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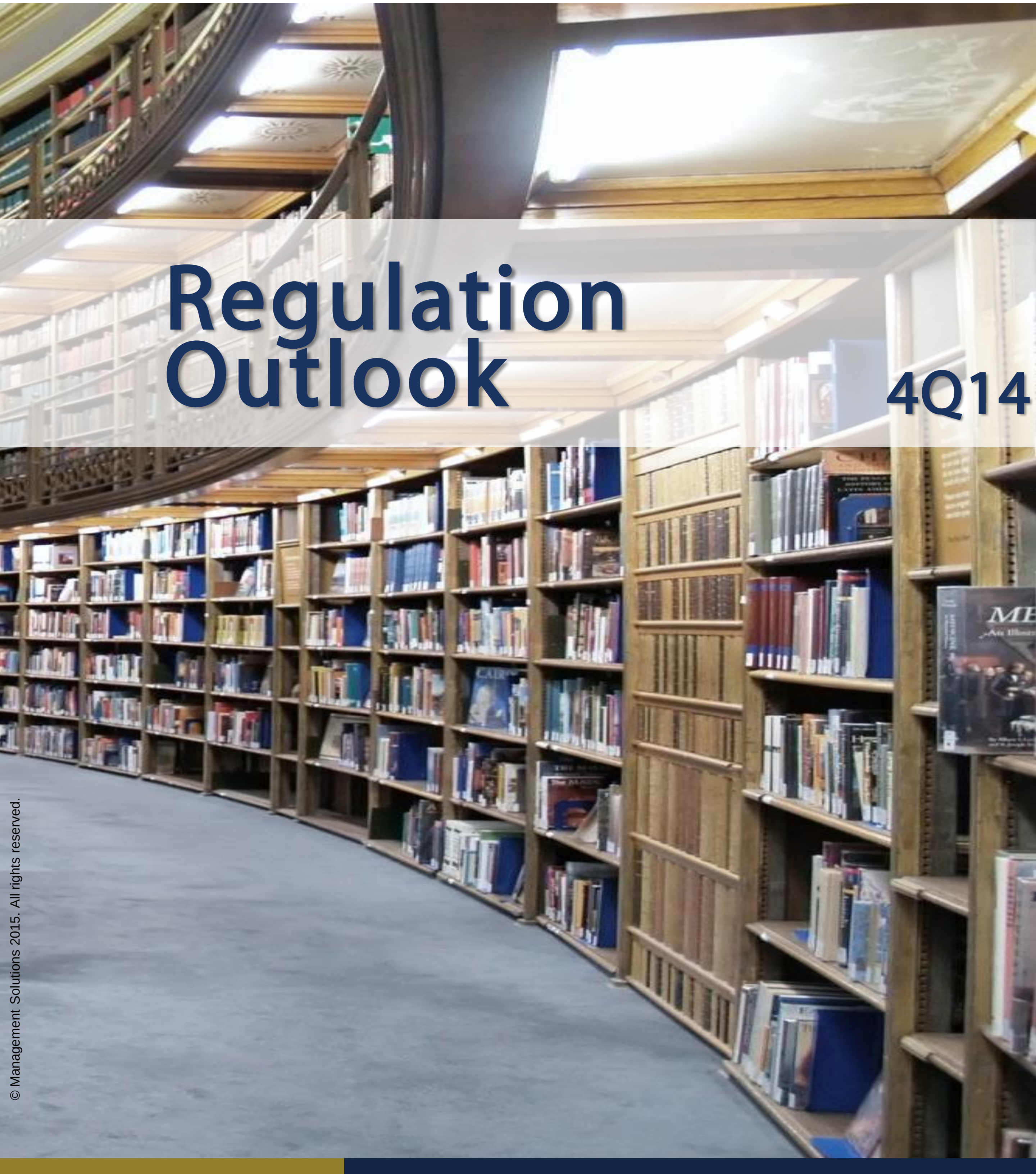

Regulation Outlook

4Q14

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Executive summary

The most relevant publications of this quarter were the total loss absorbing capacity (TLAC) requirement, and the results of the Comprehensive Assessment and the Stress Test.

Global publications

- The FSB has published a consultative document on the TLAC, which mandates G-SIBs to hold additional requirements to the Basel III capital requirements in order to ensure their loss absorbing capacity.
- The BCBS has made amendments to the treatment of credit risk, market risk and operational risk. Specifically, the BCBS published a consultative document with revisions to the Standardized Approach for credit risk.
- Furthermore, the BCBS has reviewed the principles for sound corporate governance and has defined the Net Stable Funding Ratio (NSFR) framework.

European publications

- The ECB and the EBA have published the results of the Comprehensive Assessment and the Stress Test, respectively. In general terms, a capital deficit of 25,000 M€ was detected and it was concluded that the value of the banking assets should be adjusted by 48,000 M€. In the event of an adverse scenario, the average CET1 would be reduced by 2.6%.
- In the context of the Single Supervisory Mechanism (SSM), the ECB has approved the Regulation through which, for the first time, an annual supervisory fee will be charged to entities.
- The EBA has published common procedures and methodologies addressed to competent authorities for the conduction of the Supervisory Review and Evaluation Process (SREP).

European publications (continuation)

- The EBA has also proposed the supervisory assessment methodology for the verification on entities´ compliance with the IRB approach requirements.
- Moreover, the EBA has published a set of documents aimed to fulfill several mandates included within the Bank Recovery and Resolution Directive (BRRD). It has issued technical guidelines regarding the minimum requirement for own funds and eligible liabilities (MREL) and the content of resolution plans, among other measures.
- Finally, the EBA has amended the Liquidity Coverage Ratio (LCR) and Leverage Ratio (LR) reporting templates in order to adjust to the new framework of both ratios.

Local publications

- The Bank of Spain has published the Circular 5/2014 amending the Circular 4/2004. In this regard, the methodology for the allowances calculation for substandard assets has been amended and reporting adjustments have been made to adapt the FINREP statements.
- The Consejo de Ministros has approved the Anteproyecto de Ley de Reestructuración y Resolución de Entidades de Crédito aimed to transpose the BRRD into the Spanish law.
- Moreover, the Consejo de Ministros has issued the Anteproyecto de Ley de Auditoría de Cuentas, which establishes several services that audit companies can no longer offer to their clients.

Upcoming publications

The Single Resolution Board (SRB) is operational since January 2015, which is the first step within the implementation of the Single Resolution Mechanism (SRM).

Regulatory projections

1. Next quarter

- **(Europe) January 2015**: The Single Resolution Board is operational and will start to elaborate resolution plans.
- **(Europe) January 2015**: National Competent Authorities (NCAs) will identify Global Systematically Important Institutions (G-SIIs) for the first time.
- **(Global) January 2015**: The BCBS will initiate a Quantitative Impact Study (QIS) to inform deliberations on the final calibration of the new framework for the calculation of the trading book capital standard.

2. Next year

- **(Europe) 30 April 2015:** The ECB will charge an annual supervisory fee on the directly and indirectly supervised banks within the SSM.
- **(Europe) June 2015**: National Competent Authorities should incorporate the assessment criteria of the guidelines on identification of O-SIIs in their supervisory procedures.
- **(Europe) June 2015**: The EBA will issue to the European Commission all the Binding Technical Standards (BTS) on MiFID.
- **(Europe) 1 July 2015**: Additional Monitoring Metrics (AMM) for the liquidity ratio will be adjusted to templates and corrections made by the EBA.
- **(Europe) 1 July 2015**: the Regulation of the European Parliament and the Council on structural measures improving the resilience of EU credit institutions will entry into force.
- **(Europe) 1 August 2015**: The minimum security requirements that Internet Payment Services Providers in the EU should apply will entry into force.
- **(Europe) 1 December 2015**: Financial entities of the banking sector should apply the ITS on liquidity coverage ratio (LCR) and leverage ratio (LR) reporting.
- **(Europe) 2015**: The guidelines on early intervention triggers will be applied.
- **(Global) 2015**: The FSB will review the implementation level of the shadow banking framework.

3. More than a year

- **(Global) 1 January 2016**: G-SIB must comply with RDA principles.
- **(Spain) 1 January 2016:** The Ley de Ordenación, Supervisión y Solvencia de Entidades Aseguradoras y Reaseguradoras will entry into force.
- **(Europe) 1 January 2016**: The minimum criteria for own funds and eligible liabilities (MREL) will be applied.
- **(Europa) 21 March 2016**: Transposition date of the Mortgage Credit Directive (MCD).
- **(Europe) 3 June 2016**: Member States must have adapted their regulations for the effective application of MiFID II.
- **(Europe) 31 December 2016:** Member States should apply the Regulation on Packaged Retail and Insurance-based Investment Products (PRIIPs).
- **(Global) 1 January 2018**: Financial entities should apply the IFRS 9.
- **(Global) 1 January 2018**: Financial entities should apply the NSFR standards proposed by the BCBS.
- **(Global) January 2018**: The revised securitisation framework will come into force.
- **(USA) 1 January 2019**: The framework on the implementation of capital requirements for Global Systemically Important Bank Holding Companies will become fully effective.
- **(Global) January 2019**: The TLAC requirement published in the QIS carried out by the BCBS in early 2015 will entry into force.

Publications of this quarter

Summary of outstanding publications of this quarter

Date of publication	Organism	Type of document	Document
22/12/2014	BCBS	CP	- Revisions to the Standardised Approach for credit risk. - Capital floors: the design of a framework based on standardised approach.
22/12/2014		CP	Fundamental review of the trading book: outstanding issues.
11/12/2014		CP	Basel III Document: Revision to the securitisation framework / Consultative document on criteria for identifying STC securitisations.
09/12/2014		CP	Net Stable Funding Ratio disclosure standards.
13/11/2014		Report	Reducing excessive variability in banks' regulatory capital ratios.
31/10/2014		Report	Basel III: the net stable funding ratio.
11/09/2014		CP	Consultation paper on corporate governance principles for banks.
10/10/2014		CP	- Consultative document on operational risk – revisions to the simpler approaches. - Review of the principles for the sound management of operational risk.
11/11/2014	BCBS / FSB	Report	- G-SIB assessment methodology – score calculation - 2014 update of list of global systemically important banks (G-SIBs).
11/11/2014	FSB	CP	Consultation paper on adequacy of loss-absorbing capacity of global systemically important banks in resolution.
05/11/2014		Progress Report	Third progress report on the implementation of the FSB Principles for Sound Compensation Practices and their Implementation Standards (P&S) by FSB jurisdictions.
16/10/2014		CP	Consultation paper on guidance for the identification of critical functions and critical shared services.
23/12/2014	EBA	RTS	- Final draft RTS on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer. - Updated list of CET1 instruments.
22/12/2014		GL	Final Guidelines on common procedures and methodologies for the SREP.
22/12/2014		Draft RTS / GL	- Draft Regulatory Technical Standards on the content of resolution plans and the assessment of resolvability. - Guidelines on the specification of measures to reduce or remove impediments to resolvability and the circumstances.
19/12/2014		CP on RTS	Consultation paper on Draft Regulatory Technical Standards on Resolution Colleges.
19/12/2014		ITS	Final Draft ITS on joint decisions for approval of internal models.
18/12/2014		Repeal	Repeal of the Recommendation from July 2013 on the preservation of Core Tier 1 capital of EU banks during the transition to the CCRD/CRR framework.
17/12/2014		CP on ITS	- Consultation paper on draft ITS on supervisory reporting with regard to the LCR. - Consultation paper on draft ITS on supervisory reporting with regard to the LR.
16/12/2014		GL	Guidelines on the criteria to determine the conditions of application of Article 131(3) of CRD in relation to the assessment of O-SIIs.
15/12/2014		CP on GL	Consultation paper on draft guidelines on creditworthiness assessment / Consultation paper on draft guidelines on arrears and foreclosure.
10/12/2014		Report	Information disclosed by the EU NCAs according to the ITS on supervisory disclosure.
28/11/2014		CP on RTS	Consultation paper RTS on criteria for determining the minimum requirement for own funds and eligible liabilities.
13/11/2014		CP on RTS	Consultation paper RTS on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach.
12/11/2014		CP on GL	Consultation paper on draft Guidelines on product oversight and governance arrangements for retail banking products.

CP: consultation paper. GL: guidelines. RTS: Regulatory Technical Standards. ITS: implementing technical standards.

Date of publication	Organism	Type of document	Document
12/11/2014	EBA	CP on RTS	Consultation paper RTS on valuation under the BRRD.
06/11/2014		CP on GL	Consultation paper on Guidelines on national provisional lists of the most representative services linked to a payment account and subject to a fee.
06/11/2014		CP on RTS	Consultation paper RTS on the contractual recognition of write-down and conversion.
03/11/2014		CP on RTS	Consultation paper RTS on materiality threshold of credit obligation past due under article 178 CRR.
20/10/2014		CP on GL	Consultation paper on the implementation of EBA Guidelines on the security of internet payments prior to the transposition of the revised PSD2.
13/10/2014		Report	Report on the monitoring of Additional Tier 1 (AT1) capital instruments of EU institutions.
06/10/2014		CP on GL	Consultation paper on Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators.
03/10/2014		CP on GL	- Consultation paper on draft Guidelines on factual circumstances amounting to a material threat to financial stability and of the elements related to the effectiveness of the sale of business tool. - Consultation paper on draft Guidelines on the determination when the liquidation of assets or liabilities under normal insolvency proceedings could have an adverse effect on one or more financial markets. - Consultation paper on draft Guidelines on the minimum list of services or facilities that are necessary to enable a recipient to operate a business transferred to it.
02/10/2014		Report	Indicators from global systemically important institutions (G-SIIs).
01/10/2014		CP on GL	- Consultation paper on draft guidelines on Triggers for use of early intervention measures pursuant to Article 27(4) of Directive 2014/59/EU. - The interpretation of the different circumstances when an institution shall be considered as failing or likely to fail.
23/12/2014	ESMA	TA / CP on RTS	- Final Technical Advice (TA). - Consultation paper on its draft RTS and ITS regarding the implementation of the MiFID II and MiFIR.
12/12/2014		Report	Peer Review Report on MiFID.
30/10/2014	ECB	Reglamento	Regulation on supervisory fees.
30/10/2014		CP on RTS	Consultation paper on a draft Regulation on reporting of supervisory financial information.
27/10/2014		Report	Results on the Comprehensive assessment and the EBA has published EU-wide stress test 2014 results.
12/12/2014	EP y Consejo	Reglamento	Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs).
10/12/2014	Consejo de Ministros	APL	Anteproyecto de Ley de Ordenación, Supervisión y Solvencia de Entidades Aseguradoras y Reaseguradoras.
01/12/2014		APL	Anteproyecto de Ley de Reestructuración y Resolución de Entidades de Crédito y Empresas de Servicios de Inversión.
09/10/2014	Gobierno de España	PL	Proyecto de Ley de Fomento de la Financiación Empresarial.
24/12/2014	BdE	Circular	Circular 5/2014, por la que se modifica la Circular 4/2004.
29/10/2014		P. Circular	Proyecto de Circular a las cajas de ahorros y fundaciones bancarias.
10/12/2014	Fed	Proposed rulemaking	Proposed rulemaking on Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies.
24/11/2014		Report	Document on technical corrections and clarifications to the capital rules applicable to advanced approaches banking organizations.

