Increasing cyber threats, reliance on concentrations in significant third-party service providers, and the need for sound governance over product service and deliver have contributed to heightened operational risk;
- Compliance: Banks are struggling to manage money-laundering risks and implement changes to comply with the amended customer protection requirements under the Military Lending Act and integrated mortgage disclosure rules.

[Press Statement] [Report]

1.5 Federal Reserve Vice Chair addresses financial stability in the United States

On June 27, 2017, Federal Reserve Vice Chairman Stanley Fischer addressed the International Monetary Fund Workshop on Financial Surveillance and Communication, focusing his remarks on an assessment of U.S. financial stability. The speech addressed the following points:

- Federal Reserve's financial stability monitoring framework: Vice Chairman Fischer discussed the approaches of focusing on financial vulnerabilities and resilience of institutions, and he discussed how the combination of these approaches help build a strong framework. He noted that a key feature of the Federal Reserve's monitoring framework is that it is forward-looking.
- Assessment of current U.S. financial stability conditions: When assessing U.S. financial stability, the main focus was on the four cyclical vulnerabilities: leverage, borrowing by households and non-financial firms, liquidity and maturity transformation, and asset valuations. The Federal Reserve concluded vulnerability to be moderate when compared with past periods.

Vice Chairman Fischer also noted that while soundness and resilience of the financial system has improved since the 2007-09 crisis, the country still lacks sufficient information to understand some parts of the shadow banking system.

[Speech]

1.6 BIS publishes working paper on financial deglobalization

On June 29, 2017, the Bank for International Settlements published a working paper entitled *Financial Deglobalization in Banking?*, which studies the retreat in international lending and argues that the decline in cross-border banking since 2007 does not amount to contraction in global lending. The paper analyzes the differences in locational and consolidated measures of deglobalization and finds that the global shrinkage of international banking is confined to European banks, which responded to credit losses after 2007 by reducing international lending to restore capital ratios. The authors state that, in contrast, the global footprints of banks in other advanced economies have expanded since 2007.

[Press Statement] [Working Paper]

1.7 BCBS proposes simplified alternative to the standardized approach to market risk capital requirements

The Basel Committee on Banking Supervision (BCBS) published a proposed simplified version of the standardized approach to measuring market risk capital requirements on June 29, 2017. The proposed approached, known as the reduced sensitivities-based method (R-SbM), is designed to facilitate adoption of the standard by smaller banks and banks with a low concentration of trading book activity. The simplifications proposed in the R-SbM include the removal of capital requirements for vega and curvature risks; simplification of the basis risk calculation; and reduction in risk-factor granularity and the correlation scenarios in the associated calculations. The proposed R-SbM would be subject to supervisory approval and oversight, and would be applicable only to banks that meet certain qualitative and quantitative criteria. The BCBS requests comment on the proposal by September 27, 2017.

[Press Statement] [Consultative Document]

1.8 FSB publishes progress report on decline in correspondent banking

On July 4, 2017, the Financial Stability Board (FSB) submitted a report to the G20 Leaders entitled *FSB action plan to assess and address the decline in correspondent banking*, which focuses on the progress made in assessing and addressing the decline in correspondent banking. This report highlights, consistent with its November 2015 action plan, the steps taken or coordinated by the FSB since submitting its previous progress report at the end of 2016, including:

- Enhanced analysis on the decline of correspondent banking relationships;
- The issuance of Basel Committee on Banking Supervision (BCBS) revised guidelines on sound management of risks related to anti-money laundering and combating the financing of terrorism (AML/CFT), following up on the guidance on correspondent banking published last year by the Financial Action Task Force (FATF);
- Coordination of official-sector support for capacity-building in jurisdictions that are home to affected respondent banks' activities; and
- Efforts of the Committee on Payments and Market Infrastructures (CPMI) to strengthen tools that may contribute to reducing due diligence costs for correspondent banking relationships.

