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Regulation Outlook

1Q15

Design and Layout:

Marketing and Communication Department
Management Solutions

Photographs:

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Executive summary

In the first quarter of 2015, the BCBS published a Consultative Paper in which the expected loss models are addressed for the first time for supervisory purposes. In Spain, the Real Decreto 84/2015 finalises the CRD IV transposition into the Spanish national law.

Global publications

- The BCBS published a Consultative Paper on guidelines on expected credit losses accounting, particularly focused on **expected loss models**, addressing the subject for the first time for supervisory purposes.
- Moreover, the BCBS approved a **revised Pillar 3 disclosure framework**, which will enable market participants to better compare bank´s risk-weighted assets.
- The BCBS launched the results of the survey on the progress made by financial institutions in adopting the **RDA&RR principles (Risk Data Aggregation and Risk Reporting)** in 2014.
- Finally, the BCBS published the results of its **Basel III Monitoring Report**, using data as of June 30, 2014. The EBA released the same information at the European level.

European publications

- The two delegated acts by the European Commission through which the **Liquidity Coverage Ratio (LCR) and the Leverage Ratio (LR)** frameworks were defined were published in the Official Journal of the European Union.
- The EBA launched a Discussion Paper that reviews the actions and the regulatory developments that are being carried out in order to **enhance the IRB approach framework**. Moreover, it expresses its opinion on the work carried out by the BCBS with regard to this framework.
- The EBA also announced its decision of not carrying out an EU-wide stress test in 2015, given the progress that banks have made in strengthening their capital positions. Instead of a stress test, the EBA will be running a **transparency exercise**.

European publications (continuation)

- The EBA published guidelines aimed at ensuring **sound remuneration practices** by financial institutions.
- The EBA also published several regulations in order to fulfil the mandates included in the Bank Recovery and Resolution Directive (BRRD). In this regard, it specified the **minimum content of the resolution plans and the business reorganisation plans**.
- Finally, the EBA launched a Consultation Paper guidelines intended to set limits on institutions´ exposures to **shadow banking entities** which are out of the scope of a prudential regulatory framework.

Local publications

- In Spain, the Consejo de Ministros approved the **Real Decreto 84/2015, which contains detail of the Ley 10/2014, de ordenación, supervisión y solvencia de las entidades de crédito**, completing the CRD IV transposition into national law.
- The CNMV published the **Código de Buen Gobierno de las Sociedades Cotizadas**.
- The **Anteproyecto de Ley de Auditoría de Cuentas** was approved in order to align the auditing legislative framework to the European standards.
- In the US, the Fed published the results of the **Dodd Frank Act Stress Test (DFAST)** and the **Comprehensive Capital Analysis and Review (CCAR)**, providing qualitative and quantitative data on the institutions´ capital positions.

Regulatory projections

G-SIBs will be required to comply with the RDA&RR principles in 2016 and it is expected that the draft laying down the final total loss-absorbing capacity requirement (TLAC) will be published in November 2015. In Europe, supervisors will have to incorporate the EBA guidelines on the Supervisory Review and Evaluation Process (SREP) into their procedures in 2016.

Regulatory projections

1. Next quarter

- **(Europe) April 2015**: the ECB will charge an annual supervisory fee for the first time.
- **(USA) April 2015**: the limitation on net capital distributions will be applicable.
- **(Global) June 2015**: the BCBS will publish the final draft on the revisions to the simpler approaches for measuring operational risk capital.
- **(Europe) June 2015**: national competent authorities (NCAs) will have to incorporate the EBA guidelines on materiality, proprietary, confidentiality and on disclosure frequency.
- **(Europe) June 2015**: NCAs will have to incorporate the assessment criteria of the guidelines on identification of O-SIIs (other systemically important institutions) into their supervisory procedures.
- **(Europe) June 2015**: the EBA will approve the final implementing technical standards (ITS) on credit quality steps for external credit assessment institutions (ECAIs).

