



INSURANCE REGULATORY EBULLETIN

ROUND UP OF REGULATORY DEVELOPMENTS IN AUGUST 2022

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WELCOME TO OUR INSURANCE REGULATORY EBULLETIN

Welcome to this August edition of our Insurance Regulatory eBulletin, which aims to keep you updated with significant regulatory developments and their implications across the insurance sector.

August, perhaps predicably, has been a quieter month with no speeches being drawn to your attention in this edition. The most significant development this month is that following the conclusion of the consultation process, the final rules have been published by the FCA in respect of principals and their appointed representatives. There are now enhanced reporting requirements in this area which take effect on 8 December 2022 and principal firms should therefore take any necessary steps to comply with these.

This bulletin contains as much up to date regulatory news as we can gather. Inevitably, this may change as the current situation develops and we will aim to keep you informed in the future.

I would like to take this opportunity to welcome [Geeta Joshi](#), a new audit partner to the BDO insurance team. Geeta has joined us from EY. She is a well-regarded voice on IFRS 17 and will be helping lead BDO's global IFRS 17 audit methodology.

Please do not hesitate to contact myself or your usual BDO contact if you have any concerns over any matter highlighted in this update. For more information about our audit, tax and advisory services to the insurance sector, visit our [insurance services](#) page.

I hope you enjoy reading this latest update.



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PRUDENTIAL REGULATION

PS7/22 RESPONSES TO CP3/22 'OCCASIONAL CONSULTATION PAPER

The PRA has issued a [Policy Statement](#) (PS) providing the final policy following Consultation Paper (CP) 3/22 'Occasional Consultation paper'. In the form of:

- ▶ final rules;
- ▶ amended UK Technical Standards;
- ▶ updated Supervisory Statements (SS);
- ▶ updated Statement of Policy;
- ▶ updated template and instruction file; and
- ▶ deletion of Legacy Supervisory Statement (LSS) and SS3/13, SS4/15, and SS29/15. The PS is relevant to different firms, in accordance with the CP chapters.

CONDUCT REGULATION

PS22/11 IMPROVEMENTS TO THE APPOINTED REPRESENTATIVES REGIME

The FCA has [published](#) PS22/11 'Improvements to the Appointed Representatives regime' a Policy Statement setting out the responses to its consultation paper on proposed changes to the Appointed Representatives (AR) regime, plus the final rules.

On 3 August the AR Instrument 2022/32 was published on the FCA's website. This amended the Glossary of definitions and the Supervision manual of the FCA Handbook.

- ▶ Part 1 of Annex B of this instrument came into force on 29 July 2022;
- ▶ Part 2 of Annex B of this Instrument came into effect on 4 August 2022;
- ▶ all other parts of the instrument come into force 8 December 2022.

The enhanced reporting requirements take effect on 8 December 2022 and principal firms should read the updated rules and expectations and take any necessary steps to comply.

It should be noted that the FCA has put in place transitional arrangements to give firms more time to comply with some of the new rules, particularly those requiring them to submit information on an on-going basis and to review their ARs and self-assess annually.

CP22/15 CALCULATING REDRESS FOR NON-COMPLIANT PENSION TRANSFER ADVICE

The FCA has published a [consultation paper](#) on calculating redress for consumers who have suffered financial loss because a firm's non-compliant advice caused them to transfer from a defined benefit pension scheme to a defined contribution pension scheme. It has carried out a periodic review of its methodology for calculating redress and this concluded that the current methodology remains appropriate and fundamental changes are not necessary. However, the review identified some areas where the FCA could improve or clarify the

methodology to ensure it continues to provide appropriate redress. This consultation paper sets out proposals for these improvements.

Comments should be submitted on or before 20 September 2022.

CP22/16 OFFICE FOR PROFESSIONAL BODY ANTI-MONEY LAUNDERING SUPERVISION: SOURCEBOOK UPDATE

The FCA has released a [Consultation Paper on the Office for Professional Body Anti-Money Laundering Supervision](#): Sourcebook update (CP22/16). This consultation focuses on updates to the sourcebook in an effort to drive improvements in how professional body supervisors (PBSs) reduce money laundering in the sectors they oversee.

Comments must be submitted on or before 29 September 2022.