In a concurrent development, the FSB also published a data report entitled *FSB Correspondent Banking Data Report*, which highlights trends, drivers, and effects of the decline in correspondent banking gathered from an FSB survey of more than 300 banks in nearly 50 jurisdictions plus payment data provided by the Society for Worldwide Interbank Telecommunications (SWIFT). The report discusses the continued decline in correspondent banking across all continents and attributes the decline to industry consolidation, reduced profitability from these activities, reduced overall risk appetites of correspondent banks, and various reasons related to anti-money laundering and combatting the financing of terrorism (AML/CFT) or sanctions regimes. The report notes that small economies or jurisdictions for which the compliance with standards for AML/CFT is insufficient or unknown are most affected by exits of foreign correspondent banks.

The next progress report is expected to be published in December 2017.

[Press Statement] [Progress Report] [Data Report]

1.9 FSB publishes progress report on implementation of compensation standards; IOSCO Survey releases survey report on

The Financial Stability Board (FSB) on July 4, 2017 published its fifth progress report entitled *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards*. The principles and standards aim to reduce incentives for excessive risk-taking that may arise from the structure of compensation schemes in significant financial institutions. The key findings of the report indicate:

- Almost all FSB member jurisdictions have substantively implemented the principles and standards for banks;
- There are differences between oversight approaches for compensation practices;
- Supervisors have paid particular attention to links between compensation and misconduct;
- Supervisors and banks are increasing the use of back testing or validating compensation practices and policies;
- In-year adjustments continue to be the compensation tool of choice;
- There are significant differences between jurisdictions in approaches and regulatory and supervisory frameworks for the identification of material risk takers as well as governance mechanisms; and
- Progress on implementing and embedding the principles and standards for the insurance sector lags behind that for banking organizations.

The progress report includes a section on compensation practices in the securities sector that was written jointly with the International Organization of Securities Commissions (IOSCO) Compensation Experts Group (CEG). The section reports finding from a survey of securities regulators in 21 IOSCO member jurisdictions regarding the legal and regulatory perspectives on compensation policy as well as compensation practices and risk alignment in the securities sector. Highlights include:

- Compensation practices vary across the securities sector;
- IOSCO members surveyed have some compensation-related regulation in place;
- Compensation is highlighted as a possible tool in overall risk management.

The FSB's next progress report on compensation standards will be published in 2019.

[Press Statement] [Progress Report]

1.10 FSB publishes progress report on actions to tackle misconduct in the financial sector

On July 4, 2017, the Financial Stability Board (FSB) submitted its progress report to the G20 leaders on *Reducing misconduct risks in the financial sector*. This progress report highlights recent actions taken by the FSB and other international bodies in addressing misconduct, including:

- FSB's recommendations to strengthen financial institution governance: These include: (i) mapping responsibility to strengthen governance of misconduct risks in financial institutions; (ii) addressing information gaps and due diligence in employment of individuals with a history of misconduct; and (iii) using governance mechanisms to address cultural risk factors that drive misconduct.
- IOSCO's report directed at authorities' capacity to address misconduct risk: This report by the International Organization

of Securities Commissioners (IOSCO) identifies tools relevant to minimizing the risk of misconduct that may arise from the characteristics of wholesale markets, including market structure, opacity, conflicts of interest with market makers, size and organizational complexity of market participants, individual accountability within the firm, and increasing automation.

- IOSCO's report aimed at improving market structures and practices: Good progress has been made in line with IOSCO's Principles for Financial Benchmarks on strengthening some major interest rate benchmark setting processes and reducing manipulation risks.

- BIS's FX Working Group on global conduct for foreign exchange markets: This refers to a common set of guidelines for good practice in support of a robust, fair, liquid, open, and appropriately transparent global foreign exchange (FX) marketplace as outlined by the Bank for International Settlements' FX Working Group. The Global FX code identifies global good practices and processes to serve as a supplement to any and all local laws, rules and regulations. It contains 55 principles covering areas that include ethics; governance; execution and client order handling; handling confidential information; risk management and compliance; and confirmation and settlement.