CP: consultation paper. GL: guidelines. RTS: regulatory technical standards. TA: technical advice. APL: anteproyecto de Ley. PL: proyecto de Ley.

BANK FOR INTERNATIONAL SETTLEMENTS

22/12/2014

- **Revisions to the Standardised Approach for credit risk.**
- **Capital floors: the design of a framework based on standardised approaches.**

1. Context

The Basel framework sets out a range of methods banks use to calculate regulatory capital. One alternative is to measure risk in a standardised manner and the other alternative is based on a bank's use of its internal model and is subject to the explicit approval of the bank's supervisor.

The consultative document on revisions to the standardized approach seeks to improve the approach by reducing reliance on external credit ratings; increasing risk sensitivity; reducing national discretions; strengthening the link between the standardised and the IRB approach; and enhancing comparability of capital requirements across banks.

The consultative on capital floors sets out proposals to design a capital floor based on standardised, non-internal modelled approaches. The proposed floor would replace the existing transitional capital floor based on the Basel I framework.

2. Main points

<u>Revisions to the Standardised Approach for credit risk</u>:

- **Bank exposures** would no longer be risk-weighted by reference to the bank's external credit rating or that of its sovereign of incorporation. They will be based on two risk drivers:
  - The bank's capital adequacy.
  - The bank's asset quality.
- **Corporate exposures** would no longer be risk-weighted by reference to the borrowing firm's external credit rating. They will be based on the firm's revenue and leverage.
  - Risk sensitivity and comparability with the IRB approach would be increased by introducing a specific treatment for specialised lending.
- **The retail category** would be enhanced by:
  - Tightening the criteria to qualify for a preferential risk weight.
  - Introducing an alternative treatment for exposures that do not meet the criteria.
- **Residential real estate** would no longer receive a 35% risk weight and would be based on:
  - The amount of the loan relative to the value of the real estate securing the loan (i.e. the loan-to-value ratio).
  - The borrower's indebtedness (i.e. a debt-service coverage ratio).
- **Commercial real estate exposures**. There are currently two options under consideration:
  - Treating the exposures as unsecured with national discretion for a preferential risk weight under certain conditions.
  - Determining the risk weight based on the loan-to-value ratio.
- **Credit risk mitigation**: the framework would be amended by reducing the number of approaches, recalibrating supervisory haircuts and updating the corporate guarantor eligibility criteria.

<u>Capital floors: the design of a framework based on standardised approaches</u>

- **Level of aggregation of risk categories**: ongoing development of measures to constrain modelling at the exposure class level (i.e. for low-default portfolios).
  - Floors based on exposures class could be applied for credit risk and would be more granular than the risk-category based approach.
- **Adjustments for differences in the treatment of provisions within the IRB and the stantarised approach**: ongoing assessment of the differential treatment in order to conclude whether it is sufficiently material to adjusts them through:
  - <u>Adjustment to the numerator of the capital ratio</u>: reverse the additions or deductions from the IRB approach to capital resources and apply the standardised approach treatment to provisioning. The resulting capital would be the same as if the bank applied the standardised approach to credit risk.
  - <u>Adjustment of RWAs:</u> the relevant provisions would be converted to a "RWA-equivalent" and be added to or removed from a bank's RWAs when calculating its capital floor.
- **Choice of the standardised approach**: ongoing assessment on whether it should be the one implemented by the jurisdiction where the bank operates and is subject to its regulatory framework.
- **Disclosure requirements**: banks would disclose the impact of the floor on capital ratios to ensure that the floor is transparent and robust.

3. Next steps

Comments on the proposals should be uploaded by 27 March 2015.
The BCBS will perform a more comprehensive data collection during the Quantitative Impact Study (QIS) in 2015

BANK FOR INTERNATIONAL SETTLEMENTS

22/12/2014

Consultative document on fundamental review of the trading book.

1. Context

The BCBS released a consultative paper related to the modification of trading book capital requirements in May 2012 to set out a number of specific measures aimed to contribute to a more resilient banking sector by strengthening capital standards for market risk. Subsequently, in October 2013 the BCBS published the second consultative proposal that listed a limited set of revisions to the prior consultative document, aimed also to improve trading book capital requirements.

Considering the comments received to the previous documents and the results of the QIS, the BCBS has issued the third consultative document regarding the trading book, which includes some new measures such as a specified treatment of internal risk transfers (IRTs) between the banking book and the trading book, a revised sensitivity-based standardized approach for market risk and a simpler method for incorporating the concept of liquidity horizons in the internal models approach.

2. Main points

- Inclusion of a specified treatment of **IRTs between the banking book and the trading book**:
  - IRTs of credit and equity risk: the IRT is recognized as a risk mitigant for a credit or equity risk position in the banking book, if the trading book engages in a derivative transaction with an external counterparty that is an exact match of such IRT. Thus, there is no market risk capital requirement for the IRT and the external hedge.
  - IRTs of general interest rate risk (GIRR): the BCBS in consulting on two options:
    - Use a treatment similar to that for IRTs of credit and equity risk.
    - Allow the shifting of risk from the banking book to the trading book with strict constraints to minimize incentive for capital arbitrage.
- Establishment of a **sensitivity-based approach (SBA) for the standardized approach for the market risk capital requirements** as an alternative to the prior cash flow-based calculations for the standardized approach. This new method will enable banks to overcome IT system constraints associated with using cash flows as inputs and reduce the implementation costs.
- Implementation of refinements to reduce modelling complexity and costs associated with **incorporating the risk of varying market liquidity into the expected shortfall (ES) model**
  - Scaled liquidity horizons: the revised approach to ES models employs an approximation based on scaling of ES calculated at a base horizon to the length of the longer liquidity horizons.
  - Floored liquidity horizons between correlated risk factors: the capital calculation for a trading desk can be applied with the specified liquidity horizons treated as a floor, but with the requirement that the correlation risk in the portfolio can be calculated over the length of the longer horizon.

3. Next steps

- Comments on these proposals should be submitted by 20 February 2015
- The BCBS will initiate a follow-up QIS in early 2015 to inform deliberations on the final calibration of the new framework for the calculation of the trading book capital standard.

BANK FOR INTERNATIONAL SETTLEMENTS

11/12/2014

- **Basel III Document: Revision to the securitisation framework.**
- **Consultative document on criteria for identifying STC securitisations.**

1. Context

The financial crisis highlighted several weaknesses in the Basel II securitisation framework, such as mechanistic reliance on external ratings, insufficient capital for certain exposures, cliff effects and lack of risk sensitivity.
In this regard, the BCBS has published a revised securitisation framework which is expected to be more sensitive to risk, more prudent in terms of its calibration, broadly consistent with the underlying framework for credit risk, aligned with the best informative available to banks and transparent.
Furthermore, the BCBS and the IOSCO have published a consultative document which provides criteria to identify simple, transparent and comparable securitisation in order to contribute to a more accurate assessment of securitisations by investors and reduce stigma.

2. Main points

Revision to the securitisation framework:

- **Hierarchy of approaches revision.** The BCBS intends to reduce reliance on external ratings, modifying the hierarchy as follows:
    - Securitisation Internal Ratings-Based Approach (SEC-IRBA): used when a bank has the information specified in Basel II SFA (supervisory-approved IRB models and sufficient information to estimate the capital charge of the underlying pool).
    - Securitisation External Ratings-Based Approach (SEC-ERBA): used when a bank does not have the information to implement the SEC-IRBA.
    - Securitisation Standardised Approach (SEC-SA): used when a bank cannot use the first two approaches.
- **Risk drivers used in each approach:**
    - SEC-IRBA: tranche maturity is incorporated as an additional risk driver in order to address sharp cliff effects. However, a haircut is applied in order to smooth the impact of maturity on capital charges when legal maturity is used.
    - SEC-ERBA: besides the additional drivers, the granularity adjustment will no longer be included when ratings are used.

Criteria for identifying simple, transparent and comparable (STC) securitisations:

- **Scope:** term securitisations.
- **Objective:** developing criteria to identify and assist in the financial industry´s development of STC securitisations. This may lead to a less complex analysis for investors and contribute to building sustainable securitisation markets.
- **Design of the STC criteria:** 14 STC criteria haven been identified in order to assess whether a securitisation consists of a STC securitisation. The criteria have been mapped to key risk types in the securitisation process:
    - Asset risk: nature of the assets, asset performance history, payment status, consistency of underwriting, asset selection and transfer, and initial and ongoing data.
    - Structural risk: redemption cash flows, currency and interest rate asset and liability mismatches, payment priorities and observability, voting and enforcement rights, documentation disclosure and legal review, and alignment of interests.
    - Fiduciary and servicer risk: fiduciary and contractual responsibilities, and transparency to investors.
- The BCBC does not intend to implement the criteria as a regulatory action.

3. Next steps

- Comments on the consultation document should be provided by 13 February 2015.
- The revised framework will come into effect in January 2018.

BANK FOR INTERNATIONAL SETTLEMENTS

09/12/2014
Consultative document on Net Stable Funding Ratio disclosure standards.

1. Context

The fundamental role of banks in financial intermediation makes them inherently vulnerable to liquidity risk, of both an institution-specific and market nature. The BCBS has strengthened its liquidity framework by developing two minimum standards for funding and liquidity.

After publishing the final standard for the Net Stable Funding Ratio (NSFR) in October 2014, the BCBS now proposes this disclosure framework for the NSFR. This framework will improve the transparency of regulatory funding requirements, reinforce the Sound Principles, enhance market discipline, and reduce uncertainty in the markets.

The disclosure requirements are organised into two sections. Section 1 includes the scope of application, implementation date, the frequency and location of reporting; Section 2 sets out the common template that banks must use to report their NSFR results and selected details of the NSFR components.

2. Main points

- **Scope of application**: all internationally active banks on a consolidated basis. Requirements may also be used for other banks and on any subset of entities of internationally active banks.
- **Frequency of disclosure**: banks must publish this disclosure with the same frequency as, and concurrently with, the publication of their financial statements, irrespective of whether they are audited.
- **Location of reporting:** bank's published financial reports or in a link to the completed disclosure on the bank's websites or in publicly available regulatory reports.
    - Banks must also make available on their websites an archive of all templates relating to prior reporting periods.
- **Common template:** banks must disclose the NSFR information in the common template developed by the BCBS.
    - The NSFR data must be:
        - Calculated on a consolidated basis.
        - Presented in a single currency.
        - Reported as quarter-end observations (i.e. banks reporting on an annual basis must report the preceding four quarters NSFR).
        - Disclosed in both an unweighted and weighted basis. Weighted values are calculated as the values after the available stable funding (ASF) or required stable funding (RSF) factors are applied.
    - Banks should provide a sufficient qualitative discussion around the NSFR to facilitate an understanding of the results and the accompanying data.

3. Next steps

- The BCBS welcomes comments on all aspects of this consultative document, which will be published by 6 March 2015.
- Banks will comply with these disclosure requirements from the date of the first reporting period after 1 January 2018, when the NSFR will become a minimum standard.

BANK FOR INTERNATIONAL SETTLEMENTS

13/11/2014
Report to the G20 on reducing excessive variability in banks' regulatory capital ratios.

1. Context

The global financial crisis revealed deficiencies in the regulatory capital framework, which were addressed in the Basel III framework. The Basel III capital standards have significantly improved the minimum requirements for a sound capital base and introduced a simple leverage ratio to complement the risk-weighted framework and restrict the build-up of excessive leverage.

However, differences in underlying risk and differences in banking and supervisory practices have led to variations among banks' regulatory capital requirements based on their internal estimates.

This report sets out the BCBS responses to address excessive variability in risk-weighted asset (RWA) calculations with the objective of improving consistency and comparability in bank capital ratios, and thereby restoring confidence in risk-weighted capital ratios.

2. Main points

The work programme developed by the BCBS in order to address excessive variability in RWA is centred around three areas:

- **Policy measures**
    - Review of the Standardised Approaches, which will be finalised in the second semester of 2015 and concerns credit risk, market risk and operational risk.
    - Replacement of the Basel II transitional capital floor with a permanent floor based on the Standardised Approaches for credit, market and operational risk by end-2015.
    - Review of the credit risk internal models by end-2015. Included measures are:
        - Setting constraints on credit risk model parameter estimates (ie. introduction of fixed LGD parameters for portfolios of unsecured loans that have low numbers of defaults).
        - Adoption of a uniform treatment of the IRB maturity adjustment factor for revolving exposures.
        - Greater alignment of definitions of exposures under IRB and revised Standardised Approaches.
        - Changes in the manner in which collateral and guarantees are considered when calculating exposures.
        - Guidance to support the risk models framework.
    - Implementation of greater standardisation of traded market risk internal model requirements by end-2015.
    - Disclosure of the leverage ratio in 2015 and implementation in 2018.
- **Enhancing disclosure** by:
    - Improving existing disclosures to describe different risk model approaches by end-2014.
    - Establishing additional disclosure requirements by end-2015.
- **Ongoing monitoring**:
    - Conducting additional analysis and ongoing monitoring of retail and SMEs credit portfolios, along with off-balance sheet lending commitments, which will be finalised by end-2015.
    - Strategic review of the capital framework.

3. Next steps

- The next update on progress made towards improving consistency and comparability of regulatory capital ratios will be prepared toward the end of 2015.

11/11/2014

The BCBS has published the G-SIB assessment methodology – score calculation and the FSB has published the 2014 update of list of global systemically important banks (G-SIBs)

1. Context

The global financial crisis has revealed the interconnected nature of today's global systemically important banks (G-SIBs). This in turn has led to the Basel III reforms, spearheaded by the BCBS, which aim to improve the resiliency of banks and banking systems. Over and above the higher requirements for all internationally active banks, the Committee's G-SIB standards require additional going-concern loss absorbency for G-SIBs.

The G-SIB assessment methodology document serves as a guide to calculating a bank's score from the financial information captured on the BCBS G-SIB reporting template. This score, which captures the global share of activity and systemic risk that a bank poses to the larger financial system, is used in determining the higher loss absorbency (HLA, systemic buffer) requirement.

