Financial Services Alerter

MAY 2020

UK Government published draft legal texts

On 19 May 2020, the UK Government published draft legal texts to accompany its Policy Paper "The Future Relationship with the EU: The UK's Approach to Negotiations". The Government states that the legal texts are the legal articulation of its approach in the Policy Paper and have already formed the basis of discussion with the EU.

FCA publishes guidance on payment firms and safeguarding customer funds

On 22 May 2020, the Financial Conduct Authority (FCA) published guidance focussing on strengthening payment firms' prudential risk management and arrangements for safeguarding customers' funds. The guidance clarifies several areas that the FCA considers important:

- record keeping
- reconciliations
- safeguarding accounts and
- acknowledgement letters.

FCA publishes response to Treasury Committee inquiry on the impact of COVID-19

On 21 May 2020, the Financial Conduct Authority (FCA) published a letter on its support for borrowers, small and medium – sized enterprises during COVID-19. The letter covers several topics including:

- rules on temporary financial relief for customers affected by coronavirus
- what will be needed after the initial three-month period
- whether the FCA's interventions have been sufficient to protect vulnerable customers.

FCA publishes statement on the Corporate Insolvency and Governance Bill

On 14 May 2020, the Financial Conduct Authority (FCA) published a statement on the forthcoming corporate governance measures designed to assist businesses effected by COVID-19. These measures will be included into the Corporate Insolvency and Governance Bill 2020 to ensure that the special insolvency regimes for the financial sector remain effective. The FCA states that the Bill will also include a new Restructuring Plan for financial services firms.

FCA publishes statement on handling post and paper documents

On 13 May 2020, the Financial Conduct Authority (FCA) published a statement on how firms should handle post and paper documents. The FCA recognizes that due to COVID-19 some firms may face difficulties in complying with the rules on post and paper-based processes.

FCA updates its webpage on customers in temporary financial difficulty

On 7 May 2020, the Financial Conduct Authority (FCA) updated its webpage "Coronavirus and customers in temporary financial difficulty: draft guidance for insurance and premium finance firms" confirming that the guidance will come into force on 15 May 2020.

FCA updates its statement on complaints handling

On 7 May 2020, the Financial Conduct Authority (FCA) updated its statement on complaints handling by firms during the COVID-19 crisis. The statement provides information to firms on matters including:

- complaint handling capacity and priorities
- vulnerable consumers
- maintaining the quality of complaint handling
- firms experiencing difficulties
- the FOS' general approach.

FCA updates a webpage on its expectations of general insurance firms

On 5 May 2020, the Financial Conduct Authority (FCA) updated a webpage in which it sets out its expectation that general insurance firms will treat their customers fairly and address customer's inability to access the insured premises.

FCA publishes digital sandbox webpage

On 4 May 2020, the Financial Conduct Authority (FCA) published a new webpage "Digital sandbox – coronavirus (Covid-19) pilot" announcing plans to provide enhanced regulatory support to innovative firms tackling COVID-19 related challenges. The FCA plans to pilot aspects of the digital sandbox on a modular basis. Applications open in summer 2020.

FCA publishes Handbook Notice 76

On 1 May 2020, the Financial Conduct Authority (FCA) published Handbook Notice 76 setting out a number of changes to the FCA Handbook through the following instruments:

- COVID-19: Deferral of Commencement (Pension Transfers, Investment Pathways, Platform Switching, Access to Insurance) Instrument 2020 (FCA 2020/15).
- COVID-19 Credit Cards and Personal Loans Instrument 2020 (FCA 2020/16).
- COVID-19 Motor Finance and High Cost Credit Instrument 2020 (FCA 2020/17).
- COVID-19 Mortgages Instrument 2020 (FCA 2020/18).
- Pension Guidance and Relevant Provisions (Miscellaneous Amendments) Instrument 2020 (FCA 2020/19).

FCA publishes guidance on customers in temporary financial difficulty

On 1 May 2020, the Financial Conduct Authority (FCA) published a statement with guidance for insurance and premium finance firms on customers in temporary financial difficulty. The guidance sets out guidelines on the actions firms should take when dealing with customers, namely that firms should:

- re-assess the risk profile of customers.
- consider multiple products to meet the customers need and revising the insurance cover accordingly.
- consider payment deferrals to avoid the need to cancel the cover.
- waive any fees associated with adjusting a qualifying customer's policy in addition to waiving cancellation fees.