[Press Statement] [Progress Report]

1.11 FSB reports to G20 Leaders on progress in financial regulatory reforms

On July 3, 2017, the Financial Stability Board (FSB) published a letter from Chairperson Mike Carney to the G20 leaders. The letter sets out four key points:

- G20 reforms are striving to build a safer, simpler, fairer financial system: Banks are considerably stronger, more liquid and more focused. A series of measures is eliminating the "toxic forms" of shadow banking and transforming it into resilient market-based finance. Reforms to the over-the-counter (OTC) derivatives markets are building a more transparent and robust system. The greater resilience is being achieved without impeding the supply of credit to the real economy.

- Emphasis on implementing reforms and completing unfinished business: The Chairperson emphasized that the Basel III norms must be completed urgently and mentioned that the FSB's policies to address structural vulnerabilities associated with asset management activities are being implemented. Bolstering individual responsibility and better aligning incentives and rewards are addressing the underlying causes of misconduct, but more needs to be done.

- There is a continuing need to identify, assess, and address new and emerging risks to financial stability: The FSB is monitoring financial stability issues raised by financial technology (FinTech) and addressing the decline in correspondent banking relationships that can threaten financial inclusion. The Task Force on Climate-related Financial Disclosures will continue to work over the course of the next year to promote and monitor adoption of its recommendations.

- G20 countries have a strategic opportunity to create an open, global financial system: Creating such a system would further support the cross-border investment needed for strong, sustainable and balanced growth.

[Letter]

Concurrently, the FSB published its *Third Annual Report on the Implementation and Effects of the G20 Financial Regulatory Reforms*, which identifies three areas where regulators are encouraged to focus. These areas include: 1) Maintaining an open and integrated global financial system; 2) Monitoring market liquidity; and 3) Evaluating the effects of reforms on emerging market and developing economies.

The FSB also published its *Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms*, which specifies processes and analytical approaches for the evaluation of reforms. The framework analyzes whether the reforms are achieving the intended outcomes and identifies the issues that needs to be addressed. The evaluation include analyses from three perspectives:

- The effectiveness of individual reforms;
- The interaction and coherence among reforms;
- The evaluation of overall effects.

[Press Statement] [Annual Report] [Framework]

1.12 FSB publishes assessment of shadow banking activities

On July 3, 2017, the Financial Stability Board (FSB) published *Assessment of shadow banking activities, risks and the adequacy of post-crisis tools to address financial stability concerns*, which assesses the risks involved in shadow banking activities and evaluates the effectiveness of post-crisis policies in addressing financial stability concerns. The report highlights that the aspects of shadow banking that contributed to financial crisis have declined significantly and no longer pose financial stability risks. It also describes the regulatory efforts that have been introduced to address financial stability risks associated with shadow banking. The key takeaways are:

- Authorities are establishing system-wide oversight and monitoring frameworks to assess the financial stability risks from shadow banking;

- Authorities have taken steps to address bank involvement in shadow banking;
- Authorities have acted to reduce liquidity and maturity mismatches and reduce leverage in the shadow banking system; and
- National and regional reforms have addressed incentive problems and opaqueness associated with securitization.

Several recommendations to increase regulatory oversight are outlined in the report:

- Implement the recommendations of the 2015-16 Peer Review to enhance system-wide oversight of shadow banking and policy responses;
- Strengthen the monitoring of shadow banking activity and the data collection framework; and
- Complete the remaining international policy development and implement the agreed policy recommendations to reduce risks and arbitrage opportunities across jurisdictions and sectors.

