

February 2021

# GLOBAL REGULATORY UPDATE

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## COVID-19

### IIF COVID-19 Prudential Regulatory Database

Since March 2020, the COVID-19 health and related economic crisis has been met with an intense and unprecedented regulatory policy response. International and regional regulators have been adopting a range of prudential and broader regulatory measures to address the most important issues impacting the financial services sector.

In order to assist our members and the financial community in general, the IIF has compiled a table summarizing each of the prudential regulatory measures taken to date by G20 and other leading jurisdictions with links to the relevant regulator statements and releases. This table is being updated weekly and can be found [here](#).

On February 16, the IIF published a short report summarizing the banking regulatory measures taken in 2020. Between March and December 2020, the IIF recorded over 500 measures that were announced as part of the response to the COVID-19 crisis by the global standard setting bodies, G20 members and other leading financial jurisdictions. A variety of measures have been used, but the largest proportion are capital measures. The bulk of the measures were announced in March and April. However, there were noticeable increases in the number of announcements in September and December, including extending earlier short-dated measures. For more detail, please refer to the report [here](#).

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### IIF COVID-19 Insurance Regulatory Database

The IIF has launched a dedicated [Insurance Regulatory Actions](#) database focusing specifically on regulatory policy developments in the area of insurance

in response to the COVID-19 outbreak. The database is being updated almost daily to reflect the fast-changing developments.

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## PRUDENTIAL CAPITAL

### BCBS Consultation on Securities Financing Transactions

In late January the BCBS issued a consultation paper on some proposed technical amendments to the rules on haircut floors for securities financing transactions (SFTs).

The IIF is currently determining the level of member interest in developing an industry response to this consultation. We are also liaising with our colleagues at other trade associations about a joint industry response. Should there be sufficient member interest we will develop a submission in response. The consultation is inviting comments by March 31.

A link to the consultation paper can be found [here](#).

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## EFFECTIVE REGULATION

### IBOR/Benchmark Transition

The IIF has worked for the past year with members and other associations considering regulatory issues that are relevant to the IBOR transition process, so as to consider ways to ensure that global regulators are mindful of the impact of the transition process. A paper has been developed incorporating these issues. We have also actively engaged with regulators and with other industry working groups who are developing papers on this issue. The paper that the IIF joint associations working group has been developing has been the source of input on a number of

prudential regulatory issues that have been included in those other industry papers.

As members are aware in recent months a number of announcements were made by regulatory authorities and benchmark administrative bodies which should provide greater flexibility and clarity around the transition away from LIBOR, particularly with respect to the management of legacy contracts using LIBOR. This has been a significant issue for market participants and is a key issue which we have emphasized in our discussion with the authorities.

In July, the FSB is expected to publish a Progress report on implementation of benchmark reform. The IIF working group is currently seeking member responses regarding the future intentions for the working group paper in light of these numerous developments and the extent to which that work has already been reflected in other industry working group papers.

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## IIF Non-Bank Financial Intermediation (NBFI) WG

The Financial Stability Board (FSB), G-20 and IOSCO have laid out a comprehensive and ambitious work program for strengthening the resilience of Non-bank Financial Intermediation (NBFI), impacting funding and credit intermediaries and markets, including money market funds (MMFs), investment funds, bond markets, etc.

Work in 2021 will focus on money market funds, open-ended funds, margining practices, liquidity, structure and resilience of core bond markets, and cross-border USD funding. The FSB will also launch an evaluation on the effects of G20 financial reforms on bond market liquidity.

To continue engaging with the FSB and other authorities, the IIF has launched a new IIF NBFI Working Group tasked with addressing regulatory issues and policies affecting actors and activities in non-

bank financial intermediation. This Working Group will advocate for risk-based policy measures based on reliable information and data and reflective of the diversity of NBFI institutions and business models. A kick-off meeting will take place on March 3rd and we encourage IIF member firms with an interest in this topic – including asset managers, banks and insurers – to nominate colleagues to join this new working group.

