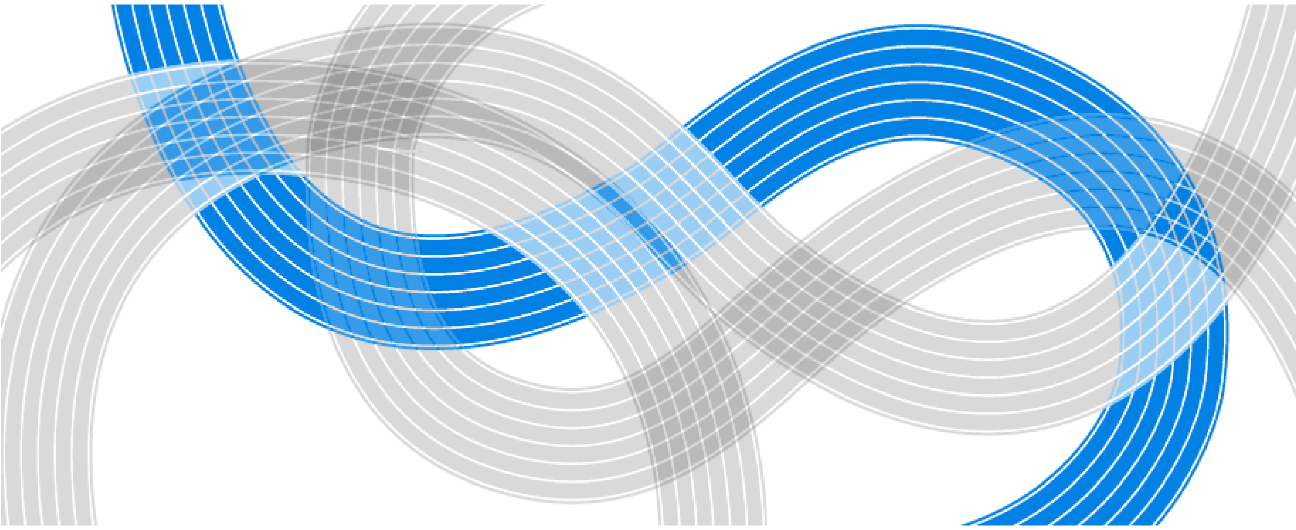

Summary of regulatory developments

Updates for March 2021

This memo identifies and summarises any regulatory updates published during March 2021 that may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in March.

REGULATORY ITEMS IDENTIFIED IN FEBRUARY THAT MAY BE OF RELEVANCE TO LIFE INSURANCE COMPANIES

Date	Description
1-Mar	The European Insurance and Occupational Pensions Authority (EIOPA) advises on insurers' key performance indicators (KPIs) on sustainability for nonfinancial reporting
5-Mar	The Financial Conduct Authority (FCA) makes announcements on the end of LIBOR
17-Mar	The European Supervisory Authorities (ESAs) consult on taxonomy–related product disclosures
18-Mar	The Prudential Regulation Authority (PRA) provides expectations for the work of external auditors on the matching adjustment in PS2/21 | CP11/20
26-Mar	EIOPA consults on revised guidelines on the use of the Legal Entity Identifier
26-Mar	FCA and the Bank of England (BoE) publish the findings of their joint review of open-ended investment funds
26-Mar	PRA publishes Letter from David Bailey, Sarah Breeden and the FCA: "Transition from LIBOR to Risk Free Rates"
29-Mar	PRA publishes SS1/21, "Operational resilience: Impact tolerances for important business services"
29-Mar	PRA publishes SS2/21 "Outsourcing and third-party risk management"
29-Mar	EIOPA brings about important changes with regard to published national general good rules
31-Mar	ESAs warn of an expected deterioration of asset quality

Updates for March 2021

This section highlights articles of interest to life companies released in March 2021.

ESAs

- The European Supervisory Authorities (ESAs) consult on taxonomy–related product disclosures

  The three ESAs—the European Banking Authority (EBA), EIOPA and the European Securities and Market Authority (ESMA)—have issued a Consultation Paper (CP) seeking input on draft Regulatory Technical Standards (RTS) regarding disclosures of financial products investing in economic activities that contribute to an environmental investment objective.