2. Main Points

<u>The G-SIB assessment methodology – score calculation</u>

- It includes further explanation of the **methodology** and **denominators** used to calculate the scores for banks in the end-2013 exercise and the cut-off score that was used to identify the updated list of G-SIBs:
    - Methodology: a bank's score is based on the weighted average of 12 indicators (which banks are required to disclose) across 5 categories.
    - Denominators: the sample total consist of the largest 75 banks (as determined by the Basel III leverage ratio exposure measure) and other banks designated as G-SIB in the previous year but are not otherwise part of the top 75. The denominators represent the total reported activity for each of the 12 indicators.
- The final score is translated into an **HLA requirement (systemic buffer):** the current cut-off score for G-SIB designation is 130 bps and the buckets corresponding to the different higher loss absorbency requirements each have a range of 100 bps.

<u>2014 update of list of global systemically important banks (G-SIBs)</u>

- One bank has been added to the list of GSIBs, Agricultural Bank of China, increasing the overall number from 29 to 30.
- Group Crédit Agricole and UBS have moved to bucket 1 from bucket 2 in 2013.

3. Next steps

- The list of G-SIBs will be next updated in November 2015.
- The HLA requirement (systemic buffer) will be phased in starting on 1 January 2016.

BANK FOR INTERNATIONAL SETTLEMENTS

31/10/2014
Basel III: the net stable funding ratio.

1. Context

The BCBS has strengthened its liquidity framework by developing two minimum standards for funding and liquidity. In January 2014, the BCBS published the standard concerning the liquidity coverage ratio (LCR) to promote the short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid assets (HQLA) to survive a significant stress scenario lasting for 30 days.

After publishing a consultative proposal in January 2014 on the net stable funding ratio (NSFR), now it has published the final standard which focuses on reducing funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding.

2. Main points

- The final NSFR retain the structure and main changes from the NSFR published in 2010:
    - In relation to the available stable funding (ASF):
        - Recognition of operational deposits
        - Clarification of secured funding treatment
        - Higher ASF factors for stable non-maturity deposits and term deposits
        - Additional granularity for liabilities with residual maturities of less than one year.
    - Concerning the required stable funding (RSF):
        - Greater consistency with LCR HQLA definitions
        - Lower RSF factors for encumbered loans to retail and small business customers
        - Higher RSF factors for loans to non-bank financial institutions and non-HQLA securities
        - For a period of six months or more and less than one year, higher RSF factors for interbank lending and for HQLAs encumbered
- In addition, the key changes introduced in the final standard cover the required stable funding for:
    - Short-term exposures to banks and other financial institutions
    - Derivatives exposures, and
    - Assets posted as initial margin for derivative contracts
- Furthermore, this final standard recognizes that, under strict conditions, certain asset and liabilities items are interdependent and can therefore be viewed as neutral in terms

3. Next steps

- The second QIS exercise focuses on banks' actual portfolios and is being conducted in parallel with the Basel III monitoring exercise that commenced in July 2014.

BANK FOR INTERNATIONAL SETTLEMENTS

10/10/2014
Consultation paper on corporate governance principles for banks.

1. Context

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. While there is no single approach to good corporate governance, in the light of ongoing developments, and to take account of the FSB peer review recommendations, the BCBS has decided to revisit the 2010 guidance.

Thus, the revised principles provide a framework within which banks and supervisor should operate to achieve robust and transparent risk management and decision-making.

2. Main points

- The revised principles strengthen the guidance on risk governance, including the risk management roles played by business units, risk management teams and internal audit and control functions (the three lines of defence) and the importance of a sound risk culture to drive risk management within a bank.
- The guidance on the role of the board of directors in overseeing the implementation of effective risk management systems is expanded.
- The revised principles emphasise the importance of the board’s collective competence as well as the obligation on individual board members to dedicate sufficient time to their mandates and to remain current on developments in banking.
- Bank supervisors are provided with guidance when they evaluate the processes used by banks to select board members and senior management
- The revised principles recognize that compensation systems form a key component of the governance and incentive structure through which the board and senior management of a bank convey acceptable risk-taking behavior and reinforce the bank’s operating and risk culture.

3. Next steps

- Interested financial institutions and professionals can submit their comments before 9 January 2015.

BANK FOR INTERNATIONAL SETTLEMENTS

10/10/2014

- **Consultative document on operational risk – revisions to the simpler approaches.**
- **Review of the principles for the sound management of operational risk.**

1. Context

The financial crisis highlighted that the existing set of simple approaches, the Basic Indicator Approach (BIA) and the Standardised Approach (TSA), including its variant the Alternative Standardised Approach (ASA), do not correctly estimate the operational risk capital requirements of a wide spectrum of banks. Therefore, the BCBS has published a revised standardized approach (SA) which attempts to improve the calibration while assessing the weaknesses of the existing approaches.

At the same time, the BCBS has reviewed the banks´ implementation of the 2011 principles for the sound management of operational risk (PSMOR) through a questionnaire which involves 60 systemically important banks (SIBs) in 20 jurisdictions.

2. Main points

CP on revisions to the simpler approaches:

- A refinement of the operational risk proxy indicator for operational risk exposure is introduced by replacing the gross income (GI) with the **business indicator** (BI). The BI comprises the three macro-components (interest, services and financial) of a bank´s income statement, so it can better capture a bank's exposure to the operational risk inherent in a bank's mix of business activities.
- In order to test the power of the proxy indicator to predict operational risk capital exposures, the BCBS has developed a quantitative model based on bank-internal loss data, **the Operational risk Capital-at-Risk (OpCaR) model** that can be used to estimate hypothetical capital requirements reflecting own-loss experience.
    - The preliminary calibration using the OpCaR has identified a five-bucket structure with coefficients increasing in value from 10% to 30% with the rise in the value of the BI.
- The BCBS has proposed to apply a **cap/floor to the net interest margin** (NIM) in order to overcome the problem that might arise for banks with very high NIM when using the BI as a proxy for operational risk exposure.
- The revised SA will no longer require supervisory approval as it will become the "entry level" capital methodology.

Review of the PSMOR:

- Four principles have been identified for being the least thoroughly implemented by banks: Operational risk identification and assessment, Change management, Operational risk appetite and tolerance and Disclosure.
- Most banks reported that they comply fully with the three lines of defence principle.
- The BCBS listed some recommendations in order to enhance the fully implementation of these principles.

3. Next steps

- Interested financial institutions and professionals can submit their comments on the consultation paper on operation risk before 6 January 2015.
- The revision of the PSMOR summarizes the specific areas of operational risk management practice where the most scope for improvement exists.

FINANCIAL STABILITY BOARD

11/11/2014
Consultation paper on adequacy of loss-absorbing capacity of global systemically important banks in resolution

1. Context

The FSB's September 2013 too-big-to-fail (TBTF) report identified the need to develop a proposal on the adequacy of loss-absorbing capacity in resolution as one of the important outstanding issues to be addressed in the FSB's overall agenda to end TBTF.

In this regard, the FSB has issued for public consultation policy proposals consisting of a set of principles on the adequacy of loss-absorbing and recapitalisation capacity of G-SIBs and a detailed term sheet for implementing these principles in the form of an internationally agreed standard.

By setting a new requirement for total loss-absorbing capacity (TLAC), the FSB aims to ensure that G-SIBs have the loss absorbing and recapitalization capacity necessary to help ensure that, in and immediately following a resolution, critical functions can be continued without taxpayers' funds or financial stability being put at risk. The requirement will not initially apply to G-SIBs headquartered in emerging markets.

2. Main points

- The **Minimum External Total Loss Absorbency Capacity** ("Minimum TLAC") is an additional requirement to minimum regulatory capital requirements set out in the Basel 3 framework. Items that count towards satisfying minimum regulatory capital requirements may also count towards satisfying the minimum TLAC requirement.
    - It comprises a Pillar 1 and Pillar 2 element, alongside minimum regulatory capital requirements.
        - The Pillar 1 element will range between 16% - 20% of the resolution group's RWAs plus any applicable regulatory capital buffers. It must be at least twice the quantum of capital required to meet the relevant Tier 1 leverage ratio requirement.
        - The Pillar 2 element is determined by authorities home to resolution entities, in discussion with Crisis Management Groups and validated through the Resolvability Assessment Process (RAP).
    - The sum of tier 1 and tier 2 capital instruments in the form of debt plus other eligible TLAC that is not regulatory capital is expected to be equal to or greater than 33% of their Minimum TLAC requirements.
- **Scope** of the Minimum TLAC requirement:
    - It will be applied to each resolution entity (entity or entities to which resolution tools will be applied in accordance with the resolution strategy for the G-SIB) within each G-SIB.
    - It will be set in relation to the consolidated balance sheet of each resolution group (group of entities that includes a single resolution entity and any direct or indirect subsidiaries).
- **Liabilities subject to the TLAC requirement**: liabilities that can be effectively written down or converted into equity during resolution of a G-SIB without disrupting the provision of critical functions or giving rise to material risk of successful legal challenge or compensation claims. Other liabilities remain subject to potential exposure to loss in resolution.
- **Internal TLAC**:
    - Required for subsidiaries located outside of their resolution entity's home jurisdiction identified as material and that are not resolution entities.
    - Defined by the relevant host authority in consultation with the home authority and validated through the RAP.
    - The quantum should be equivalent to 75-90% of the TLAC requirement that would apply to a material subsidiary on a stand-alone basis.

3. Next steps

- Interested financial institutions and professionals can submit their comments on this consultative document before 2 February 2015.

05/11/2014

Third progress report on the implementation of the FSB Principles for Sound Compensation Practices and their Implementation Standards (P&S) by FSB jurisdictions

1. Context

Compensation practices at large financial institutions were a key contributing factor to the global financial crisis. The FSB Principles for Sound Compensation Practices and their Implementation Standards (Principles and Standards, P&S) were developed to align compensation with prudent risk-taking, particularly at significant financial institutions.

The FSB established in early 2012 a Compensation Monitoring Contact Group (CMCG), which is responsible for monitoring and reporting on national implementation of the P&S. This third progress report summarises the main findings of responses to the annual monitoring questionnaire, providing information on recent actions and initiatives by FSB jurisdictions to implement the P&S since the August 2013 progress report.

2. Main points

- **Implementation of the P&S** has been essentially **completed**. The most notable development in this regard is the adoption by the EU of the CRD IV, which includes specific requirements on compensation structures that go beyond those found in the P&S.
- **Supervision of compensation** practices continues to **improve**. However, there are important differences in supervisory intensity across jurisdictions and findings show a number of areas for improvement by firms, such as governance, identification of material risk takers (MRTs), risk alignment and ex post adjustments.
- Some **challenges in the area of effective risk alignment** remain. In particular:
    - The application of risk metrics to the business unit or at the specific product and activity level, as well as at the individual level.
    - A more transparent and consistent application of policies and procedures to guide the use of discretion.
    - The availability of better data to support the effective alignment of compensation with prudent risk-taking behaviour.
- **Proper application of malus and clawback** clauses is important for **incentivising prudent risk-taking behaviour**. However, a wide variation among jurisdictions appears.

3. Next steps

- The CMCG will organize a workshop in 2015 to discuss compensation practices for significant insurance firms, in collaboration with the International Association of Insurance Supervisors.
- From mid-2015 onwards the CMCG will conduct a follow-up work on MRTs.

FINANCIAL STABILITY BOARD

16/10/2014

Consultation paper on guidance for the identification of critical functions and critical shared services.

1. Context

The ***Key attributes of effective resolution regimes for financial institutions*** *(key attributes)* adopted by the FSB are an essential component of the FSB's package of policies to reduce the risks of moral hazard and the potential for systemic disruption associated with **systemically important financial institutions** (SIFIs). In the development of resolution plans, the identification of **critical functions** and **critical shared services** is fundamental to help ensure an orderly resolution with reduced risks of systemic disruption and preservation of value.

Thus, the FSB, in consultation with the IAIS, has published this guidance that should assist authorities and crisis management groups (CMGs) in their evaluation of the criticality of functions that firms provide to the real economy and financial markets. It aims to promote a common understanding of which functions and shared services could be critical by providing common definitions and evaluation criteria.

2. Main points

- **Scope**: insurance or reinsurance companies, groups and conglomerates that could be **systemically significant** or critical if they fail.
- **Framework for critical functions**:
    - Definition: a critical function is provided by an insurer to third parties not affiliated to the firm and the sudden failure to provide that function would be likely to have a material impact on the financial system and the real economy, give rise to contagion, or undermine the general confidence of market participants.
    - Determination: it can be assessed in a three-step process (impact assessment, substitutability analysis and firm-specific test).
- **Framework for critical shared services**:
    - Definition: a critical shared service is an activity, function or service that is performed by either an internal unit, a separate legal entity within the group or an external provider which is performed by one or more business units or legal entities of the group and the sudden and disorderly failure or malfunction would lead to the collapse of or present a serious impediment to the performance of critical functions.
    - Determination: it can be assessed in a three-step process analyzing the impact, sustainability and the results of a firm-specific test.
    - An indicative list of shared services that could be critical is detailed (eg. Finance related shared services such as collateral management, investor relations, etc.).

3. Next steps

- Interested financial institutions and professionals can submit their comments before 15 December 2014**.**

23/12/2014

- **Final draft RTS on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer.**
- **Updated list of CET1 instruments.**

1. Context

La CRD IV/CRR requiere a las entidades de crédito mantener un colchón de capital anticíclico (CCB) específico, para asegurar que acumulan, durante periodos de crecimiento económico, una base suficiente de capital que absorba las pérdidas de los periodos de tensión.
En este sentido, la EBA ha publicado RTS que especifican los requerimientos de divulgación de información en relación al cumplimiento del requerimiento del CCB. En concreto, los RTS contienen dos plantillas que permitirán la armonización de la información sobre el CCB disponible para el público en general y la localización geográfica de las exposiciones que determinan este colchón.
Por otro lado, la EBA tiene como mandato hacer un seguimiento de la calidad de los nuevos instrumentos emitidos por las instituciones y evaluar su cumplimiento con los criterios de elegibilidad del CRR. Por ello, la EBA ha publicado una lista actualizada de los instrumentos de capital que las autoridades supervisoras competentes de toda la EU han clasificado como CET1.

2. Main aspects

RTS on disclosure of information in relation to the CCB requirement

- **Disclosure requirements and templates**: the CRR requires that all banks disclose the geographical distribution of their credit exposures relevant for the calculation of their CCB and the amount of institution-specific CCB. Therefore, the RTS contain two tabular disclosure templates:
  - Table 1: it provides the format for the geographical distribution disclosure of an institution´s credit exposures. The values to be disclosed are:
    - Exposure values for relevant credit exposures (general credit exposures, trading book exposures and securitisation exposures).
    - The sum of long and short positions for relevant credit exposures.
    - The sum of fair value of cash positions and notional value of derivatives for relevant credit exposures in banks using internal models.
  - Table 2: it provides the format for the disclosure of the amount of institution-specific CCB in accordance with the CRD IV/CRR.
- **Level of application**: the disclosure must take place:
  - On an individual level if the institution is not part of a group.
  - On a consolidated level, provided by the parent, if an institution is part of a group.
- **Frequency of disclosure**: at least on an annual basis in conjunction with the date of publication of financial statements.