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## OPERATIONAL RESILIENCE

### Policymaking to Establish an Operational Resilience Regulatory Framework

On January 28, the IIF together with GFMA released a paper on "[2021 Priorities for Strengthening Global Operational Resilience Maturity in Financial Services](#)." The paper provides an forward-looking set of priorities on how to continuously improve and strengthen the level of operational resilience in the financial system for the benefit of customers, markets, and the broader economy in countries across the world.

In 2020, the Basel Committee has consulted on global Principles for Operational Resilience and a number of jurisdictions are in the process of creating their own frameworks, including Australia, the UK, U.S., European Union, Canada, and Singapore. As various authorities seek to establish how to assess operational resilience there is a risk that national-level approaches begin to diverge and become inconsistent. This potential for market fragmentation due to divergences in regulatory standards and supervisory oversight poses substantial risks and operational challenges for financial institutions that operate globally and, in turn, for the financial system.

Therefore, the IIF continues to work in close cooperation with operational resilience experts in our

member firms, and other trade associations, to engage regularly with the regulatory community on this important topic. We held our 3rd IIF-GFMA-BPI Operational Resilience Symposium in a virtual format on February 9<sup>th</sup>.

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## CYBER SECURITY

### IIF Paper on Cyber Incident Reporting

The IIF is finalizing a paper on Cyber Incident Reporting that analyzes how cyber events and cyber incidents are defined across industry and by authorities, and to compare how cyber incidents are reported across jurisdictions, at what materiality threshold, to which institutions, over what time frame and in what manner.

This also builds on work being undertaken by the Financial Stability Board (FSB) on “Effective Practices for Cyber Incident Response and Recovery”. The FSB is scheduled to publish a final paper on Cyber Incident Reporting in October 2021.

The IIF paper formulates, in cooperation with the IIF Cyber Security Working Group, a number of policy recommendations for how reporting can be done in a more consistent and coordinated way between and inside jurisdictions to help ensure incident reporting is effective and efficient, thereby contributing to our broader focus on avoiding market fragmentation.

An updated version will be circulated for member comment in late February.

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## SUSTAINABLE FINANCE

### Developments in Sustainable Finance Policy & Regulation

The IIF, through the Sustainable Finance Working Group (SFWG) and regulatory affairs working groups – Special Committee on Effective Regulation (SCER) and Steering Committee on Regulatory Capital (SCRC) – is continuing to engage with public sector groups, including the Network for Greening the Financial System (NGFS) and the BCBS Task Force on Climate-related Financial Risks, to promote aligned and consistent policymaking in different areas of sustainable finance.

A summary of the latest global developments, analysis of policy and regulatory initiatives, market trends and IIF events on sustainable finance is produced on a regular basis in a dedicated IIF publication, the *IIF Sustainable Finance Monitor*. The February 2021 edition is available [here](#), which includes a discussion of the initial actions taken on climate policy in the first few weeks of the Biden Administration.

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### IIF Board of Directors Statement on Climate Finance

On February 11, the IIF's Board of Directors reaffirmed their commitment to financing a climate-resilient future, and called for reliable, easily accessible and comparable datasets, metrics, methodologies, standards and frameworks to ensure that climate-related risks are appropriately managed and disclosed. To help advance these important goals, the Board of Directors published 10 recommendations for international regulators and policymakers. You can find the statement and recommendations [here](#).

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## IIF Paper on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks

Through Q4 2020, the IIF worked with members to formulate industry perspectives on supervisory and regulatory approaches to climate-related and environmental risks, including priorities and key challenges. After publishing a Discussion Draft on December 22, the IIF published the final paper '[Prudential Pathways: Industry Perspectives on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks](#)' on January 21.

The IIF has used the paper to engage with the global standard-setting bodies and multiple regional prudential authorities that are currently exploring or consulting on these issues.

Key topics were discussed on an IIF webinar, which included panelists from the Bank of England, ECB and Monetary Authority of Singapore; the webinar can be replayed [here](#).