2. Next year

- **(Europe) September 2015**: the BCBS will publish a new Monitoring Report that will include the quantitative impact study (QIS) on the TLAC and the new standardized approach for credit risk, among others.
- **(Spain) September 2015**: the Circular 5/2014 amending the Circular 4/2004 of the Bank of Spain will be applicable.
- **(Europe) October 2015**: the LCR will be applicable, therefore entities must maintain a ratio of at least 60% in accordance with transitional arrangements.
- **(Global) November 2015**: the final draft on the TLAC will be published.
- **(Global) December 2015**: the final draft on revisions to the standardized approach for credit risk will be published.
- **(Europe) December 2015**: the ITS on supervisory reporting regarding the LR and LCR will be applicable.
- **(Global) January 2016**: G-SIBs will be required to comply with the HLA (Higher Loss Absorbency) requirement.
- **(Global) January 2016**: G-SIBs will be required to comply with the RDA&RR principles.
- **(Europe) January 2016**: the minimum requirement for own funds and eligible liabilities (MREL) will be applicable.
- **(Europe) January 2016**: the EBA guidelines on the SREP will be applicable.
- **(Europe) January 2016**: the Solvency II Directive will be applicable, including amendments by Omnibus II.
- **(Spain) January 2016**: the Ley de Ordenación, Supervisión y Solvencia de las Entidades Aseguradoras y Reaseguradoras will entry into force.
- **(Spain) January 2016**: the capital buffers and the restrictions on the distribution of dividends established within the Ley 10/2014 framework will be applicable.

3. More than a year

- **(Europe) June 2016**: the Markets in Financial Instruments Directive (MiFID II) will entry into force.
- **(Spain) June 2016**: the Ley de Auditoría de Cuentas will entry into force.
- **(Global) December 2016**: the new Pillar 3 disclosure framework will be applicable.
- **(Europe) December 2016:** the Packaged Retail Investment Products (PRIIPs) Regulation will entry into force.
- **(Global) January 2018**: the IFRS 9 will have to be implemented.
- **(Global) January 2018**: the NSFR and its disclosure requirements will be applicable.
- **(Global) January 2018**: the revised securitisation framework will come into force.
- **(Global) January 2018**: the leverage ratio will migrate to a Pillar 1 minimum capital requirement.
- **(USA) January 2019**: the framework through which capital surcharges may be imposed to BHCs (Bank Holding Companies) identified as G-SIBs will be fully effective.
- **(Global) January 2019**: the TLAC requirement will entry into force.

Publications of this quarter

Summary of outstanding publications of this quarter.

Topic		Title	Date	Page
Basel Committee on Banking Supervision				
RDA&RRF	•	Progress in adopting the principles for effective risk data aggregation and risk reporting.	26/01/2015	8
Disclosure	•	Revised Pillar 3 disclosure requirements.	28/01/2015	9
Expected loss model	•	Guidance on accounting for expected credit losses.	02/02/2015	10
Monitoring	• •	Basel III Monitoring Report (BCBS). CRD IV/CRR Monitoring exercise (EBA).	04/03/2015	11
European Banking Authority				
Disclosure	•	Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under the CRR.	02/01/2015	12
Resolution plans	•	Draft ITS on procedures, forms and templates for the provision of information for resolution plans.	15/01/2015	13
Prudent valuation	•	Final Draft RTS on prudent valuation.	27/01/2015	14
CVA	•	Opinion on Credit Valuation Adjustment.	26/02/2015	15
Benchmarking	•	Final Draft ITS on benchmarking portfolios, templates, definitions and IT solutions and Final Draft RTS on benchmarking portfolio assessment standards and assessment sharing procedures.	03/03/2015	16
Stress test	•	Decision regarding an EU-wide stress test in 2015.	03/03/2015	17
Reporting	•	DPM and XBRL taxonomy for remittance of supervisory reporting as of 30 June 2015.	03/03/2015	18
Corporate Governance	•	CP Draft GL on sound remuneration policies and disclosures.	05/03/2015	19
IRB Approach	•	Discussion Paper on future of the IRB Approach.	05/03/2015	20
Critical functions, bail-in	• • •	TA on the DA on critical functions and core business lines. TA on the DA on the circumstances when exclusions from the bail-in tool are necessary. TA on the DA on the deferral of extraordinary ex-post contributions.	09/03/2015	21
Resolution	•	CP on Draft RTS and GL on Business Reorganization Plans under BRRD.	10/03/2015	22
Shadow banking	•	CP on Draft GL on limits on exposures to shadow banking entities.	20/03/2015	23