[Press Statement] [Assessment Report]

2. Enterprise and consumer compliance

2.1 CFPB finalizes updates to "know before you owe" mortgage disclosure

On July 6, 2017, the Consumer Financial Protection Bureau (CFPB or Bureau) finalized amendments to its "Know Before You Owe" mortgage disclosure rule to formalize guidance in the rule and make additional clarifications and technical amendments. This rule creates tolerances for the total of payments, adjusts a partial exemption mainly affecting housing finance agencies and nonprofits, extends coverage of the TILA-RESPA integrated disclosure requirements to all cooperative units, and provides guidance on sharing the integrated disclosures with various parties involved in the mortgage origination process. The modifications have been made under the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA) that are implemented in Regulation Z. The final rule will become effective 60 days after publication in the Federal Register.

[Press Statement] [Final Rule]

2.2 CFPB releases state-level snapshot of consumer complaints

On June 27, 2017, the Consumer Financial Protection Bureau (CFPB or the Bureau) issued a special edition of its Monthly Complaint Report providing a snapshot by state for the consumer complaints submitted to the CFPB since the Bureau began accepting consumer complaints in 2011. The report highlights for each state the total complaint volume, the products and services generating the most complaints, company response rates, and complaint volume from service members and older Americans. The key findings include:

- Complaint volume rose 7 percent between 2015 and 2016;
- Companies provided a timely response to 97 percent of CFPB complaints;
- Over half of consumers submitting complaints opt to have their narrative published publicly;
- Debt collection and mortgage issues account for half of complaints.

[Press Statement] [Complaint Report]

The CFPB reinforced the findings in its special edition report in a July 6. 2017 blog post. The CFPB summarized that, of all the complaints handled since 2011, the top five types of complaints reported by consumers are:

- <u>Debt collection:</u> 27 percent of complaints were about debt collection with many criticizing debt collectors' repeated attempts to collect a debt the consumer did not owe.
- <u>Mortgages:</u> 23 percent of complaints are about mortgages with the top issue being customers unable to make their monthly payments.
- <u>Credit reporting:</u> 17 percent of complaints dealt with credit reporting with a common issue being incorrect information on credit reports.
- <u>Credit cards:</u> 10 percent of the complaints were with respect to credit cards, and disputes around billing with credit card companies was the top issue.
- <u>Bank account or service:</u> 10 percent of complaints were about bank accounts or services, and account management and overdraft fees were some of the most common issues.

[Blog]

2.3 Federal Reserve releases additional data for its 2016 payments study

The Federal Reserve Board (Federal Reserve) announced the release of additional data for its 2016 Payments Study on June 30, 2017. The data supplement the Federal Reserve's initial release of data in December 2016 with more details for 2015 on core noncash payment types, allocations of checks written by counterparty and purpose, and information about emerging and innovative payment initiation services and payment methods. Highlights revealed by the additional data indicate:

— Checks written per household declined by nearly 66 percent between 2015 and 2000;

— Noncash payments per household, including checks, credit cards, and electronic transfers through the automated clearing house (ACH) system, expanded nearly 95 percent;

— The use of non-prepaid debit cards was the most popular payment type among consumers, followed by general-purpose credit cards, checks, and ACH debit transfers;

— Checks written by businesses similarly declined by approximately two-thirds between 2015 and 2000, though ACH transactions more than doubled;

— ACH credit transfers were the most popular among business payments, followed by checks, general-purpose credit cards, and non-prepaid debit cards; and

— Growth in selected alternative payment initiation methods and services, such as payments initiated via a mobile device, payments made through specialized services for person-to-person payments, and payments using online payment authentication methods, was strong from 2012 to 2015 but remains low compared to the total number and value of noncash payments.

[Announcement] [2016 Additional Data]

2.4 Federal Reserve Board Governor Powell outlines considerations for housing finance reform

Federal Reserve Board (Federal Reserve) Governor Jerome Powell gave a speech before the American Enterprise Institute on July 6. 2017 on the topic of housing finance reform. He said there is an "urgent need for fundamental reform of our system of housing finance" and called it "the great unfinished business of post-financial crisis reform." The urgency, he suggested, derives from the fact that the economy and the housing sector are currently healthy, while memories of the crisis are fading. Failure to enact reforms over the next few years risks settling for the status quo, which he characterized as "a government-dominated mortgage market with insufficient private capital to protect taxpayers, and insufficient competition to drive innovation."