  The proposed RTS aim to:

  - Facilitate disclosures to end investors regarding the investments of financial products in environmentally sustainable activities.
  - Create a single rulebook for sustainability disclosures under the Sustainability Related Financial Disclosure Regulation (SFDR) and the Taxonomy Regulation. This will be done by amending the draft RTS under the SFDR.

  The CP also includes information about which environmental objectives the product investments contribute to, and how, and to what extent, the activities funded by the product are taxonomy-aligned.

  Market participants must submit any responses by 12 May 2021.

- ESAs warn of an expected deterioration of asset quality

  The three ESAs issued their first joint risk assessment report of 2021. The report highlights how the COVID-19 pandemic continues to weigh heavily on short-term recovery prospects. It also highlights a number of vulnerabilities in the financial markets and warns of possible further market corrections.

  In light of these risks and uncertainties, the ESAs advise national competent authorities (NCAs), financial institutions and market participants to take the following policy actions:

  - Prepare for an expected deterioration of asset quality.
  - Develop actions to accommodate a “low-for-long” interest rate environment and its risks. For insurers, it is important that the regulatory framework also reflects the steep fall in interest rates experienced in recent years and the existence of negative interest rates.
  - Ensure sound lending practices and adequate pricing of risks.
  - Follow conservative policies on dividends and share buy-backs.
  - Prepare investment funds for potential increases in redemptions and valuation shocks, as well as supervise the alignment of fund investment strategy, liquidity profile and redemption policy.

EIOPA

- The European Insurance and Occupational Pensions Authority (EIOPA) advises on insurers’ key performance indicators (KPIs) on sustainability for nonfinancial reporting

  The EIOPA advisory proposes requiring two KPIs on sustainability that depict the extent to which the insurer:

  - Carries out taxonomy-aligned activities, in terms of non-life gross premiums written
  - Funds or finances taxonomy-aligned economic activities, in relation to total investments

  Relevant, comparable and reliable information on the taxonomy alignment of financial market participants is decisive for the promotion of the EU’s Green Deal and the allocation of capital to economic activities that foster environmental goals. EIOPA’s advice is viewed as a major step to promoting high-quality nonfinancial reporting by (re)insurers.

- EIOPA consults on revised guidelines on the use of the Legal Entity Identifier

  The Legal Entity Identifier (LEI) is used by the financial industry not only for identification of legal entities but also for data quality and customer protection purposes, as well as supporting activities in the area of financial stability. EIOPA identified a need to revise its current LEI Guidelines due to:

  - EIOPA's data and digitalisation strategy, aiming to increase data standardisation and quality
  - Reflection of the principle of proportionality
  - 2020 European Systemic Risk Board (ESRB) recommendations on identifying legal entities focusing on the LEI as a common identifier
  - 2019 Financial Stability Board (FSBP) thematic review on implementation of the LEI which listed some remaining obstacles preventing wider LEI adoption

  The focus of the consultation is on the scope of entities that should have a LEI and the clarity of the wording surrounding the scope. The revised Guidelines also cover the necessity to use LEIs for identification purposes when reporting to EIOPA. The closing date for responses is 30 June 2021.

- EIOPA brings about important changes with regard to published national general good rules

  General good rules are national rules of the Member States which introduce additional requirements reflecting specificities of local markets and apply to firms seeking to carry out cross-border business.

  EIOPA has completed its analysis of all published general good rules on registration and professional and organisational requirements that could potentially be noncompliant with the Insurance Distribution Directive (IDD). Overall, the outcome of this exercise was successful in enhancing transparency for consumers and helping to reduce barriers for pursuing insurance distribution in the internal market. For example, many NCAs have adjusted their web pages and documents with information on general good rules to ensure compliance with the IDD.

  An overview table with information on the adjustments made to general good rules in different Member States is available.

FCA

- The Financial Conduct Authority (FCA) makes announcements on the end of LIBOR

  The FCA has confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

  - Immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings
  - Immediately after 30 June 2023, in the case of the remaining US dollar settings

  This is an important step towards the end of LIBOR, and firms are urged to continue to take the necessary action to ensure they are ready.

