

January 2021

GLOBAL REGULATORY UPDATE

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FINANCIAL STABILITY BOARD

2021 Work Program

On January 20th the Financial Stability Board (FSB) released its [2021 work program](#), which reflects a strategic shift in priorities in the COVID-19 environment.

The FSB highlighted the following areas as being priorities for the coming year: International cooperation and coordination related to COVID-19; Non-bank financial intermediation (NBFi); Central counterparty (CCP) resilience, recovery and resolvability; Cross-border payments; Climate change and sustainable finance; Interest rate benchmarks; and, Cyber and operational resilience.

The IIF is active in all these areas and will continue to engage with the FSB and other global standard-setting bodies over this year.

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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](#).

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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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EFFECTIVE REGULATION

FSB Market Fragmentation

On October 14, the FSB published a brief progress report "[Market Fragmentation: Updates on ongoing work](#)", which covered four areas that had been identified for further work by the FSB and the global standard setting bodies to address market fragmentation. Namely, deference; pre-positioning of capital and liquidity; regulatory and supervisory coordination and information sharing; and TBTF reforms. The most significant update was on pre-positioning of resources, which was further discussed during a virtual meeting of supervisory and resolution authorities on November 30, and in the November 2020 [FSB Resolution Report](#).

More broadly, the FSB notes that "the policy response to COVID-19 has underlined the policymakers' awareness of harmful effects of market fragmentation" and "authorities will coordinate on the future timely unwinding of the temporary measures taken".

The IIF continues to engage with the FSB and global standard setting bodies on the importance of avoiding market fragmentation in regulatory or supervisory approaches, including during the response to the COVID-19 crisis. We will keep members apprised of further developments on this topic.

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FSB Evaluation of Too-Big-To-Fail (TBTF) Reforms

On June 28, the Financial Stability Board (FSB) released a consultation report on the impact of the suite of Too-Big-To-Fail (TBTF) reforms introduced for systemically important banks after the global financial crisis. The consultation report was released alongside a package of technical supplements; all documents can be found [here](#).

On September 30, the IIF submitted a [response letter](#) to the FSB, which was developed through the IIF's Steering Committee on Effective Regulation (SCER) and Cross-Border Resolution Working Group (CBRWG). Overall, the IIF response welcomed many of the report's messages and findings, particularly in terms of the benefits of the TBTF reforms and evidence that they are achieving their objectives. However, the letter discussed that the report had been unduly cautious in recognizing the tremendous progress that has occurred and took issue with certain conclusions, which the IIF letter asked the FSB to reconsider in its final report. In response to a request from the FSB, the letter also provided some preliminary observations about financial stability during the ongoing COVID-19 crisis that are relevant to the TBTF evaluation. Finally, the letter suggested some priority topics in a range of areas for the FSB and global standard setters going forward. The FSB will publish a Final report of the evaluation of TBTF reforms in April.

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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.

A number of industry working groups have also produced regional papers addressing the IBOR transition and our paper has provided input and details in those papers on specific regulatory issues that regulators need to take into account. These groups include the ARRC in the US and the Working Group on Sterling Risk-Free Reference Rates in the UK and a similar group in the EU.

Also, a number of announcements were made by regulatory authorities and benchmark administrative bodies in late November 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.

The Administrator of LIBOR, ICE Benchmark Administration (IBA) (which is regulated by the FCA) announced that it intended to consult on the cessation of USD LIBOR. IBA will consult to cease the publication of the one week and two-month USD LIBOR immediately after December 31, 2021. Other remaining LIBOR setting are targeted to be ceased after the publication on June 30, 2023.

A link to the IBA announcement can be found [here](#).

At the same time the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation ("the US Agencies") announced a "Statement on LIBOR Transition".

The US Agencies encouraged banks "to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any

event by December 31, 2021” and emphasized the need for using other reference rates or having a robust fallback language for new contracts entered into before end-2021. The statement also lists four examples of USD LIBOR contracts that “*would be appropriate*” for banks to enter after December 31, 2021.

A link to the US Agencies statement can be found [here](#).

The Federal Reserve Board and UK Financial Conduct Authority (FCA) have also announced individual statements welcoming these announcements. The FCA has also announced plans to consult in Q2 2021 on its proposed policy approach to the use of the new power under the Financial services Bill to prohibit some or all new use of critical benchmarks. The FCA also clarified it will “not envisage using this power before end-2021”.