Acknowledging that housing finance reform has implications for the Federal Reserve's oversight of financial institutions and the financial stability of the U.S. economy, he offered some principles for reform:

— Make the possibility of future housing bailouts as remote as possible.

— Any such guarantee should be explicit and transparent, and should apply to securities, not to institutions.

— Promote greater competition in this market – allow others to have a GSE-charter and allowing secondary market access to a wide-range of lenders.

— Consider simple approaches that restructure and repurpose parts of the existing architecture of our housing finance system.

— Identify and build upon areas of bipartisan agreement.

[Governor Powell speech]

2.5 Enforcement Actions

The Consumer Financial Protection Bureau (CFPB or the Bureau) and the Federal Trade Commission (FTC) announced the following enforcement actions in the past week:

— The CFPB filed two complaints and proposed final judgments in federal court against four local credit repair companies and three individuals for misleading consumers and charging illegal fees. The proposed judgements requires a total payments of more than $2 million in penalties and relinquished funds for violating the Dodd-Frank Wall Street Reform and Consumer Protection Act. It also prohibits the defendants from doing business within the credit repair industry for five years. The key allegations included charging illegal advance fees, failing to disclose limits on money-back guarantees, and misleading consumers' ability to repair consumer credit scores.

— The FTC agreed to settle charges against a lead generation business operator for misleading consumers into filling out loan applications and selling these applications, including consumers' sensitive data, to third parties without consumers' knowledge or consent. The settlement prohibits the defendants from misrepresenting that they can assist in providing loans on favorable rates and terms, that they will protect and secure personal information collected from consumers, and the types of businesses with which they share consumers' personal information. The company is also required to investigate and verify the identity of businesses to which it discloses consumers' sensitive information and it must obtain consumers' express, informed consent before making such disclosures. The settlement included a judgement of more than $104 million that has been suspended based on the defendants' inability to pay.

3. Capital markets and investment management

3.1 Agencies publish guidance on central counterparty resilience, recovery and resolvability

On July 5, 2017, the Financial Stability Board (FSB), the Committee on Payments and Market Infrastructures (CPMI), the International Organization of Securities Commissioners (IOSCO), and the Basel Committee on Banking Supervision (BCBS) published three guidance documents and two reports as part of their joint workplan on central counterparty (CCP) resilience, recovery and resolvability.

The guidance documents include:

- *CCP Resilience Guidance:* CPMI and IOSCO provided further guidance on the Principles and Key Considerations of the Principles for Financial Market Infrastructures (PFMI) regarding financial risk management for CCPs. There is particular emphasis on governance, credit and liquidity stress testing, coverage, margin, and a CCP's contributions of its financial resources to losses.
- *CCP Recovery Guidance:* CPMI and IOSCO updated their 2014 guidance on recovery for financial market infrastructures to provide clarifications in four areas: operationalization of recovery plans; replenishment of financial resources; non-default related losses; and transparency with respect to recovery tools and how they would be applied.
- *CCP Resolution Guidance:* The FSB finalized guidance on implementing the Key Attributes in resolution arrangements for CCPs. The guidance sets out powers for resolution authorities to maintain the continuity of critical CCP functions; details on the use of loss allocation tools; and steps authorities should take to establish crisis management groups for relevant CCPs and develop resolution plans.