Updated list of CET1 instruments

- The list includes the following information:
  - Name of the instrument.
  - Governing law of the instrument.
  - Whether the instrument can be issued in addition to other CET1 instruments.
  - Instrument with voting or non-voting rights.
  - Whether the instrument is a grandfathered state aid instrument.
  - Whether the instrument is a grandfathered non state aid instrument.
  - Whether the instrument is fully eligible as CET1 instruments under the CRR.

3. Next steps

- Disclosures must be provided in accordance with the RTS on disclosure of the CCB at the earlier of 6 months following the date of its publication in the Official Journal or 1 January 2016.

22/12/2014
Final Guidelines on common procedures and methodologies for the SREP.

1. Context

The key purpose of the Supervisory Review and Evaluation Process (SREP) is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms, as well as capital and liquidity to guarantee a sound management and coverage of their risks. Nevertheless, the SREP vary to a fairly degree globally and throughout the EEA.

In this context, the EBA has published guidelines that are addressed to competent authorities (NCAs) and are intended to promote common procedures and methodologies for the SREP and for assessing the organization and treatment of risks. NCAs should ensure that the SREP covers the categorization of the institutions, the monitoring of key indicators, assessments on certain aspects and supervisory measures.

2. Main points

- **Categorization of the institution:** it should be based on the institution´s size and structure, as well as on the nature and complexity of activities. The frequency, intensity and granularity of the SREP assessments should depend on the institution´s category.
- **Monitoring of key indicators:** it should allow NCAs to monitor changes in the financial conditions and risk profiles of institutions.
- **Business model analysis (BMA)**: assessment of the viability of the institution´s current business model and the sustainability of its strategic plans.
- **Assessment of:**
    - <u>Internal governance and institutions-wide controls</u>: it assess whether they are adequate for the institution´s risk profile, business model, size and complexity, and if there is compliance with the standards of good internal governance.
    - <u>Risks to capital and liquidity</u>: it assess the material risks the institution is or might be exposed to.
    - <u>Adequacy of the institution´s own funds</u>: it assess the quantity and composition of additional own funds required to cover risks not covered by the CRR.
    - <u>Adequacy of the institution´s liquidity resources</u>: it assess whether the liquidity held by the institution ensures an appropriate coverage of risks to liquidity and funding.
- **Overall SREP assessment**: it is a comprehensive view on the risk profile and viability of the institution that summarizes the prior assessments.
    - The overall SREP score has four positive grades and one negative grade (´F`). The latter activates the procedure for interaction with resolutions authorities.
- **Supervisory measures:** the outcome of the overall SREP assessment should be the basis for taking any necessary supervisory measures (i.e. requiring the institutions to use net profits to strengthen own funds).

3. Next steps

- NCAs are expected to apply these guidelines from 1 January 2016, taking into account longer transitional arrangements for the application of certain provisions.

22/12/2014
Draft Regulatory Technical Standards on the content of resolution plans and the assessment of resolvability and Guidelines on the specification of measures to reduce or remove impediments to resolvability and the circumstances.

1. Context

Resolution authorities are more likely to be successful in achieving their objectives during a resolution if they have carried out a robust resolution planning process in advance.

Harmonized requirements for resolution authorities to draw up or update resolution plans and assess the resolvability of institutions and groups within the EU have been introduced by the Bank Recovery and Resolution Directive (BRRD).

The EBA is mandated by the BRRD to produce RTS specifying the content of resolution plans, and the matters and criteria for the assessment of resolvability of institutions or groups. It is also mandated to develop guidelines specifying further details on the measures and the circumstances in which each measure may be applied.

2. Main points

<u>Draft RTS on the content of resolution plans and the assessment of resolvability.</u>

- **Content of the resolution plans.** They must include eight categories of information:
    - Summary of the resolution plan: description of the institution or group.
    - Description of the resolution strategy considered in the plan: arrangements for decision-making and information sharing necessary to the execution of the strategy.
    - Arrangements for ensuring information is available to execute the strategy.
    - Arrangements to ensure operational continuity during resolution.
    - Financing arrangements for resolution: identification if the sources of finance which are available to meet the financial needs during resolution.
    - Plans for communication with critical stakeholder groups.
    - Conclusions of the assessment of resolvability: inclusion of a quantified assessment of any changes needed to the minimum requirement for eligible liabilities.
    - Responses from the institution or group itself.
- **Assessment of resolvability.**
    - As a first stage, it should be conducted on the basis of <u>general criteria</u> to ensure proportionality when liquidation of institutions or groups is clearly not feasible or credible:
        - When it is not feasible, assess whether it would be feasible for deposit guarantee schemes to fulfill their obligations to ensure the timely repayment of covered deposits.
        - When it is not credible, assess the likely systemic impact of a counterfactual liquidation.
        - When it is not feasible or credible, resolution authorities should proceed to identify a preferred resolution strategy.
    - As a second stage, resolution authorities should proceed to a detailed assessment taking into account <u>categorized matters</u>:
        - Criteria for assessing the feasibility and credibility of liquidation.
        - Criteria for identifying an appropriate resolution strategy.
        - Criteria for assessing the feasibility of a resolution strategy, broken down into criteria related to: structure and operations, financial resources, information, cross-border issues.
        - Criteria for assessing the credibility of a resolution strategy.

<u>Guidelines on the specification of measures to reduce or remove impediments to resolvability and the circumstances in which each measure may be applied</u>

- **Structural measures**: they may require an institution ex-ante to change its legal structure to improve the feasibility and credibility of the preferred resolution strategy.
    - Where the preferred resolution strategy includes a separation of entities within a group, it can be necessary to reduce ex-ante the financial and operational interconnectedness of a group to be able to maintain access to critical economic functions in resolution.
- **Financial measures**: where resolution authorities consider that certain financial products or activities carried out by an institution may impair the preferred resolution strategy, the firm can be required to cease or restrict the development of these products.
    - G-SIBs or D-SIBs may be required to maintain sufficient liabilities to contribute to loss absorption.
- **Information-related measures**: they enable resolution authorities to request specific information for resolution purposes from financial institutions on a regular or ad hoc basis.

19/12/2014
Consultation paper on Draft Regulatory Technical Standards on Resolution Colleges.

1. Context

The Bank Recovery and Resolution Directive (BRRD) establishes a framework for the recovery and resolution of credit institutions and investment firms and provides a common resolution regime in the EU that allows authorities to deal with failing institutions as well as ensuring cooperation between home and host authorities in the process of resolution planning.

In this context, the BRRD mandates the EBA to develop RTS that specify the operational functioning of the resolution colleges that are to be established for EEA cross-border banking groups. The draft RTS builds on the experience gained from the organisation and operation of supervisory colleges while recognising the differences in the membership and tasks performed by resolution colleges.

2. Main aspects

- **Operational organisation of resolution colleges**. It includes provisions for the establishment and the ongoing functioning of resolution colleges:
    - Identification of resolution college members.
    - Agreement on written arrangements and procedures for the college functioning.
    - Organisation of meetings and other activities.
    - Establishment of general rules for exchanging information, the resolution college communication policy and procedures for an emergency situation.
- **Resolution planning joint decisions**. They will be the key annual deliverables of the resolution college and will cover the joint decision on:
    - The group resolution plan and resolvability assessment.
    - The measures to address substantive impediments to resolvability.
    - The setting up of minimum requirements for own funds and eligible liabilities (MREL).
- **Cross-border group resolution**. It includes provisions that support the resolution process by elaborating clear procedural steps to be taken by the resolution college.
- **Absence of a joint decision**. It sets provisions covering the elements of the decisions taken in the absence of any joint decision, which aim to ensure transparency and interaction between home-host authorities even in case of disagreement.

3. Next steps

- Interested financial institutions and professionals can submit their comments on this consultative document before 18 March 2015.

19/12/2014
Final Draft ITS on joint decisions for approval of internal models.

1. Context

De acuerdo con la BRRD, la EBA ha publicado estos documentos de consulta con el objetivo de facilitar el negocio de la venta y la segregación de activos, así como la transferencia de una institución o sus activos bajo alguno de los instrumentos de resolución como un modo de implementar instrumentos de resolución en el sector bancario de la EU.

Por tanto, la EBA presenta unas directrices en las que define qué circunstancias las autoridades de resolución deberían valorar cuando estén tomando decisiones sobre la resolución de una entidad.

2. Main aspects

- Some **key aspects of the joint decision** by the competent authorities have been explained:
  - <u>Planning of the joint decision process:</u>
    - It must be concluded within 6 months of receipt of the application.
    - Prior to the start of the process, the consolidating supervisor and the relevant NCAs shall agree on a timetable of steps and on the division of work.
  - <u>Elements of the joint decision document:</u>
    - nformation about the authorities reaching the joint decision.
    - The entities of the group to which the joint decision applies.
    - The opinion on whether to grant the requested permission.
    - The date in which the applicant can use the internal models.
    - The assessment report supporting the opinion of the competent authorities.
    - Conditions subject to which the permission is granted.
    - Recommendations for improving the model.
  - <u>Process to be followed when a joint decision is not reached:</u> to ensure transparency on the decision taken by the consolidating supervisor, some specific requirements covering the finalization and communication of the decision should be met.
- The **assessment of the completeness of applications** should be made within 6 weeks of receipt of the application.
- **Third-country supervisory authorities** can be involved in the process. If a group operates in a third country and intends to apply the internal model for exposures in that country, the relevant third-country supervisory authorities may be invited to contribute to the assessment of the application.
- **Material extensions or changes to internal model** already approved**:**
  - Require the involvement of the authorities that are affected
  - There is a the possibility to perform the assessment of the application and reach a joint decision in a period proportionate to the scope of the material extension or change.

3. Next steps

- The ITS shall enter into force on the 20th day following that of its publication in the Official Journal of the EU.
- The “Guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) Approaches”, published in April 2006, will be repealed.

18/12/2014
The EBA has repealed the Recommendation from July 2013 on the preservation of Core Tier 1 capital of EU banks during the transition to the CCRD/CRR framework.

1. Context

The EBA, in December 2011, issued a recommendation to national supervisory authorities indicating, among other measures, that participating EU banks should raise their core Tier 1 ratio to 9%. The objective of the recommendation was to ensure sufficient capital against unexpected losses in case the economic situation deteriorated further.

The Recommendation from July 2013 required credit institutions to maintain a core Tier 1 ratio as defined in the Recommendation of 2011.

2. Main points

Following a decision by the EBA's Board of Supervisors on 15 December 2014, the **EBA Recommendation from July 2013** on the preservation of Core Tier 1 capital of EU banks during the transition to the CRDIV/CRR framework **has been repealed** and therefore is no longer into force.

3. Next steps

- The EBA and the competent authorities across the EU will keep on monitoring the overall capital position and Common Equity Tier 1 capital of EU credit institutions under the CRDIV/CRR regulatory framework in order to ensure that EU banks are adequately capitalized.

17/12/2014

- **Draft ITS on supervisory reporting with regard to the LCR.**
- **Draft ITS on supervisory reporting with regard to the LR.**

1. Context

The LCR is aimed at covering the net liquidity outflows under gravely stressed conditions over a period of 30 days by holding adequate liquidity buffers. The LR intends to limit the risk of excessive leverage by constraining the building up of leverage in the banking sector during economic upswings and to mitigate the model risk associated with the RWA figure.

On 10 October 2014 the Commission adopted a Delegated Act by which it introduced amendments on the LCR and LR frameworks. Therefore, the EBA has launched two consultation papers in order to incorporate the amendments of the Delegated Act to the LCR and LR reporting templates.

2. Main points

Draft ITS on supervisory reporting with regard to the LCR:

- The EBA proposes new LCR reporting templates that will replace the current ones:
  - C72.00 of Annex XXIV Liquidity coverage – liquid assets: comprises information of liquid assets which qualify as Level 1 assets or as Level 2 assets.
  - C73.00 of Annex XXIV Liquidity coverage – outflows: includes data about liquidity outflows measured over the next 30 days.
  - C74.00 of Annex XXIV Liquidity coverage – inflows: contains information about liquidity inflows measured over the next 30 days.
  - C75.00 of Annex XXIV Liquidity coverage – collateral swaps: encloses information about any transaction maturing within 30 days in which non-cash assets are swapped for other non-cash assets.
  - C76.00 of Annex XXIV Liquidity coverage – calculation of the LCR: contains information about calculations for the purpose of reporting the LCR.
- The EBA also proposes new instructions for the new LCR templates, which are included in Annex XXV.
- The new LCR templates and instructions will be applicable only to credit institutions. Investment firms will continue to report under the current LCR templates and instructions.

Draft ITS on supervisory reporting with regard to the LR:

- The EBA has set limited changes to the LR reporting templates and instructions, which are aimed to reduce the templates in size. Amendments are made on templates:
  - C45.00 (LRCalc): the title has been changed to C47.00 (LRCalc) and some other adjustments that reflect the amendments brought by the delegated act have been made.
  - C40.00 (LR1): some minor changes have been introduced.
  - C46.00 (LR6): the template has been fully removed.
  - C42.00 (LR3): some adjustments have been made in the labelling and content.
  - C43.00 (LR4): inclusion of an extra row.
  - C44.00 (LR5): the template has been removed because the delegated act has changed the three-monthly average calculation to an end-of-quarter calculation.

3. Next steps

- Comments on the consultative document on LCR should be submitted not later than 10 February 2015.
- Comments on the consultative document on LR should be submitted by 27 January 2015.
- The EBA proposes a date of application of both ITS corresponding to the later of December 2015 and 6 months after the adoption of the final rule of the Delegated Act.

16/12/2014
Guidelines on the criteria to determine the conditions of application of Article 131(3) of CRD in relation to the assessment of O-SIIs.

1. Context

Systemically important institutions can present negative externalities to the broader financial system. This does not only create risks to the financial stability, but it also causes market distortions that may lead to moral hazard. Particularly, the moral hazard lies in the assumption of implicit government guarantees given to these systemically important institutions. These negative externalities can be mitigated by imposing more stricter capital requirements to these institutions.

These guidelines specify the criteria for determining the conditions of the application of the CRD in relation to the assessment of O-SIIs.