In July, the FSB is expected to publish a Progress report on implementation of benchmark reform. The IIF working group is currently seeking member input as to 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

One of the priority areas of the Financial Stability Board (FSB) - as evidenced in their new [2021 work program](#) - is enhancing the resilience of the non-bank financial intermediation (NBFI) sector, while preserving its benefits.

The FSB has laid out a comprehensive and ambitious work program for strengthening the resilience of NBFI. Work in 2021 will focus on money market funds, open-ended funds, margining practices, li-

quidity, 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.

The IIF will continue to engage with the FSB and other authorities involved in this work, and these efforts will be undertaken primarily through the new IIF NBFI Working Group. A kick-off meeting will take place in February 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

FSB Third Parties and Outsourcing Discussion Paper

On November 9, the Financial Stability Board (FSB) published a [discussion paper for public consultation, on Regulatory and Supervisory Issues Relating to Outsourcing and Third-Party Relationships](#).

The FSB paper draws on findings from a survey conducted among the FSB members and identifies a number of issues and challenges. For instance, financial institutions have to ensure that their contractual agreements with third parties grant to them, as well as to supervisory and resolution authorities, appropriate rights to access, audit and obtain information from third parties. These rights can be challenging to negotiate and exercise, particularly in a multi-jurisdictional context. The management of sub-contractors and supply chains is another challenge that was highlighted in the context of financial institutions’ response to COVID-19.

The IIF submitted [comments on the discussion paper](#) on January 8th. In the letter the IIF noted that this is a timely and increasingly important topic, especially where the experience of the pandemic and

the trend of accelerated digitalization have amplified the role of cloud technology in supporting financial services, both for operational continuity and for the ongoing viability of business models in keeping pace with evolving customer preferences.

The IIF encouraged the FSB and the supervisory community to adopt proportionate, risk-based, and outcomes-focused approaches to third-party arrangements, while fostering increased coordination between authorities to promote regulatory and supervisory harmonization.

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Policymaking to Establish an Operational Resilience Regulatory Framework

The IIF is currently finalizing together with GFMA a paper on “2021 Priorities for Strengthening Global Operational Resilience Maturity in Financial Services.” This paper provides an updated 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.

The Basel Committee has recently consulted on principles for Operational Resilience and a number of jurisdictions are in the process of creating their own frameworks, including the UK, US, European Union, Canada, Hong Kong, Japan 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 at our respective member firms, and other trade associations, to engage regularly with the regulatory community on this important topic. We are holding our 3rd IIF-GFMA-BPI Operational Resilience Symposium on February 9th.

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CYBER SECURITY

IIF Staff 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 the recent Financial Stability Board (FSB) consultation report on “Effective Practices for Cyber Incident Response and Recovery”. The FSB is scheduled to publish a final paper on Cyber Incident Reporting in October.

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 February.

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SUSTAINABLE FINANCE

Developments in Sustainable Finance Policy & Regulation

The IIF, through the Sustainable Finance Working Group (SFWG), is continuing to engage with public sector groups, including the Network for Greening the Financial System (NGFS) and the new BCBS Task Force on Climate-related Financial Risks, to promote aligned and consistent policymaking in different areas of sustainable finance. The IIF continues to monitor the frequent developments on the topic, including the recently published FSB report and virtual workshop on '[The Implications of Climate Change for Financial Stability](#)'.

Through Q4 2020, the IIF worked with members of the SFWG and regulatory working groups to formulate industry perspectives on supervisory and regulatory approaches to climate-related and environmental risks, including priorities and key challenges. A substantial IIF paper on the topic was published as a Discussion Draft on December 22: '[Prudential Pathways: Industry Perspectives on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks](#)'. The IIF is using the paper to engage with the global standard setting bodies and regional prudential authorities that are currently exploring or consulting on these issues, including by responding to the open [EBA consultation](#) on how to incorporate ESG risks into the governance, risk management and supervision of credit institutions and investment firms.

On December 23, the IIF SFWG and Senior Accounting Group (SAG) submitted a [response](#) to the IFRS Foundation's [consultation](#) on Sustainability Reporting. The IIF response letter commends the Trustees of the IFRS Foundation for exploring its possible role in sustainability reporting and endorse the Foundation's plan to create a 'Sustainability Standards Board' (SSB) as a global standard setter for sustainability reporting. The letter also provides feedback pertaining to the establishment of the SSB in relation to its scope and relationship to existing initiatives and relevant authorities. The IIF will continue

to engage on the development of sustainability reporting standards and market-led disclosure initiatives. The SFWG is currently preparing a response to the ongoing TCFD consultation on forward-looking metrics, which will be submitted by January 27.

