

BROKER-DEALER

FINRA Issues Information Notice Regarding Suspicious Email Sent to Member Firms

On February 13, the Financial Industry Regulatory Authority (FINRA) published an information notice alerting member firms about a suspicious email received by compliance personnel at a number of member firms. The email, sent by a purported BSA-AML compliance officer at a credit union, describes an attempted transfer of money from a firm client that the credit union has blocked due to anti-money laundering concerns. The email contains an attachment that, if opened, could potentially expose the member firm to a malicious virus or malware designed to obtain unauthorized access to such member firm's computer network.

FINRA noted that member firms should be on the lookout for "red flags" related to potentially fraudulent emails, such as the sender requesting that the recipient open an attachment for additional details, and may report their receipt of such emails to FINRA.

The Notice is available [here](#).

FINRA Issues Regulatory Notice on Effective Date Extension of Margin Requirements for Covered Agency Transactions

On February 12, the Financial Industry Regulatory Authority (FINRA) issued Regulatory Notice 19-05 (Notice) informing member firms that the effective date for the implementation of the amendments to FINRA Rule 4210 has been postponed. The amendments, which will establish mandatory margin requirements for certain covered agency transactions, will go into effect on March 25, 2020 as opposed to March 25, 2019. The postponement of these rules will not affect the risk limit determination requirements that went into effect on December 15, 2016.

For a discussion of such amendments and FINRA's prior postponement of their effective date, please refer to the February 1, 2019 edition of [Corporate & Financial Weekly Digest](#).

The Notice is available [here](#).

DERIVATIVES

See "CFTC Commissioners File Comment Letter Regarding Proposed Standardized Approach for Measuring Counterparty Credit Risk" in the CFTC section.

CFTC

CFTC Commissioners File Comment Letter Regarding Proposed Standardized Approach for Measuring Counterparty Credit Risk

On February 15, four members of the Commodity Futures Trading Commission (Commissioner Stump recused herself) filed a comment letter regarding the standardized approach for calculating the exposure amount of

derivative contracts proposed by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the Agencies). In 2018, the Agencies proposed a standardized approach for measuring counterparty credit risk (SA-CCR), which would replace the current exposure methodology (CEM) as an alternative method for calculations under the Agencies' capital rules.

Under the proposed rules, large banking organizations (i.e., firms with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure) would be required to use SA-CCR to calculate both standardized total risk-weighted assets and the supplementary leverage ratio (SLR). Smaller banking organizations could elect to use either CEM or SA-CCR to determine exposure for derivative contracts.

In their comment letter, the Commissioners explained that bank capital standards, when implemented appropriately, should not deter central clearing for swaps. However, the Commissioners believe that the existing capital standards (and in particular the SLR) are counterproductive, "limiting access to derivatives risk management strategies and discouraging the central clearing of standardized swap products." Further, imposing an SLR without also permitting an offset for the initial margin that clearing members hold on behalf of clients (as proposed) could have a substantial adverse impact on clearing members. Without changes to the SA-CCR, therefore, clearing members could curtail the provision of clearing services or exit the clearing business altogether.

The comment letter is available [here](#).

BREXIT/UK DEVELOPMENTS

Collective Investment Scheme (Amendment etc.) (EU Exit) Regulations 2019 Made

On February 20, the Collective Investment Schemes (Amendment etc.) (EU Exit) Regulations 2019 were published on legislation.gov.uk, together with an explanatory memorandum.

The Regulations are designed to ensure that the regime established under the UCITS IV Directive for investment funds and their managers continues to operate effectively after the United Kingdom's withdrawal from the European Union (Brexit) on March 29 (Exit Day). It includes amendments to the retained provisions of delegated acts made under UCITS IV and relevant UK financial services legislation such as the Financial Services and Markets Act 2000.

The Regulations were laid before Parliament in December 2018 (for more information, see the December 14, 2018 edition of [Corporate & Financial Weekly Digest](#)). No changes appear to have been made.

The Regulations will go into effect on Exit Day, except for certain provisions, such as those relating to temporary recognition, which is effective immediately.

The Regulations are available [here](#), and the related explanatory memorandum is available [here](#).

BREXIT/EU DEVELOPMENTS

ESMA to Recognize Three UK CCPs in the Event of a No-Deal Brexit

On February 18, the European Securities and Markets Authority (ESMA) published a press release confirming that it has adopted recognition decisions to permit three UK central counterparties (CCPs) to continue to provide CCP services to EU trading venues and EU clearing members following the United Kingdom's withdrawal from the European Union on March 29 (Exit Day) in the event that no agreement on transitional arrangements is in place with the EU (no-deal Brexit).

The three UK CCPs are:

- LCH Limited;
- ICE Clear Europe Limited; and
- LME Clear Limited.

The formal recognition follows the Bank of England and ESMA's prior announcements that they had entered into Memorandums of Understanding in relation to CCPs and central securities depositories (CSDs) earlier in February (for more information, see the February 8, 2019 edition of [Corporate & Financial Weekly Digest](#)). In relation to CSDs, ESMA states that the recognition assessment for the UK CSD is ongoing and that the results of such assessment will be published soon.

The recognition decisions will, in the event of a no-deal Brexit, take effect on the day after Exit Day.

The press release is available [here](#).

For additional coverage on financial and regulatory news, visit [Bridging the Week](#), authored by Katten's [Gary DeWaal](#).

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