2. Main points

- **Establishment of a scoring methodology** for O-SIIs assessment (which should be conducted on a yearly basis and at the highest consolidation level), based on the following indicators:
    - Size: total assets.
    - Importance: value of domestic payment transactions, private sector deposits from depositors in the EU and private sector loans to recipients in the EU.
    - Complexity: value of OTC derivatives, cross-jurisdictional liabilities and cross-jurisdictional claims.
    - Interconnectedness: intra financial system liabilities, intra financial system assets and debt securities outstanding.
- **Definition of a two-step procedure** for O-SIIs determination:
    - Score evaluation: institutions with a score equal to or higher than 350 basis points should be automatically designated as O-SIIs.
        - Relevant authorities may raise this threshold up to 425 basis points or decrease it to 275 basis points to take into account the specificities of the Member State's banking sector.
    - Supervisory assessment: authorities may assess whether further institutions are so systemically relevant that they should be designated as O-SIIs based on some indicators that they consider adequate to capture systemic risk.
        - Institutions with a score not exceeding 4.5 basis points should be not designated as O-SIIs in any case.
- **Establishment of disclosure requirements.** Authorities are required to publicly disclose:
    - The reasons why they make use of the option to raise or lower the threshold.
    - The scores of relevant entities designated as O-SIIs.
    - The optional indicators that are used to inform the designation of an institution as an O-SII when it has a score lower than the chosen threshold.

3. Next steps

- These guidelines apply as of 1 January 2015. Thus, NCAs should incorporate them in their supervisory procedures within 6 months after publication on the EBA website.
- O-SIIs designated in 2015 and their scores should be published not later than 1 January 2016.

15/12/2014

- **Consultation paper on draft guidelines on creditworthiness assessment.**
- **Consultation paper on draft guidelines on arrears and foreclosure.**

1. Context

The MCD aims to develop a more transparent, efficient and competitive internal market through consistent, flexible, and fair credit agreements relating to residential immovable property, while promoting sustainable lending and providing a high level of consumer protection.

The MCD requires that, before concluding a credit agreement, the creditor makes a thorough assessment of the consumer´s creditworthiness in order to verify the prospect of the consumer to meet his/her obligations under the credit agreement. On the other hand, the MCD also requires that Member States shall adopt measures to encourage creditors to exercise reasonable forbearance before foreclosure proceedings are initiated.

The EBA has issued these two documents in order to ensure that the MCD provisions on these matters are implemented and supervised consistently across the EU.

2. Main points

Draft guidelines on creditworthiness assessment:

- The guidelines set out requirements for creditors when assessing consumer creditworthiness, specifically:
  - Verify a consumer´s prospect to **meet his/her obligations** under the credit agreement.
  - **Maintain complete documentation** of the information that leads to mortgage approval for at least the duration of the credit agreement.
  - Identify and prevent **misinterpreted information**.
  - **Assess consumers creditworthiness** through the establishment of sound processes that are reviewed periodically taking into account relevant factors (i.e. other servicing obligations) and the adequacy of the consumer´s income when the loan term extends past normal retirement age.
  - Make reasonable **allowances** for consumer´s expenditures and potential future negative scenarios.
  - Identify groups of loans with a **higher risk profile**.

Draft guidelines on arrears and foreclosure:

- The guidelines set out requirements for creditors regarding arrears and foreclosure, particularly:
  - Establish **policies and procedures** that detect consumers going into payment difficulties in order to achieve effective engagement with them and train staff dealing with these consumers.
  - Maintain a level of **contact and communication** with a consumer in payment difficulties that enables consumer engagement (i.e. conducting meetings in privacy).
  - Establish **consumer engagement policies**.
  - Consider individual circumstances of the consumer when deciding on which **forbearance measures** to take.
  - Document **dealings** with the consumer and retention records.

3. Next steps

- Comments on both consultation papers should be submitted by 12 February 2015.
- The final guidelines are expected to be published in the second quarter of 2015 and will be applicable from the transposition date of the MCD, which is 21 March 2016.

10/12/2014

The EBA has published information disclosed by the EU NCAs according to the ITS on supervisory disclosure.

1. Context

The CRD/CRR IV transposed Basel III into European law and were aimed at strengthening the resilience of EU banking organizations and enhancing financial stability.

The EBA has been working in ensuring an effective and consistent prudential regulation and supervision across the EU by approving RTS and ITS. Specifically, the EBA published ITS on supervisory disclosure in June 2014, which specified the format, structure, contents list and annual publication date of the supervisory information to be disclosed by NCAs in the banking sector.

In this context, the EBA has published all the information disclosed by EU NCAs, which provides an overview on the implementation of the CRD IV package, a detailed picture on the use of options and national discretions by every EU Member State and aggregate statistical data on the EU banking sector.

2. Main points

- **Rules and guidance section:** it provides an overview of the laws and regulations, administrative rules and general guidance approved by Member States in order to adapt the national law to the CRD/CRR IV.
- **Options and national discretions section:** it includes several documents that summarize how each national discretion contained in the CRD/CRR IV has been applied within each EU Member State (i.e. transitional provision for own funds requirements).
- **Supervisory review section:** it specifies the general criteria and methodologies used by each NCA in the SREP. The disclosure information is divided into four blocks that constitute the core of the SREP:
    - Scope of application of SREP.
    - Individual risk assessment.
    - Review and evaluation of ICAAP.
    - Overall SREP assessment and supervisory measures.
- **Aggregate statistical data section:** it displays data on key aspects of the implementation framework in each Member State, such as data on the banking sector, credit risk, operational risk, market risk, and supervisory actions and measures.
- **National authorities section:** it comprises a list of each Member State's NCA, along with their website pages dedicated to supervisory disclosure.

28/11/2014

Consultation paper RTS on criteria for determining the minimum requirement for own funds and eligible liabilities.

1. Context

The BRRD provides a common resolution regime in the EU that allows authorities to deal with failing institutions as well as ensuring cooperation between home and host authorities. Therefore, shareholders and creditors will have to internalise the burden of bank failure, minimizing risks to taxpayers.

The BRRD requires that institutions meet a robust minimum requirement for own funds and eligible liabilities (MREL). This is to be set on a case-by-case basis by resolution authorities, based on at least six common criteria.

These RTS further specify these minimum criteria in order to achieve a homogenous application and interpretation across Member States, and ensure that similar levels of MREL are set. The EBA expects these RTS to be compatible with the proposed FSB term sheet for TLAC for G-SIBs.

2. Main points

- **Loss absorption** should be ensured when losses equal **capital requirements** (including buffers). However, some components of capital requirements may:
  - Not be suitable for inclusion in the assessment of required loss absorbency.
  - Not be fully consumed by losses in resolution.
- When estimating **capital needs** after resolution, the resolution authority should use as denominators for capital ratios the most recent reported values for risk-weighted exposure amounts, and, if relevant, leverage exposure measures.
- Sufficient **market confidence** in the institution should be assessed by considering the efforts to restore the capital buffers established by CRD IV, and, for G-SIIs, to reach similar capital levels to the firm's peer group.
- The MREL should be set to avoid the **risk of compensation** arising. The resolution authority has to determine whether this is best done:
  - By increasing the MREL.
  - By requiring part of the MREL to be met through contractual bail-in instruments.
  - Through alternative measures to remove impediments to resolvability.
- The MREL may be reduced to take account of the estimated contribution from the **Deposit Guarantee Scheme**.
- If risks arising from the **main characteristics** of an institution are not mitigated by capital requirements, the resolution authority may adjust the MREL.
- Institutions whose failure is reasonably likely to pose **systemic risk** should be identified, including at least any G-SIIs or O-SIIs identified pursuant to the CRD. For these institutions MREL should continue be set to ensure that the first five criteria are adequately addressed.

3. Next steps

- Interested financial institutions and professionals can submit their comments on these RTS before 27 February 2015.
- The MREL will apply from 1 Jan 2016 at the latest.

13/11/2014

Consultation paper RTS on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach.

1. Context

The CRD IV/CRR set out prudential requirements for banks and other financial institutions. Among others, the CRR contains specific mandates for the EBA to develop draft RTS to specify the assessment methodology competent authorities shall follow in assessing the compliance of an institution with the requirements to use the IRB Approach.

The proposed RTS should enable harmonisation of the supervisory assessment methodology across all EU Member States. It will therefore rectify the issues identified in this regard in the EBA Report on the comparability of the IRB models and provide enhanced clarity on various aspects of the IRB Approach application.

2. Main points

- The proposed **standards** should be considered by competent authorities when:
    - Assessing the institution's compliance with minimum IRB requirements defined in the CRR when the institution applies to:
        - Initially use the IRB Approach.
        - Use IRB approach for certain types of exposures in accordance with the sequential implementation plan.
        - Implement material changes to the IRB approach.
        - Return to the use of less sophisticated approaches.
    - Assessing the institution's compliance with minimum IRB requirements on an ongoing basis following the regular review of IRB Approach and review of changes that require notifications from the institution.
- These RTS provide a **mapping** of the minimum IRB requirements into fourteen chapters, which each starts with a brief description of the assessment criteria to be used by competent authorities as regards (i) verification requests and (ii) methods to be used by competent authorities in this context.
- The RTS clarify the following aspects:
    - The level of independence of the validation function from the credit risk control unit is based on proportionality principle, therefore the separation requirements are stricter for G-SIIs.
    - Own-LGD estimates should be calculated as the average based on the number of defaults, i.e. default-weighted average.
    - The calculation of the difference between expected loss amounts and credit risk adjustments, additional value adjustments and other own funds reductions should be performed on an aggregate level separately for the portfolio of defaulted exposures and the portfolio of exposures that are not in default.

3. Next steps

- Interested financial institutions and professionals can submit their comments on these RTS before 12 March 2015.

12/11/2014

Consultation paper on draft Guidelines on product oversight and governance arrangements for retail banking products.

1. Context

Developments in the markets for financial services in recent years have shown that failures in the conduct of financial institutions towards their customers can cause, not only significant consumer detriment, but also undermine market confidence, financial stability and the integrity of the financial system.

Following the initial work carried out by the Joint Committee of the ESAs (phase 1), the EBA has developed detailed guidelines for the product oversight and governance (POG) of retail banking products and services that fall into its regulatory remit, i.e. mortgages, personal loans, credit/debit cards, savings products, payment services and current accounts (phase 2).

These guidelines, which apply to both manufacturers and distributors of retail banking products, aim at ensuring that the interests, objectives and characteristics of consumers are taken into account when such products are designed and brought to market.

2. Main points

- The guidelines require the establishment of internal arrangements for the design, marketing and life cycle maintenance of products.
- Specific requirements for **manufacturers** cover the:
    - Manufacturer's internal control functions
    - Identification of the target market
    - Product testing
    - Product monitoring
    - Remedial actions
    - Selection of distribution channels
- Specific requirements for **distributors** cover the:
    - Distributor's internal arrangements
    - Identification and knowledge of the target market
    - Information requirements

3. Next steps

- Interested financial institutions and professionals can submit their comments on this consultative document before 10 February 2015.
- The EBA expect to publish its final guidelines in 2Q15, which will be applied as of 1 April 2016.

12/11/2014
Consultation paper RTS on valuation under the BRRD.

1. Context

The BRRD provides a comprehensive framework of powers for resolution authorities to intervene in failing banks to protect the public interest. To ensure that authorities exercise these powers correctly, the BRRD requires independent valuations to be carried out to inform decisions of the authorities.

There are three types of valuation to be carried out, two of them (Valuation1&2) have to be done prior to resolution, and the remaining one (Valuation 3) has to be implemented after the resolution.

Valuation is carried out by a person independent from any public authority, including the resolution authority, and the financial institutions or entities based in the EU. The EBA shall develop RTS to specify the circumstances in which a person is independent in order to carry out the valuation.

These RTS are intended to promote the consistent application of methodologies for these valuations throughout the EU.

2. Main points

- **Valuation 1:** it informs whether the conditions for resolution/write-down/conversion of capital instruments are met.
    - In this sense, it is important to carry out a valuation consistent with the framework of accounting and prudential rules on the basis of which the determination of whether the conditions for resolution are met must be made.
    - However, the valuer is required to apply their independent, sceptical, judgement as to how this framework has been applied.
- **Valuation 2:** it informs on the choice resolution action to be adopted, the extent of any eventual write-down/conversion of capital instruments, and other decisions on the implementation of resolution tools.
    - It is necessary to assess economic value in order to ensure losses are fully recognised, even if this requires departures from accounting and prudential rules.
- **Valuation 3**: it determines whether an entity's shareholders and/or creditors would have received better treatment if the entity had entered into normal insolvency proceedings.
    - The valuation should be conducted on a gone-concern basis.

3. Next steps

- Interested financial institutions and professionals can submit their comments on these RTS before 6 February 2015.

06/11/2014
Consultation paper on Guidelines on national provisional lists of the most representative services linked to a payment account and subject to a fee.

1. Context

The Payment Accounts Directive (PAD) seeks to standardise the most relevant terminology at Member State level and at Union level. Member States are required to develop provisional lists of at least 10 and no more than 20 of the most representative services linked to a payment account.

Article 3(2) of the PAD mandates the EBA to issue Guidelines to ensure the sound application of the criteria for national competent authorities (NCAs) to establish those provisional lists.

The draft Guidelines published by the EBA aim to assist NCAs across the EU in their task of identifying fee based services in payment accounts, as set out in the PAD.

2. Main points

- There are two types of criteria to be considered by NCAs when listing the services of the provisional lists:
  - Criteria of services most commonly used by consumers (eg. The general population of consumers when assessing the level of diffusion of services).
  - Criteria of services that generate the highest cost for consumers (eg. Services that fulfil both of those criteria simultaneously and the service which generate the highest cost either overall or per unit for the consumers).
- NCAs should consider the following factors when establishing the provisional list:
  - To give priority to those services that satisfy both criteria. In a second step, they should also consider list services that only satisfy one of the criteria.
  - To only use other criteria as an exception, for market-specific issues.
  - The service provided as a single service.
- NCAs should respond with the provisional lists to the Commission and to the EBA using the template in Annex 6.2 of the CP.
- NCAs should base their decisions on relevant data they may collect and rely on data from a wide range of sources. They should be able to provide supporting data to evidence.

3. Next steps

- Interested financial institutions and professionals can submit their comments on all of these guidelines before 9 January 2015.
- NCAs shall submit the provisional list by 18 September 2015.
- The PAD mandates the EBA to develop RTS and ITS by 18 September 2016 on this matter.

06/11/2014
Consultation paper RTS on the contractual recognition of write-down and conversion

1. Context

The BRRD requires Member States to ensure that their resolution authorities have available powers to write-down and convert relevant liabilities of an institution at the point of non-viability and in the course of an application of the resolution tools.

The proposed RTS are based on Article 55(3) of the BRRD, which requires the EBA to develop RTS in order to further determine the list of liabilities to which the exclusion of contractual recognition of bail-in applies (Article 55(1) of the BRRD), and the contents of the terms required in that paragraph, taking into account banks' different business models.