101 FIRMS IN SCOPE OF NEW EMERGENCY ASSET RETENTION RULES FOR BRITISH STEEL PENSION SCHEME TRANSFER ADVICE

The FCA has [announced](#) that new emergency asset retention rules now apply to 101 firms who provided pension transfer advice to former British Steel Pension Scheme (BSPS) members, 26 of these firms are subject to an asset restriction. The rules came into force on 27 April 2022 to prevent firms who advised BSPS members to transfer their benefits out of the scheme from disposing of assets to avoid paying compensation under a potential consumer redress scheme.

FCA LOOKS FOR EXTERNAL EXPERTS TO HELP SHAPE ITS WORK ON ESG ISSUES

The FCA has announced that it is establishing a [new advisory committee](#) to the FCA's Board to work on Environmental, Social and Governance (ESG) issues, and is looking for interested stakeholders to join. The Committee's role will be to provide advice to the Board on:

- ▶ the oversight of ESG issues relevant to the FCA both as a regulator and its own operations;

- ▶ emerging ESG topics or issues; and
- ▶ how the FCA should develop its ESG Strategy, in keeping with the organisation's statutory objectives and regulatory principles.

by the FRC is referred to within the Governance section of this Bulletin.

REGULATION ROUND-UP

On 25 August the FCA published its monthly Regulation Round-up. In addition to various topics, detailed above, this noted the following:

- ▶ Annual Public Meeting

The FCA will hold its virtual annual public meeting on 15 September, at which the Annual Report and Accounts 2021/22 will be discussed. There will be an opportunity for questions to the Chair, Chief Executive and executive directors of the FCA. The FCA has established a registration site to register and to submit questions in this respect.

- ▶ FCA Regional Offices

More than 100 new jobs will be created locally when the FCA opens a new office in Leeds in September. These jobs will be new roles and will not involve a restructuring of positions out of London. The Leeds office will be where the FCA's Digital Delivery Centre will be based. The FCA is also doubling the number of staff in their Edinburgh office to around 200 and increasing recruitment in data and technology.

- ▶ Review of TCFD aligned disclosures by premium listed commercial companies

The FCA's environmental, social and governance (ESG) strategy sets out our target outcomes and how it is planned to deliver these. The aim is to support the financial sector in driving positive change, including the transition to net zero.

Increasing transparency on climate and wider sustainability risks and opportunities is a key priority. The FCA introduced a climate-related disclosure rule for premium listed issuers as a first step to improving the quality and quantity of disclosures across the corporate sector. The FCA have outlined preliminary [observations](#) following an assessment of the first climate-related disclosures made in line with their rule and have reiterated their expectations to industry. The complimentary review performed

EIOPA

We continue to monitor EIOPA's activity and draw your attention to it where we believe it to be necessary or helpful. This will, we hope, assist those firms continuing to operate in the EU.

Items of possible interest this month are as follows:

APPLICATION GUIDANCE ON CLIMATE CHANGE MATERIALITY ASSESSMENTS AND CLIMATE CHANGE SCENARIOS IN ORSA

EIOPA has published [guidance on climate change materiality](#) assessments and climate change scenarios in ORSA, as a follow-up from EIOPA's opinion on the supervision of the use of climate change risk scenarios in ORSA, published in April 2021. This elaboration on application guidance will assist with the materiality assessment in the context of climate change, climate change scenario design and specifications using concrete case studies and should also contribute to lowering implementation costs for insurance undertakings, in particular, small-and mid-sized ones.

REQUEST FOR INPUT RELATED TO GREENWASHING RISKS AND SUPERVISION OF SUSTAINABLE FINANCE POLICIES

EIOPA, the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) (together the "ESAs") have been requested by the EC to provide their [respective input](#) on the monitoring of greenwashing risks and supervision of sustainable finance policies in the European Union (EU). This follows the publication by the EC of its Strategy on Financing the Transition to a Sustainable Economy. The Strategy outlines steps to monitor and assess whether the ESAs are effective in their mandates and cooperation with each other in addressing greenwashing risks effectively.

The EC encourages the ESAs to reach out to Competent Authorities, as well as market participants to gather evidence for the reports,

and the ESAs are also encouraged to share between themselves information and data on greenwashing cases and complaints due to the cross-sectoral nature of greenwashing risks. The EC has requested the progress reports from the ESAs in 12 months after the date of this request. The ESAs' final reports are requested to be provided 24 months after the date this request has been sent.