The two reports include:

- *Interdependencies Study*: The FSB Standing Committee on Supervisory and Regulatory Cooperation (FSB SRC), the FSB Resolution Steering Group (FSB ReSG), BCBS, CPMI and IOSCO completed their first joint comprehensive data collection covering 26 central counterparties (CCPs) from 15 jurisdictions. The report analyses the interdependencies between CCPs and their clearing members and other financial service providers. The report found that financial resources are concentrated at a small number of CCPs and exposures to CCPs are concentrated among a small number of institutions. The network relationships are characterized by a core of highly connected CCPs and financial institutions and a periphery of less highly connected CCPs and financial institutions. By the end of 2018, an assessment will be made of the value of regular data collections from CCPs to support authorities' understanding of CCP interdependencies
- *Implementation Report*: The chairs of the FSB SRC, FSB ReSG, BCBS, CPMI and IOSCO provided an update on the workplan and an update on the next phase of work. This includes the establishment of crisis management groups (CMGs) for CCPs that are systemically important in more than one jurisdiction; work on financial resources to support resolution and on the treatment of CCP equity in resolution; and additional analysis of central clearing interdependencies to assess whether the key findings are stable over time.

[Press Statement] [Resilience Guidance] [Recovery Guidance] [Resolution Guidance] [Interdependency Study] [Implementation Report]

3.2 CPMI and IOSCO release consultative report on central counterparties (CCPs) stress testing

The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published a report on June 28, 2017 entitled *Framework for supervisory stress testing of central counterparties (CCPs)* to help authorities evaluate the collective response of a set of CCPs to one or more financial stresses. The framework covers six components of a stress-testing exercise: (1) setting the purpose and exercise specifications; (2) establishing governance arrangements; (3) developing stress scenarios; (4) collecting and protecting data; (5) aggregating results and developing analytical metrics; and (6) determining the use of results and disclosure.

CPMI-IOSCO is requesting comment by September 22, 2017 on all aspects of the framework and on whether there are additional topics that it would be beneficial to include in the framework. The organizations are particularly interested in feedback on the following areas: objective and purposes of multi-CCP tests; scope and frequency of the exercises; involvement of CCPs and other stakeholders; information-sharing, data collection and data protection; technical content of the framework; use of supervisory stress test results and disclosure. The CPMI-IOSCO also published a cover note to solicit comments on the proposed framework.

[Press Statement] [Cover Note] [Consultative Document]

3.3 Agencies release revised report on recovery of financial market infrastructures

The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published a report on July 5, 2017 entitled *Recovery of financial market infrastructures*, which is a revision of the 2014 recovery report that provides guidance on the principles and key considerations in the Principles for Financial Market Infrastructures (PFMI) related to recovery planning. It does not create additional standards for FMIs. The revised guidance provides additional clarifications in four areas: operationalization of the recovery plan; replenishment; non-default related losses; and transparency with respect to recovery tools and how they would be applied.

The report provides guidance on both the recovery planning process and the content of recovery plans. It provides an overview of some of the tools that an FMI may include in its recovery plan. These tools fall into five categories: allocating uncovered losses caused by participant default; addressing uncovered liquidity shortfalls; replenishing financial resources; reestablishing a matched book for a central counterparty (CCP); allocating losses not related to participant default.

[Publication] [Report]

3.4 BCBS and IOSCO issue consultative documents on short-term securitizations

On July 6, 2017, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) released a consultative document on *Criteria for identifying simple, transparent and comparable short-term securitizations*. The document is built on the principles of the STC criteria (simple, transparent, and comparable) published in July 2015 for securitizations and also accounts for specific aspects of asset-backed commercial paper (ABCP) conduits: short maturity of the commercial paper issued, different forms of program structures, and existence of multiple forms of liquidity and credit support facilities. The criteria are intended to assist parties to such transactions to evaluate the risks of a particular securitization across similar products as well as to assist investors with their conduct of due diligence on securitizations.

[Press Statement] [Consultative Document]

The BCBS concurrently issued a consultative document entitled *Capital treatment for simple, transparent and comparable short-term securitizations*, which sets out additional guidance and requirements on how the short-term STC criteria could be incorporated into the regulatory capital framework for banks. The additional guidance and requirements are: investors have access to key monthly information on the performance and key characteristics of the ABCP structure; addresses the redemption risk of the underlying assets from the sponsor's perspective; the transactions funded by the conduit have an enforceable legal structure and the relevant information is disclosed by the sponsor to investors.