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## IIF Comment Letter on EBA Discussion Paper on ESG Risks

On February 3, the IIF submitted a comment letter to the European Banking Authority's (EBA) [Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms](#). IIF members consider the EBA's Discussion Paper to be a detailed and well-informed assessment of the considerations and challenges associated with incorporating ESG factors into risk management, bank busi-

ness models and supervision. The IIF provided feedback on a number of issues and questions. An overarching message was that a proportionate and sequenced approach to both management and supervision of ESG risks would be most appropriate to preserve, but also to strengthen, the effectiveness of the overall prudential framework. This approach would ideally focus on climate-related risks in the first phase. The comment letter can be found [here](#).

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## Climate Scenario Analysis Stock-Taking Project

In February, the IIF kicked off a Climate Scenario Analysis Stock-Taking Project. The IIF-led industry project aims to advance industry perspectives on how supervisory-led scenario exercises can be best designed, conducted, and coordinated internationally.

This will be informed by experience of members with such exercises to date and identification of common experiences and pain points, and feedback on what worked well and what could be refined in future exercises. The project findings will be published in a report to supervisors, global standard setting bodies and the NGFS later this year.

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## INSURANCE

### IIF Response to IAIS Application Paper on Resolution Powers and Planning

On November 9, the IAIS released for public consultation an Application Paper on Resolution Powers and Planning. The Application Paper is designed to



provide guidance on supervisory practices related to resolution. In particular, the Paper provides guidance for the application of ICP 12 (Exit from the Market and Resolution) and is relevant to ICP 25 (Supervisory Cooperation and Coordination).

After discussing responses to this consultation in a series of Insurance Working Group (IWG) calls, the IIF submitted its response to the IAIS on February 4. In its response, the IIF stressed the importance of the IAIS taking an outcomes-based approach that considers both the rarity of an insurer's sudden failure and the range of proactive recovery measures available that can help insurers avoid resolution. We encouraged the IAIS to focus on recovery options, which have been used successfully in the insurance context to address entities in distress. The IIF emphasized the need for effective communication between the group supervisor, any crisis management group (CMG), relevant jurisdictional supervisors, and the management of the distressed company in order to ensure that the supervisory actions taken are appropriate, proportionate, and in the best interests of the company's policyholders. The full response can be found [here](#).

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### IIF Response to IAIS Consultation on Development of Liquidity Metrics

On November 9, the IAIS released for public consultation a proposal for an Insurance Liquidity Ratio (ILR), a metric developed by the IAIS as an ancillary indicator for the monitoring of liquidity risk as part of its assessment of systemic risk in the insurance sector. Ancillary indicators are used in the context of individual insurer monitoring to highlight potential vulnerabilities, risk drivers and trends. The input received by the IAIS on this consultation will inform the development of the ILR and other liquidity risk metrics.

Following a series of discussions with the IWG, the IIF submitted its response to the IAIS on February 5. The IIF response expressed support for the IAIS's interest in monitoring sector-wide liquidity risk and its interest in a consistent metric but reflected reservations about the usefulness of the ILR as an effective macroprudential tool other than as a basic ratio to analyze year-on-year trends across the sector. The IIF encouraged the IAIS to consider the inherent limitations of any global liquidity ratio for the insurance sector, and to more fully develop a use case for a ratio similar to the ILR. Furthermore, we urged the IAIS to emphasize the role of supervisory review, which would provide a more company-specific and holistic reflection of the robustness of the insurer's liquidity risk management. The IIF welcomed future opportunities to expand upon its response and encouraged the IAIS to convene a stakeholder meeting on the important issues raised by this consultation, as well as on broader aspects of macroprudential supervision and systemic risk. The full response can be found [here](#).

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### IIF Responding to IAIS Application Paper on Supervision of Control Functions

On January 25, the IAIS issued an Application Paper for public consultation on the Supervision of Control Functions. The Application Paper describes practices aimed at helping supervisors address issues related to the supervision of control functions. In particular, the Application Paper supports observance of ICP 8 (Risk Management and Control Functions) and is relevant to ICP 5 (Suitability of Persons) and ICP 7 (Corporate Governance).