FSB publishes guidance on assessing adequacy of financial resources for CCP resolution

On 4 May 2020, the Financial Stability Board (FSB) published a Consultation Paper (CP) on financial resources to support central counterparty (CCP) resolution and the treatment of CCP equity in resolution. Increased central clearing of standardised over-the-counter (OTC) derivatives has simplified derivative exposures and more collateral has supported a reduction in counterparty risk.

PRA publishes PS on ISPV authorisation and supervision

On 22 May 2020, the Prudential Regulatory Authority (PRA) published a Policy Statement (PS) updating the requirements for the authorisation and supervisions of insurance special purpose vehicles (ISPVs). The PS makes a number of key points, covering:

- amendments to the ISPV part of the PRA rulebook
- updates to the Supervisory Statement: authorisation and supervision of ISPVs
- updates to the multi-arrangement ISPV new risk assumption notification form.

The new policy took effect on 22 May 2020.

PRA publishes guidance on application of the CRR and IFRS9 requirements to payment holidays

On 22 May 2020, the Prudential Regulatory Authority (PRA) published a statement on the application of the Regulatory Capital and International Financial Reporting Standard 9 (IFRS 9) to granting or extending payment holidays, in light of COVID-19.

PRA publishes policy on probability default and loss given default estimation of credit risk

On 14 May 2020, the Prudential Regulatory Authority (PRA) published a Policy Statement (PS) “Credit risk: Probability of Default and Loss Given Default estimation” making a number of changes to the Consultation Paper to:

- extend the implementation deadlines for the EBA roadmap
- amend the approach to discount cured exposures
- accept temporary divergence between accounting impairment and approved IRB models for defaulted exposures
- clarify the use of Sterling Overnight Index Average (SONIA).

The requirements under the PS will take effect on 1 January 2022.

PRA publishes statement on Capital Requirements.

On 7 May 2020, the Prudential Regulatory Authority (PRA) published a statement on conversion of Pillar 2A capital requirements from a risk weighted assets (RWA) percentage to a nominal amount. To assist firms impacted by the COVID-19 pandemic, the PRA is setting the Pillar 2A requirements as a nominal amount in 2020 and 2021 Supervisory Review and Evaluation Processes, instead of a percentage of total RWA.

PRA publishes statement on loans under BBLS

On 4 May 2020, the Prudential Regulatory Authority (PRA) published a statement "on credit risk mitigation eligibility and leverage ratio treatment of loans under the Bounce Back Loan Scheme (BBLS)", setting out its observations on the risk weighted treatment of exposures under the BBLS. The PRA has also introduced a change in the UK leverage ratio framework, offering a modification by consent for banks subject to the Leverage Ration Part of the PRA Rulebook to exclude loans under the BBLS.

BoE publishes speech on insurance regulation beyond Solvency II

On 22 May 2020, the Bank of England (BoE) published a speech on regulatory views and life beyond Solvency II. The speech noted that insurers should increase the monitoring of risks arising out of the COVID-19 crisis, update their risk assessments and focus on operational resilience.

BoE publishes notice on collateral referencing of LIBOR

On 7 May 2020, the Bank of England (BoE) published a notice on its approach to collateral referencing LIBOR for use in the Sterling Monetary Framework. The BoE pushes back the dates on which the increased haircuts on LIBOR-linked collateral would apply as follows:

- the 10% haircut will apply from 1 April 2021 (rather than 1 October 2020) and;
- the 40% will apply from 1 September 2021 (rather than 1 June 2021).

CMA updates timetable in competition investigation

On 21 May 2020, the Competition and Markets Authority (CMA) updated its timetable on the ongoing investigation under Chapter 1 of the Competition Act 1998 and Article 101 of the TFEU. The CMA announced that its initial investigation will continue until December 2020 and now includes a review and analysis of additional evidence.

BBRS publishes report business banking dispute resolution

On 22 May 2020, the Business Banking Resolution Service (BBRS) published a report on the impact of government loan schemes on business banking dispute resolution, in light of COVID-19. BBRS reports that the loan schemes have played a crucial role in saving businesses but at the same time have the potential to give rise to a number of disputes.

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