[Press Statement] [Consultative Document]

The BCBS and IOSCO seek comments on both the consultative documents by October 5, 2017.

3.5 IOSCO publishes consultation on CIS liquidity risk management recommendations

On July 6, 2017, the International Organization of Securities Commission (IOSCO) published a report entitled *Consultation on CIS Liquidity Risk Management Recommendations*, which reviews the IOSCO's 2013 liquidity standards and suggests amendments to enhance them. The topics covered in this consultation document include disclosure to investors, achieving alignment between asset portfolio and redemptions terms, availability and effectiveness of liquidity risk management tools, and fund level stress testing. It also provides additional recommendations around contingency planning and consulting on issues relating to exchange traded funds (ETFs). The 2013 report, *Principles of liquidity risk management for collective investment schemes (CIS)*, provided an overall framework for the management of liquidity in open-ended CIS. The IOSCO is engaged with the Financial Stability Board (FSB) in the analysis of the potential systemic risks arising in relation to the liquidity risk management of CIS.

[Consultation Report 1]

To supplement this report, IOSCO also published a consultation report entitled *Open-ended fund liquidity and risk management – good practices and issues for consideration*. Many jurisdictions have in place a number of regulations and requirements for asset managers to develop a robust liquidity management framework for the lifecycle of a fund, including the design phase of the fund, its implementation, and its day-to-day operations. However, many jurisdictions are reviewing their regulatory frameworks to determine if and how to strengthen existing guidance and / or requirements, particularly with regard to open-ended funds. This report outlines a number of practices used by regulators and asset managers and provides information on measures that may be taken to address liquidity risk management.

Comments for the two reports will be accepted through September 18, 2017.

[Consultation Report 2]

3.6 FSB reports on reforms to OTC derivatives markets

The Financial Stability Board (FSB) published three reports on June 29, 2017 detailing progress on reforms to over-the-counter

(OTC) derivatives markets, including trade reporting of OTC derivatives; central clearing and exchange or electronic platform trading of standardized OTC derivatives; and higher capital and minimum margin requirements for non-centrally cleared derivatives. Each of the reports is briefly discussed below.

Review of OTC derivatives market reforms: Effectiveness and broader effects of the reforms provides a comprehensive review of the reforms and their effects, finding that implementation of the reforms is progressing well though taking longer than originally intended due to the scale and complexity of the reforms and other challenges. Progress is being made toward mitigating systemic risk and authorities are using data from trade repositories (TRs) to monitor risk and improve transparency. The report states that reforms have improved liquidity in some OTC derivatives markets and more efforts are required to study the effects of the reforms in protecting against market abuse.

The progress report on *FSB members' plans to address legal barriers to reporting and accessing OTC derivatives trade data* describes a number of actions taken by authorities of the EU, France, Singapore and the United States to address the barriers since publication of jurisdictions' plans in August 2016.

OTC Derivatives Market Reforms: Twelfth Progress Report on Implementation provides a detailed update on progress since 2016 in implementation of the reforms across FSB member jurisdictions. The report highlights include:

— Trade reporting: 19 out of 24 FSB member jurisdictions now have comprehensive trade reporting requirements;

— Central clearing: 17 FSB jurisdictions have frameworks for determining when standardized OTC derivatives should be centrally cleared;

— Capital: 23 jurisdictions have higher capital requirements for exposures to non-centrally cleared derivatives (NCCDs);

— Margin: 14 jurisdiction have comprehensive margin requirements for NCCDs in place;

— Platform trading: 12 jurisdictions have comprehensive frameworks for determining mandatory platform trading requirements.

[Press Statement] [Report 1] [Report 2] [Report 3]

3.7 U.S. Department of Labor publishes request for information on fiduciary rule

On June 29, 2017, the Employee Benefits Security Administration of the U.S. Department of Labor (DoL) published a Request for Information (RFI) in connection with its examination of the final rule defining who is a fiduciary of an employee benefit plan, as well as the new and amended administrative class exemptions that were published in conjunction with the rule. The RFI seeks data and information that may be used to form the basis of new exemptions or to change/revise the rule and associated exemptions. In addition, the DoL is seeking input on the advisability of extending the January 1, 2018 applicability date of certain provisions. Comments regarding an extension of the January 1, 2018 applicability date must be submitted no later than July 21, 2017. Comments on all other questions raised in the RFI must be submitted no later than August 7, 2017.