- FCA and BoE publish the findings of their joint review of open-ended investment funds

  In its Financial Stability Report, the Financial Policy Committee (FPC) set out findings of an ongoing joint review by the FCA and BoE on open-ended investment funds and the risks posed by their liquidity mismatch. A survey was carried out, collecting data on funds' approaches to liquidity management. The results revealed that:

  - Funds have a wide range of liquidity tools available to them, but predominantly use swing pricing
  - Funds intensified and adapted their use of swing pricing during the stress period, although there were large variations in how swing pricing was applied
  - In addition to the use of liquidity management tools, funds managed their liquidity by holding liquidity buffers in the form of cash and noncash liquid assets

- Some funds adapted their liquidity management approaches and governance measures temporarily or permanently in response to the COVID-19 stress
- An indicative liquidity classification suggests that managers of corporate bond funds may be overestimating the liquidity of their holdings

PRA

- The Prudential Regulation Authority (PRA) provides expectations for the work of external auditors on the matching adjustment (MA) in PS2/21 | CP11/20

  This PRA Policy Statement (PS) provides feedback to responses to CP 11/20. This CP set out the proposed expectations and guidance relating to auditors' work on the MA, including clarification and enhanced transparency on the existing position of the external audit of the MA. The PRA also proposed several new expectations in regard to the communication by auditors on the subject of the MA. These expectations relate to:

  - Communications where the auditor becomes aware a firm may not be compliant with its MA requirements
  - Communications where a firm materially changes its approach to calculating the MA and the auditor becomes aware this has not been discussed with the firm's supervisory team

  Responses to the CP generally welcomed these proposals, and in particular the enhanced transparency that they provide. However, respondents also made a number of recommendations, observations and requests for clarification, which are set out in more detail in Chapter 2 of the PS.

  The changes outlined in the accompanying Supervisory Statement (SS) 11/16 will be effective from 1 July 2021.

- PRA publishes Letter from David Bailey, Sarah Breeden and the FCA: "Transition from LIBOR to Risk Free Rates"

  The letter reminds firms about the preparations they should be making for the cessation of LIBOR. Now that cessation dates for all panel bank LIBOR settings have been confirmed, the PRA believes firms have now entered the final and most critical phase of the transition from LIBOR to risk-free rates (RFR).

  The PRA expects all firms to meet the milestones of the Working Group on Sterling Risk Free Reference Rates (RFRWG) and the targets of other working groups and relevant supervisory authorities as appropriate. The annex to the letter sets out a list of priority areas where further preparative action by firms is necessary.

- PRA publishes SS1/21, "Operational resilience: Impact tolerances for important business services"

  This SS sets out the PRA's expectations for the operational resilience of firms' important business services, for which they are required to set impact tolerances. The policy objective is to improve the resilience of both firms and the wider financial sector to operational disruptions.

  The PRA considers that there is a need for a proportionate minimum standard of operational resilience that incentivises firms to prepare for disruptions and to invest where it is needed. Disruptions can affect firms' safety and soundness, undermine policyholder protection and, where appropriate, affect financial stability.

- PRA publishes SS2/21 “Outsourcing and third-party risk management”

  This SS provides detailed information on how firms should comply with regulatory requirements and expectations relating to outsourcing and third-party risk management. The aims of this SS are to:

  - Complement the requirements and expectations on operational resilience outlined in the PRA SS1/21 above and the Statement of Policy "Operational resilience"
  - Facilitate greater resilience and adoption of the cloud and other new technologies, as set out in the BoE’s response to the "Future of Finance" report
  - Implement the EBA "Guidelines on outsourcing arrangements." Certain chapters in this SS expand on the EBA expectations, for instance Chapters 7 (Data security) and 10 (Business continuity and exit plans)
  - Implement the relevant sections of the EBA "Guidelines on ICT and security risk management"

  Firms will be expected to comply with these expectations by 31 March 2022.

Milliman

Milliman is among the world’s largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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