2. Main points

- The key elements that shall exist before determining that the liabilities to which the exclusion of contractual recognition of bail-in applies can be subject to write-down and conversion by a Member State resolution authority pursuant to the law of a third country or to the binding agreement with that third country.
- The EBA proposes a list of mandatory components which must be present in the contractual term required for the contractual recognition of bail-in:
    - Provisions specifying the express acknowledgement.
    - Agreement and consent of the counterparty to the application of write-down and conversion powers by the Member State resolution authority and their potential effects in terms of the liability under the agreement.
- In addition, the contractual term is required to apply:
    - To any unsecured portion of a liability even if the liability is otherwise secured.
    - To a liability that is fully secured but may become unsecured.
- These RTS specify which liabilities issued or entered into before a Member State transposition of the BRRD shall be considered (eg. Liabilities under agreements entered into after the transposition date).

3. Next steps

- Interested financial institutions and professionals can submit their comments on these RTS before 5 February 2015.

03/11/2014

Consultation paper RTS on materiality threshold of credit obligation past due under article 178 CRR.

1. Context

Article 178 CRR specifies the definition of default that is used for the purpose of IRB approach and for the standardised approach. The definition specifies among others that a default shall be considered to have occurred when the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries. The materiality threshold of such obligations past due is set by the competent authority (NCA) and reflects a level of risk that the NCA considers to be reasonable.

In this regard, article 178.6 CRR mandates the EBA to specify the conditions according to which a competent authority shall set the threshold. Thus, the EBA has published these RTS that will help ensure consistency in the setting of the materiality threshold across the entire EU.

2. Main points

- The RTS require that competent authorities set a materiality threshold that is composed of both an absolute and a relative threshold:
  - Absolute threshold: it refers to the amount of the credit obligation past due understood as the sum of all amounts owed by the obligor that are past due more than 90 days (or 180 days if the NCA has decided it in accordance with article 178.1 CRR).
    - For retail exposures: the absolute threshold cannot be higher than 200€.
    - For 'non-retail' exposures: the absolute threshold cannot be higher than 500€.
  - Relative threshold: it is the percentage of a credit obligation past due in relation to the total credit obligations of the obligor. It must be lower or equal to 2%.
  - In the case where either or both of those limits are breached a default would be considered to have occurred.
- Furthermore, the RTS set forth the considerations that should be taken into account by the NCA when setting the level of the threshold, such as the characteristics of the obligors and transactions, default and cure rates and market practices of the institutions.

3. Next steps

- Interested financial institutions and professionals can submit their comments on all of these RTS before 31 January 2015.
- As it is expected that the implementation of these proposed RTS might have significant impact on the operations of some institutions, NCA will allow longer transitional periods to certain types of firms.

20/10/2014

Consultation paper on the implementation of EBA Guidelines on the security of internet payments prior to the transposition of the revised PSD2.

1. Context

These Guidelines are based on the recommendations of the European Forum on the Security of Retail Payments (SecuRe Pay), a voluntary cooperative initiative set up by the ECB with the aim of facilitating understanding of issues related to the security of electronic retail payment services.

In order to ensure a consistent implementation by financial institutions across all Member States, and to provide confidence to financial institutions that the required investments and system changes are not carried out in vain, the EBA is now consulting specifically on the implementation of its Guidelines, as they may warrant some adjustments in the context of the ongoing negotiations of the revised Payment Services Directive (PSD2).

2. Main points

- The Guidelines are based on four guiding principles:
  - Payment service providers (PSPs) should regularly update the specific assessments of the risks associated with providing internet payment services they do.
  - The initiation of internet payments as well as access to sensitive payment data should be protected by strong customer authentication.
  - Strong customer authentication is a procedure based on the use of at least two of the elements listed by the PSD.
  - PSPs should implement effective processes for authorizing and monitoring transactions and systems.
- The EBA Guidelines are identical to the ECB recommendations 2013 and the key considerations of the SecuRe Pay report, with the following exceptions:
  - PSPs are no longer required to ensure that customers are provided with instructions explaining their responsibilities regarding the secure use of payment services. The EBA has qualified this requirement as a best practice.
  - As payment schemes fall under the responsibility of Central Banks, the EBA has not included them in its Guidelines.

3. Next steps

- Interested financial institutions and professionals can submit their comments on all of these guidelines before 14 November 2014.
- The guidelines will enter into force in August 2015 (an extension of 6 months compared to the original SecuRe Pay implementation date).
  - Competent authorities and financial institutions that are already on track with implementing the SecuRe Pay recommendations to the original date of 1 February 2015 are not affected by the extension and should continue with their plans.

13/10/2014

Report on the monitoring of Additional Tier 1 (AT1) capital instruments of EU institutions.

1. Context

According to article 80 of CRR, the EBA should monitor the quality of own funds instruments issued by institutions across the EU. In this regarding, the present report informs external stakeholders about the preliminary work performed by the EBA in terms of monitoring the issuances of Additional Tier 1 (AT1) capital instruments.

2. Main points

- This report highlights some existing clauses for future issuances that the EBA deems necessary to revise and provides its view on some of the following provisions:
  - Calls: regulatory calls, calls below par and tax calls.
  - Write-down or conversion: one cent floor, prior loss absorbing instruments,
  - Contingent clauses
- In addition, the EBA identified a number of areas where further guidance might be necessary for a common interpretation of the CRR provisions:
  - Calculation of the amount available for the write-up when the instruments feature a double trigger.
  - Triggers for instruments issued by institutions that are parent companies or subsidiaries.
  - Eligibility criteria for instruments issued by subsidiaries in third countries (calculation of third country CET1).
  - Loss absorption in institutions that issued instruments with different triggers (e.g. 5.125% and 7%).

3. Next steps

- The monitoring of the issuances of AT1 is at its preliminary stage. The EBA will continue exchanging views with institutions and market participants on these preliminary results.

06/10/2014

Consultation paper on Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators.

1. Context

In accordance with the EBA´s RTS on the assessment of recovery plans, NCAs should asses if institutions include in their recovery plans to restore its financial position a set of indicators and a range of scenarios to test those recovery options. In this regard, the EBA proposes these guidelines in which the minimum list of quantitative and qualitative indicators for the purposes of recovery planning under article 9(2) of the BRRD is specified.

2. Main points

- The proposed guidelines provide the **requirements** that institutions should fulfil when developing the framework for recovery plan indicators.
- The guidelines specify the minimum list of categories that should be included in all recovery plans and the indicators within each one:
  - Capital: CET 1, total capital ratio and leverage ratio.
  - Liquidity: LCR, short-term wholesale funding ratio, net outflow of retail and corporate funding and cost of wholesale funding.
  - Profitability: return on assets, return on equity, significant losses due to administrative/regulatory fine or adverse court ruling.
  - Asset quality: impaired and past due loans/total loans, coverage ratio and non-performing loans by counterparty sector.
  - Market-based (only if they are relevant to its legal structure, risk profile, size and/or complexity): rating under review or/rating downgrade, CDS spread, stock price variation (daily or weekly) and default of a peer institution.
  - Macroeconomic (they should be included if they are relevant to its legal structure, risk profile, size and/or complexity): GDP variations, CDS of sovereigns and rating downgrades of sovereigns.
- A list with additional recovery plan indicators are provided (illustrative purposes) due to the EBA´s knowledge that institutions should not limit their set of indicators to this minimum list (e.g. request from counterparties for early redemption of liabilities).

3. Next steps

- Interested financial institutions and professionals can submit their comments before 2 January 2015.

03/10/2014

- **Draft Guidelines on factual circumstances amounting to a material threat to financial stability and of the elements related to the effectiveness of the sale of business tool under article 39(4) BRRD**
- **Draft Guidelines on the determination when the liquidation of assets or liabilities under normal insolvency proceedings could have an adverse effect on one or more financial markets under article 42(14) BRRD**
- **Draft Guidelines on the minimum list of services or facilities that are necessary to enable a recipient to operate a business transferred to it under article 65(5) BRRD**

1. Context

In accordance with the BRRD, the EBA has published these consultation papers whose aim is to facilitate the sale of business tool and the asset separation tool, as well as the transfer of an institution or its assets under any of the resolution tools as a way to implement resolution tools in the EU banking sector.

Therefore, they give guidance on which circumstances resolution authorities should assess when taking their decisions.

2. Main points

<u>Draft Guidelines on the sale of business tool</u>

- These guidelines specify when authorities may deviate from certain marketing requirements for the sale of the business of an institution under resolution.
    - The deviation from standard marketing requirements is possible if the failure of the institution represents a material threat to financial stability.
    - They also contain a comprehensive list of elements to assess this threat and illustrate potential conflicts with each of the marketing requirements.

<u>Draft Guidelines on the asset separation tool</u>

- These guidelines set out three elements that should be considered when assessing the market situation for the assets concerned and the potential direct and indirect effects on it.
    - An assessment of the market situation for the assets concerned
    - The impact that the liquidation may have on markets
    - The impact that the liquidation may have on financial stability

<u>Guidelines on necessary services</u>

- A minimum list of necessary **critical services** that the resolution authority may require from the institution under resolution is defined taking into account the FSB guidance on critical shared services.
- The services are grouped in **categories**: HHRR support, IT, transaction processing (including legal transactional issues, in particular anti-money laundering), real estate and facility provision or management, legal services and compliance functions, treasury-related services, trading/asset management, risk management and valuation, accounting and cash handling.

3. Next steps

- Interested financial institutions and professionals can submit their comments on all of these guidelines before 22 December 2014.
- The guidelines on the implementation of resolution tools shall apply during 2015.
- The guidelines on necessary services shall apply during 2015 and would be reviewed by 1 July 2017.

02/10/2014
Indicators from global systemically important institutions (G-SIIs)

1. Context

The ITS and Guidelines on disclosure rules applicable to institutions whose leverage ratio exposure measure exceeds 200billion euros define uniform requirements for disclosing the values used during the identification and scoring process of global systemically important institutions (G-SIIs), in line with the international standards developed by the FSB and the BCBS.

In accordance with the ITS and Guidelines, the EBA has published the indicators from global systemically important institutions (G-SIIs) as it acts as a central data hub in this disclosure process.

2. Main points

- The EBA has determined that the current level of disclosure goes beyond the minimum standards required by the BCBS in terms of granularity and applicable scope. Categories:
    - **Size**: total exposures
    - **Interconnectedness**: intra-financial system assets and liabilities, securities outstanding
    - **Substitutability / Financial Institution Infrastructure**: payments activity, assets under custody, underwriting activity
    - **Complexity**: OTC derivatives, trading and AFS securities and level 3 assets
    - **Cross-jurisdictional activity**: claims and liabilities
- The identification as G-SII leads to a higher capital requirement that will be applied about one year after the publication by NCAs of bank's scoring results.

3. Next steps

- In November 2014 the BCBS and the FSB will publish global denominators and G-SIB exercise results. They will be published each year.
- In January 2015 NCAs will identify G-SII for the first time.
- The EBA, acting as a data hub, will disclosure such data with yearly frequency, by end-July.

01/10/2014

- **Triggers for use of early intervention measures pursuant to Article 27(4) of Directive 2014/59/EU.**
- **The interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under Article 32(6) of Directive 2014/59/EU.**

1. Context

In accordance with the new BRRD regulatory framework which introduces a common set of early intervention measures, the EBA has published two consultation papers whose aim is to promote convergence of supervisory and resolution practices in relation to how resolution should be triggered and how to apply early intervention measures. They are addressed to competent authorities (NCAs).

Moreover, these Guidelines complement EBA Guidelines for common procedures and methodologies for SREP and together they form a set of supervisory guidance linking on-going supervision, early intervention and resolution. Therefore, all guidelines must be read in conjunction.

2. Main points

Draft Guidelines on early intervention triggers

- The triggers are based on:
    - The scores supporting the outcomes of the SREP, expressed both in terms of Overall SREP score and scores for individual SREP elements.
    - Material deterioration or anomalies identified in the monitoring of key financial and non-financial indicators under SREP.
    - Significant events.
- However, the Guidelines do not establish any quantitative threshold for capital or liquidity requirements.
- Breaching the triggers identified in the Guidelines should prompt the NCAs to further investigate the situation or to make a decision considering the urgency of the situation.

Draft Guidelines on failing or likely to fail

- These guidelines further specify the circumstances in which an institution shall be deemed to be failing of likely to fail, especially for cross border groups.
- The objective elements (covered in the SREP assessment) that should be taken into account when determining that the institution is failing or likely to fail should cover capital and liquidity positions of an institution and other requirements for continuing (including governance arrangements and operational capacity).

3. Next steps

- Comments on these consultations can be submitted before 22 December 2014.
- The guidelines on early intervention triggers are expected to be applied in 2015.

European Securities and Markets Authority

23/12/2014

Final Technical Advice (TA) and a Consultation paper on its draft RTS and ITS regarding the implementation of the MiFID II and MiFIR.

1. Context

In January 2014, the European Parliament and the Council reached political agreement for the revision of MiFID I. The final legislative texts of MiFID II and MiFIR were approved by the Parliament on April 2014 and by the Council on May 2014.

In this context, the ESMA is mandated to draft RTS and ITS and to provide technical advice (TA) to assist the Commission on the possible content of the delegated acts required by several provisions of MiFID II/MiFIR.

Both documents translate the MiFID II/MiFIR requirements into practically applicable rules for market participants and national supervisors.

2. Main points

- **Investor protection**: provisions are related to investment advice and the use of distribution channels, the compliance function, recording of telephone conversations and electronic communications, conflicts of interest, etc.
- **Transparency**: it addresses aspects such as the liquid market for equity and equity-like instruments, transactions in several securities, the definition of systematic internaliser, etc.
- **Data publication**: it provides technical advice on the access to systematic internalisers´ quotes, the publication of unexecuted client limit order on shares traded on a venue and reasonable commercial basis.
- **Micro-structural issues**: it relates to algorithmic and high frequency trading and direct electronic access.
- **Requirements to trading venues**: it contains provisions on suspension and removal of financial instruments from trading, monitoring of compliance with the rules of the trading venue and with information requirements for trading venues, Small and Medium sized Enterprises Growth Markets, etc.
- **Commodity derivatives:** it defines financial instruments and provides technical guidance of position reporting thresholds and position management powers of ESMA.
- **Portfolio compression:** it addresses the elements of portfolio compression, the information to be published, and the criteria of the definition of portfolio compression.

3. Next steps

- The TA has been finalised and sent to the European Commission.
- The draft RTS/ITS are open for public comment until 2 March 2015.
- MiFID II/MiFIR and its implementing measures will be applicable from 3 January 2017.

12/12/2014
Peer Review Report on MiFID by the ESMA.

1. Context

In October 2011, the European Commission tabled proposals to revise the MiFID Directive with the aim of making financial markets more efficient, resilient and transparent, and to strengthen the protection of investors. Subsequently, in December 2011 the ESMA was tasked with a peer review on the supervisory practices with regard to the MiFID rules on fair, clear, and not misleading information.

In this regard, the ESMA has published a peer review, which is focused on NCAs´ organization, supervisory approaches, monitoring and complaints handling in relation to information and marketing communications under MiFID. It comprises two phases: a self-assessment; and a review of the self-assessment by a group of experts from the NCAs and ESMA staff. The desk-based review has also been complemented by an on-site visit program.