CONSULTATION PAPER ON SUPERVISORY STATEMENT ON THE USE OF GOVERNANCE ARRANGEMENTS IN THIRD COUNTRIES TO PERFORM FUNCTIONS OR ACTIVITIES

The EIOPA has issued a [Consultation Paper](#) 22-715 relating to the Supervisory Statement on the use of governance arrangements in third countries. The aim of this Supervisory Statement is to ensure appropriate supervision and monitoring of the compliance of insurance undertakings and intermediaries with the requirements of the relevant EU legislation in relation to their governance arrangements in third countries.

Comments should be submitted on or before 31 October 2022.

SOLVENCY CAPITAL REQUIREMENT - CLARIFIATION CZECH REPUBLIC

EIOPA has issued a questions and answers document in relation to regulation (EU) No 2015/35 supplementing Dir 2009/138/EC - taking up & pursuit of the business of Insurance and Reinsurance (SII), discussing solvency capital requirements (SCR). Specifically, [Question ID: 2443](#), asked for confirmation on whether the correlation coefficient for the windstorm risk in the Czech Republic in risk zones 78 and 79 is 0.8. The EIOPA has answered that due to a PDF conversion issue, the correlation coefficient should instead be 0.75. This response was published on the EIOPA website on 1 August 2022.

**(EU) NO 2009/138 - SOLVENCY II DIRECTIVE
(INSURANCE AND REINSURANCE):
CLARIFICATIONS**

EIOPA has responded to questions that have arisen through [interpretation of the \(EU\) No 2009/138 - Solvency II Directive \(Insurance and Reinsurance\) Regulation](#). In response to Question ID 2434, EIOPA has explained that the industrial forestry (Silvicultural Activities) is not an operation arising directly from the business of insurance as per Article 18(1)(A) of the Regulation. EIOPA also outlined the definition of ancillary services undertaking. This response was published on the EIOPA website on 25 August 2022.

CORPORATE GOVERNANCE

CRR THEMATIC REVIEW OF TCFD DISCLOSURES AND CLIMATE IN THE FINANCIAL STATEMENTS

The Corporate Reporting Review (CRR) team of the FRC has released the [thematic review of Task Force on Climate-Related Financial Disclosures \(TCFD\)](#) and climate in financial statements. This review examines TCFD disclosures and climate-related reporting in the financial statements of 25 premium listed companies and sets out the results of their preliminary review of premium listed companies' disclosures.

The FRC found that the companies included in its review have generally risen to the challenge and were largely able to make the TCFD disclosures that are 'particularly expected' by the FCA's Listing Rule. However, there is a range of maturity in companies' disclosures, even within the sample selected that was weighted towards companies who were better prepared for the reporting requirement. In addition, the FRC has set out five main ways that companies could significantly improve their TCFD disclosures and financial statements reporting in relation to climate change.

BETTER ESG DATA DRIVES MORE IMPACTFUL DECISION-MAKING BY COMPANIES

On 30 August, the FRC published a [report](#) on Environmental, Social and Governance (ESG) data production, aimed at helping companies to consider how to collect and use ESG data more effectively to support better decision-making. The report sets out the three key elements of ESG data production: motivation, method and meaning; and outlines some suggested positive actions to address these challenges as well as how Boards can optimise how ESG data is collected and applied.

FUNDING THE AUDIT, REPORTING AND GOVERNANCE AUTHORITY: CONSULTATION ON THE FRC PROPOSALS

The FRC is [seeking views](#) on the high-level principles on which the funding model for the Audit, Reporting and Governance Authority (ARGA) should be based. ARGA is being established by the Government as the successor to the FRC. The proposals set out in this document, flow from the approach set out in the White Paper titled 'Restoring trust in audit and governance'. They include that there should be a clear line of sight between ARGA's objectives, its annual plan and budget and the amounts levied from each funding group.

Following this consultation, and subject to the Government's legislative plans, the FRC intends to consult further on detailed aspects of the proposed arrangements, to be contained in a Rule Book.

Comments should be submitted by 21 October 2022.

DIGITAL SECURITY RISK DISCLOSURE

The FRC has published a report on ['Digital Security Risk Disclosure'](#) which is designed for reporting teams, risk teams who are involved in reporting and for audit committees who review the resultant disclosures. The report focuses on disclosure in relation to digital security risk that can be optimised to provide users with useful information. However, it does not cover what controls a company should have or what the general requirements are around risk disclosure. In order to guide companies, the FRC suggests that companies can improve disclosures by focusing on the aspects of strategy, governance, risk and events.