[Press Statement] [DoL RFI]

3.8 SEC expands JOBS Act benefit to all companies

On June 29, 2017, the Securities and Exchange Commission's (SEC) Division of Corporation Finance announced that effective July 10, 2017 all companies will be permitted to submit draft registration statements relating to initial public offerings for review on a non-public basis. This is a part of the Division's efforts to foster capital formation, provide investment opportunities, and protect investors. This step expands to all companies benefits established by the JOBS Act that were previously limited to emerging growth companies.

[Press Statement] [Announcement]

3.9 Enforcement Actions

The Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC) announced the following enforcement actions in the past week:

— The CFTC announced an order by the Federal court against a management services business and its owner for making false statements to the National Futures Association (NFA) in statutorily required reports and during an NFA audit in violation of the Commodity Exchange Act (CEA). The order prohibits the defendants from registering with the CFTC and engaging in any commodity interest trading. It also imposes a civil monetary penalty of $125,000.

— The CFTC issued an order filing and settling charges against a foreign trading company for failing to file CFTC Form 304 reports on its call cotton purchases and sales when it held or controlled at least 100 cotton futures positions. The order requires the company to pay a $225,000 civil monetary penalty and prohibits it from committing future violations of CFTC Regulation 19.02.

— A Federal court entered an order against a directorship, fiduciary and administrative services provider and its owner based on a CFTC complaint filed in March 2016. The defendants had fraudulently solicited more than $1.1 million from customers, lost those funds trading, and provided customers with false reports or statements indicating their investments were profitable. The order requires them to pay restitution of approximately $1.1 million and a civil monetary penalty of more than $3.3 million in addition to imposing permanent trading and registration bans.

- The CFTC issued an order filing and settling charges against a futures brokerage company for engaging in illegal wash sales to generate rebates of exchange fees based on increased trading volumes. The order requires the company to pay a $5 million civil monetary penalty.
- The SEC charged a foreign firm and three of its former top finance executives with multi-year accounting fraud. The SEC alleges the company fraudulently moved hundreds of millions of dollars in expenses from operating expense accounts to capital expenditure accounts, which reduced its operating costs by 20 percent and improved reported metrics for efficiency and profitability. The SEC is seeking permanent injunctions and monetary relief from all defendants, as well as officer and director bars from two of the defendants, and incentive compensation clawbacks from one defendant.

4. Alternative finance

4.1 FSB issues a report on the financial stability implications from FinTech

On June 27, 2017, the Financial Stability Board (FSB) published a report that analyzes the potential financial stability implications from FinTech and identifies related supervisory and regulatory issues. This report identifies ten areas the FSB states merit the attentions of authorities, the first three points of which are of highest priority.

- Managing operational risks from third-party services providers;
- Mitigating cyber risks;
- Monitoring macro financial risks;
- Cross-border legal issues and regulatory arrangements;
- Governance and disclosure frameworks for big data analytics;
- Assessing the regulatory perimeter and updating it on a timely basis;
- Shared learning with a diverse set of private sector parties;
- Further developing open lines of communication across relevant authorities;
- Building staff capacity in new areas of required expertise;
- Studying alternative configurations of digital currencies.

The report also provides a framework that defines the scope of FinTech activities and identifies the potential benefits and risks to financial stability. Potential benefits include decentralization and increased intermediation by non-financial entities; greater efficiency, transparency, competition and resilience of the financial system; and greater financial inclusion and economic growth. Potential risks include institution-specific micro-financial risks that could emerge and system-wide macro-financial risks.

[Press Statement] [Report]

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