The review period is from 1 January 2010 to 30 June 2012 and all ESMA Members, except Iceland, contributed to this peer review.

2. Main points

- **Main sections of the desk-based review**:
    - Organization: description of the main institutional and organizational background and the internal mechanism ensuring coherent and consistent supervision.
    - Supervisory approach: focused on the supervisory approach NCAs endorse in the general supervision and enforcement of MiFID rules.
    - Monitoring: aimed at assessing NCAs performance regarding the active monitoring of information and marketing communications.
    - Thematic work: it addresses the identification of the approach by NCAs to determine when a thematic review should be carried out.
    - Complaints: focused on how the NCAs facilitate the submission of complaints.
- **Key findings:** there is a high level of compliance. However, further efforts should be made in order to improve the NCAs different supervisory approaches:
    - Regarding organization, further efforts should be made to establish more robust structures and more efficient coordination and cooperation arrangements.
    - NCAs are encouraged to strengthen their supervisory approaches in order to give appropriate relevance to conduct of business supervision in their risk assessments.
    - Additional improvements should be made in order to make supervision on information and marketing communications of financial products to clients more effective.
- **On-site work**: it remains a key tool to identify weaknesses. The ESMA visits NCAs to improve convergence and make supervision of marketing communication and investor information more effective.

EUROPEAN CENTRAL BANK
EUROSYSTEM

30/10/2014
Regulation on supervisory fees.

1. Context

The ECB will take over as supervisor of euro area banks in November 2014 as part of the Single Supervisory Mechanism (SSM). The ECB will be responsible for the supervision of Eurozone institutions. It will directly supervise up to 130 institutions and work with national competent authorities to oversee smaller banks.

Under the EU Regulation governing the SSM, the ECB is required to levy an annual supervisory fee on the directly and indirectly supervised banks in order to recover its expenditures for supervision.

2. Main points

- All banks supervised within the SSM will be subject to an annual ECB supervisory fee.
- The annual costs shall be split into two parts: annual costs to be recovered from significant supervised entities and from less significant supervised entities.
- The fee will be the sum of two components:
    - Fix component: it will be based on 10% of the amount to be recovered.
    - Variable fee: it will depend on the risk profile of the institutions and its total assets.
- The payment will be on an annual basis and is to be calculated at the highest level of consolidation.

3. Next steps

- In the near future the ECB will publish the methodology used for the calculation of the supervisory fee in its website.
- By 31 December 2014, each group of fee-paying entities shall nominate the fee debtor for the group and shall notify the identity of the fee debtor to the ECB.
- The fee debtor shall submit the contact details for the submission of the fee notice for the first time by 1 March 2015.
- The fee notice for the first fee period shall be issued together with the fee notice for the 2015 fee period (expected on the 30 April 2015).

EUROPEAN CENTRAL BANK

EUROSYSTEM

30/10/2014
Consultation paper on a draft Regulation on reporting of supervisory financial information.

1. Context

The ECB will take over as supervisor of euro area banks the 4 November 2014 as part of the Single Supervisory Mechanism (SSM). The ECB will be responsible for the supervision of Eurozone institutions. It will directly supervise up to 130 institutions and work with national competent authorities (NCAs) to oversee smaller banks.

Under the EU Regulation governing the SSM, the ECB has published a consultative document on a draft Regulation on the requirements regarding the reporting on supervisory financial information (FINREP) to be submitted to NCAs and the ECB by supervised banks.

At present, FINREP is only mandatory for institutions applying IFRS at the consolidated level. This draft Regulation aims to extend the regular FINREP to the consolidated reports of banks under national accounting frameworks (National GAAPs), as well as to reports at the solo level (i.e. including a single legal entity). This extension will cover all supervised entities.

2. Main points

- In describing the requirements, the ECB has considered:
    - The kind of institution, i.e. significant and less significant supervised entities
    - The level of application (consolidated level, solo level or branch level)
    - Whether IFRS or National GAAPs apply.
- The interaction of the factors described above result in different **groups of reporting agents** subject to different reporting requirements in terms of data content and first remittance date.
- In addition, the Regulation defines different datasets to tailor de data content to the characteristics of each group of reporting agents:
    - **Full FINREP**: as provided for in the ITS on supervisory reporting
    - **Simplified FINREP**: it comprises a reduced set of templates
    - **Over-simplified FINREP**: it is a further reduced set of templates.
    - **FINREP data points**: it is the most reduced dataset, as it includes only selected data points taken from the templates of the Over-simplified FINREP.

3. Next steps

- The consultation process will last until **4 December 2014**.
- Institutions shall fulfill these requirements following a phase-in calendar from 2014 to 2017 (see summary table of the original document).

27/10/2014
Results on the Comprehensive assessment (ECB) EU-wide stress test 2014 results (EBA).

1. Context

In October 2013, the ECB announced that it was preparing a comprehensive assessment (CA) on the significant banks that will be under the Single Supervisory Mechanism (SSM) due to its aim to enhance the transparency of the balance sheets of significant banks and to rebuild investor confidence prior to the ECB taking over its supervisory tasks the 4 November 2014. Thus, the ECB has published the results of this thorough year-long examination of the resilience and position of the 130 largest banks in the euro area as of 31 December 2013.

In addition, the EBA has published the results (123 banking groups across the EU and including Norway) on the EU-wide stress test whose aim is to help supervisors assess the resilience of financial institutions in the European Union to adverse market developments and to ensure consistency and comparability of the outcomes across all banks based on a common methodology, scenarios and disclosure exercise.

2. Main points

Comprehensive assessment results
- The CA found a capital shortfall of €25 billion at 25 banks. Twelve of the 25 banks have already covered their capital shortfall by increasing their capital by €15billion in 2014 (Liberbank was one of them).
- Bank's asset values need to be adjusted by €48 billion, which will be reflected in the bank's accounts or prudential requirements.
- Banks' non-performing exposures (using a standard definition) increased by €136 billion to a total of €879 billion.
- Adverse stress scenario would deplete banks' capital by €263 billion, reducing median CET1 ratio by 4% from 12.4% to 8.3%.

EU-wide stress test 2014
- Overall, the scenario tested saw EU banks experience €261 billion of capital depletion mostly caused by €492 billion of credit losses (-4.4% impact on CET1 capital ratio).
- In the adverse scenario, the weighted average CET1 ratio falls by 2.6% from 11.1% -post AQR- at the end of 2013 to 8.5% at the end of 2016.
- 24 participating banks fall below the capital threshold in the adverse scenario, leading to a maximum capital shortfall of €24.6 billion and a shortfall of €24.2 billion in the adverse scenario.

3. Next steps

- Banks with shortfalls must prepare capital plans within two weeks from today (27 October 2014). In addition, they will have 6 months to recapitalise the shortfalls shown by the AQR and the stress test base scenario and 9 months to recapitalise the shortfalls shown by the stress test adverse scenario.

12/12/2014

The European Parliament and the Council have published a Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs).

1. Context

Retail investors are increasingly offered a wired variety of packaged retail and insurance-based investment products (PRIIPs). However, existing disclosures to retail investors for such PRIIPs are uncoordinated and often do not help them to compare different products, or understand their features. Furthermore, the differences in national regulation in this area create an unlevel playing field, erecting additional barriers to an internal market.

In this context, the European Parliament and the Council have adopted a regulation whose main objective is to improve the transparency of this type of investment products in order to protect retail investors from unforeseen losses and ensure a common standard for key information documents.

2. Main points

- **Scope:** PRIIPs manufacturers and individuals advising on or selling PRIIPs.
- **Development of a key information document:**
    - The PRIIP manufacturer shall draw up a key information document with key data that retail investors need, which shall consistent with any binding contractual documents.
    - The document shall be accurate, fair, and not misleading. It shall be written in language that facilitates the understanding of information.
    - It shall be provided to retail investors free of charge and in good time before they are bound by any contract relating to the concerned PRIIP.
- **Market monitoring and product intervention:**
    - The EIOPA and the NCAs may temporarily prohibit or restrict the marketing, distribution or sale of certain PRIIPs or a type of financial activity, provided that some circumstances are met.
- **Complaints:** the PRRIP´s seller or manufacturer shall establish appropriate procedures which ensure that retail investors have an effective way of submitting a compliant or redress.
- **Administrative penalties:** Member States shall lay down rules establishing appropriate measures when there is an infringement of the Regulation. NCAs shall have the power to impose:
    - An order prohibiting or suspending the marketing of a PRIIP.
    - A public warning which indicates the responsible for the infringement.
    - An order prohibiting the provision of a key information document.
    - Administrative fines.

3. Next steps

- The Regulation by the European Parliament and the Council shall apply from 31 December 2016.

GOBIERNO DE ESPAÑA

10/12/2014
Anteproyecto de Ley de Ordenación, Supervisión y Solvencia de Entidades Aseguradoras y Reaseguradoras.

1. Context

The European Parliament and Council approved the Solvency II Directive in November 2009. Its main objective was to establish a unique legal framework for insurance and reinsurance companies within the EU. Subsequently, the Parliament adopted the Omnibus II Directive in April 2014, which introduced significant changes to the insurance sector regulation.

In this context, the Consejo de Ministros has approved the Anteproyecto de Ley de Ordenación, Supervisión y Solvencia de Entidades Aseguradoras y Reaseguradoras in order to incorporate Solvency II to the Spanish regulation. It introduces a new supervisory model and changes to solvency requirements, governance systems and information systems.

2. Main points

- New **supervisory model:**
  - The Dirección General de Seguros y Fondos de Pensiones (DGSFP) will be the supervisory authority in Spain and will have the power to develop mandatory rules and technical guidelines.
  - Additional procedures are introduced to the supervisory model.
  - Administrative fees are reduced.
  - Mystery Shopping is now regulated.
- New calculation method for **solvency requirements**:
  - Solvency Capital Requirement (SCR): it can be calculated through a standardized approach or internal models (once the DGSFP has approved them).
  - Minimum Capital Requirement (MCR): it is calculated through a standardized approach and its noncompliance may result in an entity being pushed out of the market.
- Strengthened **governance system**:
  - Establishment of specific rules on honorability and aptitude of people in charge of the effective direction and governance functions within the entity.
  - Specification of four fundamental functions that the governance system must include: risk management, compliance, internal audit and actuarial verification.
- **Information systems** unification within the entities:
  - Information systems should be comparable among countries and entities in order to effectively supervise them.
  - Financial and solvency information will be published at least annually in order to achieve transparency.

3. Next steps

- Once the regulation text becomes law, it is expected it will enter into force in 1 January 2016.
- Some provisions of Solvency II and Omnibus II will be transposed to the Spanish law through the establishment of a regulation text.

GOBIERNO
DE ESPAÑA

01/12/2014

Anteproyecto de Ley de Reestructuración y Resolución de Entidades de Crédito y Empresas de Servicios de Inversión.

1. Context

In response to the financial crisis that emerged in 2008, the European Commission pursued a number of initiatives to create a safer and sounder financial sector within the single market. In this context, the SRM was incorporated into the European law through the Bank Recovery and Resolution Directive (BRRD).

The Consejo de Ministros has approved an Anteproyecto de Ley that transposes the BRRD into the Spanish law. It establishes the entities' resolution processes at the preventive stage, the early intervention mechanisms and the resolution procedure, as well as the action framework for the competent authorities.

2. Main points

- Establishment of an **action framework** for competent authorities:
  - Preventive resolution authorities (Bank of Spain and the CNMV): responsible for the preventive stage.
  - Executing resolution authority (FROB): it may determine an entity´s insolvency and initiate the resolution procedure.
  - Once the SRM comes into force, these responsibilities will only involve small entities.
- Creation of the **National Resolution Fund**, which will be funded by contributions of entities and managed by the FROB. From January 2016, the national resources will be incorporated in the Single Resolution Fund.
- Description of the **resolution process**:
  - Preventive stage. Institutions must have:
    - A recovery plan, which is proposed by the entity and approved by the supervisor. It comprises measures to be applied if an entity runs into difficulties but remains solvent.
    - A resolution plan, which is approved by the preventive resolution authority and comprehends measures that will apply in case of an entity´s resolution.
  - Early intervention actions: they are used when an entity does not comply with the solvency regulation but has the means to do so (i.e. provisional replacement of managers or debt restructuring).
  - Resolution procedure: it is initiated when an entity is failing, or is likely to fail in the future, and it is necessary to avoid bankruptcy. The loss-absorbing cycle consists of (1) shareholders and creditors bear losses up to 8% of total liabilities, (2) the Resolution Fund may bear losses up to 5% of total liabilities and (3) bail-in of the rest of creditors.

3. Next steps

- The Anteproyecto de Ley of the Consejo de Ministros will come into force once it has been approved through the ordinary legislative procedure and becomes law.

09/10/2014
Proyecto de Ley de Fomento de la Financiación Empresarial

1. Context

The Consejo de Ministros has approved el Proyecto de Ley de fomento de la financiación empresarial whose aim is to enhance SME´s funding. Moreover, it also improves the access to credit, canalizes savings into inversion, regulates crowdfunding and other non-banks instruments and enhances the Alternative Stock Market´s (MAB) regulation.

2. Main points

<u>SME´s legal regime:</u>
- Credit institutions must inform SMEs with at least three months in advance of its decision to cancel or significantly reduce (by 35% or more) the concerned SME's funding.
- It gives a SME the right to obtain information from the financial institution concerning the SME´s financial position, payment history, financial statements, credit rating, etc. in accordance with the SME's rating established by the BdE.

<u>Crowdfunding´s new legal regime:</u>
- It establishes the legal regime for crowdfunding platforms to ensure the protection of investors and to boost this new tool. The CNMV and the BdE will oversight this funding source.
- It ensures transparent information to investors through access to all data related to the platform, the developer, the funding tool and the risks associated to the projects.
- It distinguishes between accredited and non-accredited investors, and gives them a different treatment. In this context, there are certain limits to the amount that non-accredited investors can invest.

<u>Alternative Stock Market (MAB):</u>
- The new regulation makes companies´ transition from MAB to Bolsa easier due to certain measures (exemption of interim management statement requirement, removal of the second quarter report requirement and the settlement of a capitalization threshold of € 500 million).
- It reinforces the supervisory capacity of the CNMV:
  - The CNMV will be the competent authority in the authorization and withdrawal of authorization for operating institutions in the securities market.
  - The CNMV assume greater powers on supervision, inspection and penalties.
- It regulates the mystery-shopping as a collaborative mechanism between the inspection functions of the CNMV and the initiation of disciplinary proceedings.

<u>Bolsas y Mercados (BME):</u>
- It makes Bolsas y Mercados (BME) the MBA´s authority through:
  - The obligation to notify the CNMV of any legal infringement that may arise from the misused of information which issuers have access to.
  - The increasing monitoring tasks carried out by the CNMV on these alternative markets.
  - The requirement to report to the CNMV the specific supervisory measures that have been undertaken quarterly.