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 December 2020 edition is available [here](#), which includes a discussion of the how a US framework for sustainable finance could take shape under a Democratic Administration.

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INSURANCE

IIF Response to IAIS Consultation on the Supervision of Climate-related Risks

On October 13, the IAIS issued an Application Paper for public consultation on the Supervision of Climate-related Risks in the Insurance Sector. The Application Paper aims to support supervisors in their efforts to integrate climate risk into the supervision of the insurance sector and to promote a globally consistent approach to the supervision of these risks. The Application Paper notes that climate-related risks are a source of financial risk, which may translate into prudential risks and, thus, may affect the resilience of insurers. Several Insurance Core Principles (ICPs) are in scope for this Application Paper, including ICP 9 (Supervisory Review and Reporting), ICP 7 (Corporate Governance), ICPs 8 and 16 (Risk Management), ICP 15 (Investments) and ICP 20 (Disclosures).

After discussing responses to this consultation in a series of IWG calls, the IIF submitted [its response](#) to the IAIS on January 11. Key messages included the

need for more clarity on the IAIS's overall climate risk strategy, the need for industry/stakeholder/supervisor information sharing and collaboration, and the importance of a focus on material risk exposures in a practical, proportionate and sequential manner that is driven by data. We noted that the IIF has conducted significant work on the topic of prudential and supervisory approaches climate risk and we have shared with the IAIS our Discussion Draft Paper, *Prudential Pathways: Industry Perspectives on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks*. The IIF is planning follow-up engagement with the IAIS on both our response to the Application Paper and our Discussion Draft Paper.

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IIF Responding 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).

We will be convening calls of the IWG to discuss a response to this consultation; responses are due by February 5.

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IIF Responding to IAIS Consultation on Development of Liquidity Metrics

On November 9, the IAIS released for public consultation one metric that the IAIS has developed 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 on the current consultation will inform the development of this and other liquidity risk metrics.

We will be convening calls of the IWG to discuss a response to this consultation; responses are due by February 7.

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EU POLICY DEVELOPMENTS

IIF shares Regulatory Priorities with European Commissioner McGuinness

The IIF on December 1st [conveyed its financial services regulatory priorities](#) for engagement with the new European Commissioner for Financial Stability, Financial Services and Capital Markets Union, Mairead McGuinness.

The IIF reiterated its support for the goals of a resilient, stable European financial sector that can support economic growth and contribute to a green transition. These goals have become even more critical as a result of the impact of COVID-19 on societies across the world.

With that in mind, the IIF and its members bring their considerations on a number of important policy areas: Supporting a green transition; Achieving a risk-sensitive regulatory capital framework; Avoiding market fragmentation; Addressing cyber risk and building up operational resilience; Promoting a balanced and sound digital policy framework; and Enhancing the framework for combatting financial crime.

The IIF response also includes more detailed comments in an annex to the letter to the Commissioner

for further considerations, including on the positioning of the European financial industry in a global context.

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US POLICY DEVELOPMENTS

IIF Expectations for Biden Administration Approach to Financial Regulatory Policy

The IIF has prepared a brief [IIF Staff paper on our expectations for the incoming Biden administration's approach to financial regulatory policy](#).

In addition to comprehensive economic recovery in response to COVID-19, we also expect the executive branch and Congress to emphasize climate change in the context of financial services and to evaluate the prudential course of the previous administration. This paper also lays out anticipated personnel changes, our congressional outlook, and potential policy approaches in the areas of digital finance, prudential regulation, non-financial risk, and insurance.

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Upcoming Events

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

JANUARY

January 28 (virtual)

- Prudential Pathways: Supervisory and Regulatory Approaches to Climate-related and Environmental Risk

January 29 (virtual)

- IIF Talking Policy: Discussion with John Berrigan, Director General, European Commission

FEBRUARY

February 9 (virtual)

- IIF-GFMA-BPI 3rd Operational Resilience Joint Industry Regulator Symposium

February 16 (virtual)

- IIF Talking Policy: Discussion with Elke König, Chair, Single Resolution Board

February 18 (virtual)

- 2021 U.S. Climate Finance Summit

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