We will be convening calls of the IWG to discuss a response to this consultation; responses are due by March 26. The IAIS Application Paper can be found [here](#).

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### IAIS Discussion of IIF Prudential Pathways Paper

IIF Regulatory and Sustainable Finance staff met with IAIS Chair Victoria Saporta, Secretary General Jonathan Dixon, and other senior IAIS officials to discuss the recently released IIF publication, '[Prudential Pathways: Industry Perspectives on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks.](#)'

Participants discussed the many similarities between the IIF Prudential Paper and the IAIS's own messaging on the climate risks affecting insurers. There was general consensus that greater coordination and collaboration across jurisdictions and among supervisors is needed to avoid regulatory fragmentation, both within the insurance sector and across the financial services sector more broadly.

Key messages from the IIF included the need for supervisory engagement with the industry and risk management expectations that are principles-based, predictable, proportionate, and phased. It is important to recognize that climate risks affect insurers differently than other financial services sectors and that the supervisory approach to climate risk has evolved differently across the financial services sectors. IIF staff noted that insurers have been reflecting these risks in their business strategies and enterprise risk management.

The IAIS emphasized the important role of supervisors in enabling an environment where insurers can help steward a path to a low-carbon economy. In addition to the release of its *Application Paper on the Supervision of Climate-related Risks*, the IAIS is collecting data on the climate risk exposures of the insurance sector for its 2021 Global Insurance Market Report (GIMAR), to be released in H1. The IAIS continues to coordinate with the NGFS and Sustainable Insurance Forum (SIF), with plans to deliver a

strong message at COP26 about the important role of insurers in addressing climate change challenges.

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### EIOPA 10<sup>th</sup> Anniversary Conference

On February 4, EIOPA livestreamed its 10<sup>th</sup> anniversary conference to the public. The event marked the departure of outgoing EIOPA Chair, Gabriel Bernardino. In his farewell speech, he reflected on EIOPA's key achievements since its establishment in 2011, particularly the successful development of Solvency II. He concluded his remarks with recommendations for three structural reforms he believes are necessary over the next decade: the urgency to deliver adequate and sustainable pensions to EU citizens; a new approach to consumer disclosures; and the need for centralized insurance supervision.

EIOPA has published both Mr. Bernardino's [speech](#), as well as the [opening remarks](#) delivered by Mairead McGuinness, European Commissioner for Financial Stability, Financial Services and the Capital Markets Union. The full recording of the conference is available [here](#).

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## EU POLICY DEVELOPMENTS

### IIF Talking Policy series

The IIF launched its new Talking Policy series with the European Commission's Director General of DG FISMA, John Berrigan, on January 29 with an event entitled 'A Preview of the Regulatory Priorities for 2021'. During this session with a key regulatory policy figure for the European Union financial services

agenda, we heard on the regulatory priorities in the fields of banking regulation, as well as what remains to be done to complete the Banking Union, to advance the Capital Markets Union, to build sustainable finance, to rolling out digitalization, and how to raise the bar on anti-money laundering rules. In February, the series featured Dr. Elke König, Chair of the Single Resolution Board. There the discussion touched on the state of the European banking sector,

SRB 2021 priorities, addressing market fragmentation, the importance of completing European Banking Union and EU relations with the UK and US.

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## Upcoming Events

(A full list of IIF events can be found [here](#))

### MARCH

March 5 (virtual)

- IIF/EY Insurance Series: Climate Risks and Opportunities (Part One)

March 10 (virtual)

- IIF Turkey Risk Forum

March 11 (virtual)

- 2021 IIF Latin America Summit

March 12 (virtual)

- IIF/EY Insurance Series: Climate Risks and Opportunities (Part Two)

March 19 (virtual)

- IIF Talking Policy: Discussion with Mike Gibson, Director, Division of Banking Supervision and Regulation, U.S. Federal Reserve Board

March 25 (virtual)

- 2021 IIF Washington Policy Summit

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