<u>The legal regime of the financial credit establishments (EFCs):</u>
- It covers the regulation of financial credit institutions (EFCs) which are no longer considered as financial entities.
- However, EFCs are still subject to the same supervisory and solvency requirements that banks.

<u>The legal regime of the bond issuance:</u>
- It adapts the legal regime of bond issuance to the current functioning of the capital markets and facilitates the access to debt markets.
- It reforms the legal framework for securitizations in order to simplify these instruments, make them more transparent and reduce the reliance on rating agencies.

3. Next steps
- The Proyecto de Ley has been submitted by the Consejo de Ministros to the Cortes so as they approve it.

BANCO DE ESPAÑA
Eurosistema

24/12/2014
Circular 5/2014, por la que se modifica la Circular 4/2004.

1. Context

The Circular 4/2004 adopted by the BdE aimed to amend the accounting system of Spanish credit institutions, adapting it to the new accounting framework resulting from the adoption by the EU of the IFRS through European regulations.

The BdE has published the Circular 5/2014, which amends the former Circular and whose main objectives are to incorporate the new statistic and supervisory information requirements that the BdE should provide to the ECB and to adapt the content of the public and confidential financial information to the FINREP formats.

2. Main points

- **Risk analysis and hedging**: the new Circular introduces amendments on:
    - Riesgo normal: debt instruments not measured at fair value through profit or loss issued by a specialized credit institution, advances other than loans and contingent commitments are classified in the category “Riesgo normal” and the subcategory “Sin riesgo apreciable”.
    - Riesgo dudoso por razón de la morosidad del cliente: in this category are included:
        - Amounts that are more than 90 days overdue.
        - All the transactions with a client when the client´s amounts classified as doubtful debt are higher than the 20% of receivable amounts (on the previous framework that percentage was 25%).
- **Methodology for calculating provisions:** it changes the calculation methodology replacing the system of rules for statistical analysis:
    - Coverage is estimated collectively on the basis of historical loss experience for assets with similar credit risk characteristics.
    - Entities will estimate the incurred losses at financial statements´ date.
    - Estimates shall be equal to the difference between the asset amount registered minus the present value of the expected cash flows.
    - The contingent risks should be estimated following the criteria used for substandard assets.
- **Changes in reporting:** the new Circular introduces a new reporting framework with relevant impacts, especially at the individual level.

3. Next steps

- The amendments to Circular 4/2004 will enter into force on 30 September 2015.
- However, certain provisions will take effect on different dates. All the amendments to Annex IX, including the new methodology for calculating provisions for substandard assets, will come into effect on 31 December 2014.

BANCO DE ESPAÑA
Eurosistema

29/10/2014
Proyecto de Circular a las cajas de ahorros y fundaciones bancarias

1. Context

Ley 26/2013 of saving banks and banking foundations constituted a radical change in the regulation of saving banks. The objective of this law was to make these institutions go back to their traditional values (social values and geographic locations) and professionalize their management.

With this Proyecto de Circular del BdE (CBE) the BdE complements this Ley 26/2013 in order to determine certain points of the remuneration and corporate governance reports of those saving banks that do not issue shares in official stock markets, and to clarify some obligations that banking foundations have from their participations in credit institutions.

2. Main points

- The corporate governance and remuneration reports' requirements are established for saving banks that do not issue shares. In addition, the format required of these report is established in Annex 1 & 2 of this CBE.
- Banking foundations' obligations are detailed (the obligations will depend on the amount of shares they have of the credit institution):
  - More than 30%: banking foundations must have a management procedure and a financial plan.
  - More than 50% or the banking foundation controls the credit institution:
    - Not only a financial plan is needed but also a diversification plan and a risk management plan.
    - Either a reserve fund (calculated by applying certain coefficient to RWAs) or a disinvestment plan from the credit institution is created.

3. Next steps

- Interested financial institutions and professionals can submit their comments to the BdE before 18 November 2014.

10/12/2014

Proposed rulemaking on Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies.

1. Context

The financial crisis demonstrated that certain US financial companies had grown so large, leveraged, and interconnected that their failure could pose a threat to financial stability in the US and globally. Furthermore, a perception persists in the markets that some companies remain too big to fail, and this perception reduces incentives of these companies to discipline excessive risk-taking.

In this context, the US Congress enacted the Dodd-Frank Act in order to mitigate the risk that could arise from failure of large, interconnected financial institutions. Particularly, Section 165 directs the Fed to establish enhanced prudential standards for large financial companies.

The Fed has published a proposed rulemaking in order to impose risk-based capital surcharges upon US bank holding companies that are identified as GSIBs.

2. Main points

- **Scope of the capital surcharge**: bank holding companies with $50 billion total consolidated assets or more.
- **Methodology to determine whether a bank is a GSIB**:
    - It is based on five broad categories: size, interconnectedness, cross-jurisdictional activity, substitutability and complexity.
    - A firm's profile is measured through the identification of individual systemic indicators within each category (i.e. total exposures, intra-financial system assets and liabilities, assets under custody, notional amount of OTC derivatives, etc.).
    - Each indicator has an associated weighting.
    - Banks will be designated as GSIBs if the resulting score is 130 basis points or greater.
    - Under this methodology, 8 banks would currently be identified as G-SIBs.
- **Calculation of the GSIB surcharge**:
    - A GSIB should calculate the surcharge implementing two methods:
        - The first method is based on the sum of the individual systemic indicators scores of the five broad categories.
        - The second method is based on the sum of the individual systemic indicators scores of the broad categories (except the substitutability category) and a measure of use of short-term wholesale funding.
    - A GSIB´s surcharge would be the higher of the two surcharges determined under the two methods.
    - A GSIB´s capital conservation buffer is increased by the amount of its GSIB surcharge.

3. Next steps

- Comments to the proposal must be received no later than February 28, 2015.
- The proposed framework will be phased in beginning in 2016 and become fully effective on January 1, 2019.

24/11/2014

Document on technical corrections and clarifications to the capital rules applicable to advanced approaches banking organizations.

1. Context

In 2013, the Fed, the FDIC and the OCC (the agencies) revised and strengthened the capital requirements applicable to banking organizations. The regulatory capital framework revised elements of the advanced approaches risk-based capital requirements.

In this context, the agencies have released a joint notice of proposed rulemaking (NPR) with the objective of clarifying, correcting and updating aspects of the agencies´ regulatory capital rule applicable to banking organizations that are subject to the advanced approaches risk-based capital rule.

The NPR applies to (i) large internationally active banking organizations (generally those with at least $250 billion in total consolidated assets or at least $10 billion in total on-balance sheet foreign exposures), (ii) depository institution subsidiaries of those banking organizations that use the advanced approach rule and (iii) banking organizations that elect to use the advanced approaches.

2. Main points

- Clarification of:
    - The **residential mortgage exposure** definition.
    - Certain **disclosure requirements** for advanced approaches banking organizations.
    - Transactions subject to the twenty business day **margin-period-of-risk requirement**.
    - Requirements associated with frequency for reviewing risk rating systems, independence of the systems' development, design and implementation, among others.
    - The deduction of the **credit spread premium** for derivative liabilities, which will be done over the risk-free rate.
- Application of:
    - The **risk-weighting methodology** to wholesale, retail, securitization and equity exposures when calculating the risk weight for the collateral provided.
    - The **supplementary leverage ratio** to a banking organization that becomes subject to the advanced approaches, and disclosure of the ratio.
    - New methodology when calculating total **on-balance sheet foreign exposure**.
- Permission for:
    - Advanced approaches banking organizations to **reduce the EAD** calculated according to the current exposure methodology by the recognized CVA on the OTC derivative netting set.
    - Clearing member banking organizations to **assign a zero percent risk weight** to the trade exposure amount of a cleared transaction.

3. Next steps

- Comments to the proposal on technical corrections and clarifications must be submitted within 60 days of its publication in the Federal Register.

29/10/2014

2015 Supervisory scenarios for annual stress tests required under the Dodd-Frank Act stress testing rules and the capital plan rule

1. Context

The Fed issued the supervisory scenarios that will be used in the 2015 capital planning and stress testing program. The program includes the Comprehensive Capital Analysis and Review (CCAR) of 31 bank holding companies (BHC) with $50billion or more of total consolidated assets. Deutsche Bank is a new participant to CCAR in 2015.

The aim of the annual reviews is to ensure that large financial institutions have robust, forward-looking capital planning processes, and to help ensure that they have sufficient capital to continue operations throughout times of economic and financial stress.

2. Main points

The three scenarios (baseline, adverse and severely adverse) start in the fourth quarter of 2014 and extend through the fourth quarter of 2017.
Each scenario includes a set of 28 variables, including economic activity, unemployment, exchange rates, prices, income and interest rates which is the same as the previous year.
As in prior years, six BHCs with large trading operations will be required to factor in a global market shock as part of their scenarios whereas eight BHCs with substantial trading operations will be required to incorporate a counterparty default scenario.

3. Next steps

The data for the global market scenarios will be provided no later than December 1, 2014.
All 31 of the companies in the CCAR in 2015 must submit their capital plans on or before 5 January 2015.

23/10/2014

Final rule implementing the credit risk retention requirements of section 15G of the Securities Exchange Act of 1934

1. Context

During the financial crisis securitization transactions displayed significant vulnerabilities arising from inadequate information and incentive misalignment among various parties involved in the process. Particularly, investors did not have access to the same information about the assets collateralizing asset-backed securities (ABS) as the sponsors of the securitization transaction.

In this context, section 15G of the Exchange Act, as added by section 941(b) of the Dodd Frank Act, adopted requirements to help to address problems in the securitization markets by requiring that securitizers retain an economic interest in the credit risk of the assets they securitize. The Fed, together with some agencies, is adopting a final rule to prescribe regulations that implement the requirements of section 15G of the Exchange Act.

2. Main points

- The risk retention requirements apply to the securitizer or sponsor in each **securitization transaction**, defined as a transaction involving the offer and sale of ABS interest by an issuing entity.
- The final rule requires a securitizer to **retain not less than 5% of the credit risk** of any asset that the securitizer, through the issuance of an ABS, transfers, sells, or conveys to a third party.
    - To satisfy its obligation a sponsor or securitizer is allowed to retain an **eligible vertical interest**, an **eligible horizontal residual interest**, or any combination thereof as long as the amount of the eligible vertical interest and the amount of the eligible horizontal residual interest combined is no less than 5 percent.
    - **Exemptions** from risk retention: all of the assets collateralizing the ABS interests are residential mortgage loans meeting the **Qualified Residential Mortgages (QRMs)** standard (defined in the final rule) and **auto, commercial real estate, and commercial loans** that meet proposed underwriting standards.
- Securitizers shall periodically review the definition of QRM (four years after the effective date of the rule with respect to the securitization of residential mortgages and every five years thereafter).
- The final rule **prohibits** a securitizer from directly or indirectly **hedging or otherwise transferring the credit risk that the securitizer is required to retain**.

3. Next steps

- The risk retention requirements for securitization transactions collateralized by residential mortgages will become effective one year after the date on which the final rule is published in the Federal Register.
- For any other securitization transaction, the requirements will enter into force two years after the publication of the final rule in the Federal Register.

20/10/2014

- **Final rule on amendments to the capital plan and stress test rules.**
- **Instructions for the 2015 capital planning cycle.**

1. Context

The capital planning and stress testing program led by the Fed since the financial crisis has contributed to a significant increase in capital at the largest banking organizations in the United States. Pursuant to the Fed's capital plan rule and related supervisory process, the Fed has published a finale rule to modify the regulations for capital planning and stress testing.

In addition, the Fed has released instructions for the 2015 capital planning cycle ahead of the supervisory scenarios in order to provide firms with additional time for implementation.

2. Main points

Final rule on amendments to the capital plan and stress test rules:

- The final rule adjusts the due date for bank holding companies (BHCs) with total consolidated assets of $50b or more to submit their capital plans and stress test rules:
    - These BHCs are required to submit capital plans on or before 5 January 2015 (unchanged)
    - For subsequent cycles, beginning in 2016, participating BHCs will be required to submit their capital plans and stress testing results to the Fed on or before 5 April.
- The final rule adopts the limitation on a BHC's ability to make capital distributions to the extent that the BHC's actual capital issuances are less than the amount indicated in its capital plans.

Instructions for the 2015 capital planning cycle:

- Similar to the instructions in previous years, this year's instructions provide information regarding:
    - The logistics for a BHC's capital plan submissions
    - The expectations regarding the mandatory elements of a capital plan
    - The qualitative assessment of a BHC's capital plan
    - The quantitative assessment of a BHC's post-stress capital adequacy
    - The response to capital plans and planned actions
    - The limited adjustments a BHC may make to its planned capital distributions
    - The planned supervisory disclosures at the end of the CCAR exercise
    - The common themes from CCAR 2014.
- In addition, the CCAR 2015 instructions include some new elements:
    - Supervisory expectations for reviews of BHCs' regulatory reporting
    - Organization of the capital plan submission
    - Model inventory and risk-identification program documentation
    - Incorporation of amendments to the capital plan and stress test rules

3. Next steps

- The final rule will be effective on the 26 November 2014, except the amendment to the capital plan rule establishing a limitation on net capital distributions that will be effective on 1 April 2015.
- The Fed intends to provide the supervisory scenarios as soon as possible (no later than 15 November 2014) to incorporate the relevant data on economic and financial conditions as of the end of the third quarter.

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- Moreover, quarterly MS publishes the Regulation Outlook, which collects all the alerts sent out during the period and anticipates the main upcoming regulatory changes.
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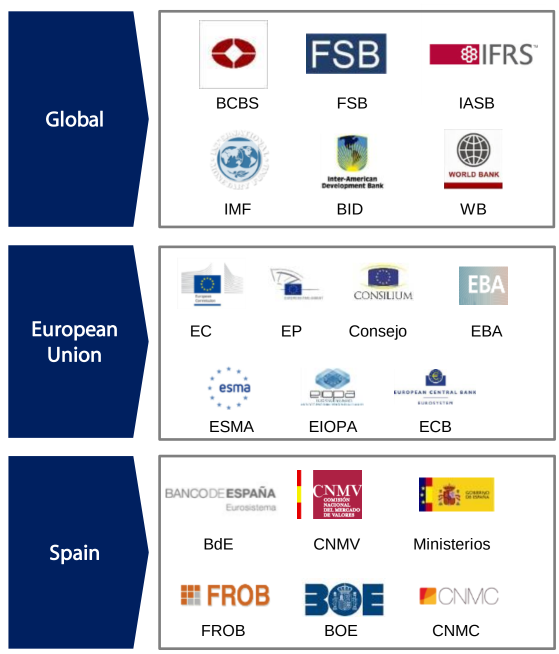
Regulators



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