CALL FOR PARTICIPANTS: STEWARDSHIP REPORTING

The FRC is inviting asset owners (pension funds, insurers) and investment consultants to participate in [a new project for the FRC's Corporate Governance and Stewardship team looking at how they use the stewardship reports of asset managers](#). The FRC Lab invites pension

funds, insurers and advisers to asset owners and other interested parties to communicate their interest by 16 September 2022. Participation is expected to involve a 1-hour individual virtual meeting to discuss views and experiences and multi-party round table meetings of 1.5 hours.

DRAFT 2023 TAXONOMY SUITE CONSULTATION

On 12 August, the FRC published a draft version of the [2023 Taxonomy Suite](#), which is open to public comment for two months. The FRC aims to release the final version of the Suite in October 2022, together with a feedback statement. Amongst other things, the FRC has added support for reporting Alternative Performance Measures (APMs), updated Irish Extension and Charities taxonomies and digitalised IFRS 17 Insurance Contracts to reflect the UK endorsement of the Standard.

AUDITOR REPORTING: A REVIEW OF CURRENT PRACTICE

The FRC has published the findings of its research into the current state of [auditor reporting](#) within the UK, as of August 2022. This research was performed in order to provide an in-depth assessment of the readability of auditors' reports, as well as how auditors communicate how the audit was performed, the risks they identified, and the responses to those risks. A sample of nearly 400 auditor's reports for companies in the FTSE 350, as well as large AIM companies, has been used to explore their form and content. The findings have been summarised as a series of six 'snapshots' to start a dialogue with stakeholders on how auditor's reports can be further improved.

PIE AUDITOR REGISTRATION GUIDANCE FOR TRANSITIONAL APPLICATIONS

The FRC has published [guidance](#) for audit firms on the Public Interest Entity (PIE) Auditor Registration Regulations, which will take effect on 5 December 2022. The Regulations provide for a Transitional Period which begins on 5 September 2022 and ends on 4 December 2022, during which time Audit firms who are undertaking Statutory Audit Work for a PIE should make a transitional application to be

included on the FRC's PIE Auditor Register. The FRC has published this guidance to assist with the Transitional Applications.

The FRC has published a [feedback statement](#) following its consultation on proposals to introduce new requirements for the approval and registration of audit firms and responsible individuals (RIs) who undertake statutory audit work in respect of PIEs. The responses were generally supportive of the FRC's proposals, noting that the additional process for registration would enhance public confidence in those conducting audits of PIEs.

The FRC has published [Eligibility Criteria](#) in connection with the new regulations for the PIE Auditor Register, Part A of these Eligibility Criteria apply to each individual and firm who wish to be eligible for appointment as a statutory auditor and Part B applies to those who are eligible for appointment as a statutory auditor under Part A and who wish to be eligible for appointment as a statutory auditor of a PIE or PIEs.

INFORMATION COMMISSIONER'S OFFICE

We continue to monitor material being issued by the Information Commissioner's Office (ICO) with a view to highlighting high-level matters that may be relevant to readers. The following has been identified for this month:

ICO25 PLAN

The ICO has published its [ICO25 plan](#), in which it outlines its overall purpose, values, and methodologies, as well as its projections for the next few years.

ENFORCEMENT ACTION

PRA / FCA REGULATORY FINES ROUND-UP

We have identified key relevant enforcement action during August and in this respect fines announced by the PRA / FCA were:

Citigroup Global Markets Limited	The FCA has imposed a financial penalty Citigroup Global Markets Limited £12,553,800 a wholly-owned indirect subsidiary of Citigroup Inc, for failing to properly implement the Market Abuse Regulation trade surveillance requirements relating to the detection of market abuse. This meant it could not effectively monitor its trading activities for certain types of insider dealing and market manipulation. This resulted in significant gaps in its arrangements, systems, and procedures for additional trade surveillance. failing to conduct its business with due skill, care, and diligence in relation to its implementation of the Market Abuse Regulation. The FCA found that the firm took 18 months to identify and assess that the specific market abuse risks its business may have been exposed to and which it needed to detect. The firm's flawed implementation resulted in significant gaps in its arrangements, systems, and procedures for additional trade surveillance.
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