CP: consultation paper. GL: guidelines. RTS: regulatory technical standards. ITS: implementing technical standards. TA: technical advice. DA: delegated acts.

26/01/2015

Progress in adopting the principles for effective risk data aggregation and risk reporting.

1. Context

The principles for effective risk data aggregation and risk reporting (RDA&RR), which aim to strengthen banks' risk data aggregation and risk reporting practices to improve risk management, were issued by the BCBS in January 2013.

In this regard, the BCBS and national supervisors agreed to monitor and assess bank´s progress in adopting the RDA&RR principles at least on an annual basis from the end of 2013. After conducting a survey among banks, the BCBS has published the second report on progress in adopting the RDA&RR principles.

This report outlines the level of compliance with principles and the expected date in which banks will fully meet them. It also includes the challenges banks face, as well as some recommendations in order to facilitate implementation.

2. Main points

- **Scope**: G-SIBs. However, the BCBS suggests that supervisors also apply the principles to domestic systemically important banks (D-SIBs).
- **Level of compliance**: overall, there were only minor improvements in adapting the principles. The conclusions are divided into three categories:
    - Governance (principles 1 and 2): G-SIBs reported minimal progress in adapting these principles, which are considered to be prerequisites for overall compliance with the remaining principles.
        - G-SIBs identified principle 2 (Data and IT infrastructure) as the most challenging one.
    - Risk data aggregation (principles 3, 4, 5 and 6): G-SIBs´ average self-assessment compliance ratings improved. Nonetheless, the notable exception was principle 3 (accuracy and integrity).
    - Risk reporting (principles 7, 8, 9, 10 and 11): G-SIBs generally assigned themselves higher ratings on the risk-reporting principles than they did on the related data aggregation principles.
- **Expected date of compliance**: many banks reported that they are unable to comply with at least one principle by January 2016.
- **Challenges**: the results showed remaining challenges to fully comply with the principles:
    - Banks´ dependence on manual processes.
    - The need to develop common data dictionaries and data taxonomies.
    - The inability to create accurate and timely risk data reports during stressed or crisis situation.
- **Recommendations** from the BCBS:
    - Engage senior management and the board of directors.
    - Encourage supervisors to monitor progress on IT architecture projects more carefully.
    - Minimize the use of manual systems and enhance quality controls.

3. Next steps

- G-SIBs are required to comply with the principles by 1 January 2016.
- The BCBS strongly suggests that national supervisors also apply the Principles to banks identified as D-SIBs three years after their designation as such by their national supervisors.

28/01/2015
Revised Pillar 3 disclosure requirements

1. Context

During the financial crisis, the existing Pillar 3 framework failed to promote the identification of a bank's material risks and did not provide sufficient information to enable market participants to assess a bank's overall capital adequacy and to compare it with its peers.

The key goal of the revised Pillar 3 disclosures is to improve comparability and consistency of disclosures, focusing on improving the transparency of the internal model-based approaches that are used to calculate minimum regulatory capital requirements.

The document introduces harmonized templates and a hierarchy of disclosures: the **fixed form** templates will be used for quantitative information considered essential for the analysis of the regulatory capital requirements; the **flexible format** templates are proposed for information considered meaningful to the market but not central to the analysis. Senior management may accompany the disclosure requirements with a qualitative commentary.

2. Main points

- **Scope of application:** all internationally active banks at the top consolidated level.
- **Reporting format:** banks will publish their disclosures in a separate document. The report could be appended to the bank´s financial reporting, but it must be easily identifiable.
- **Frequency and timing of disclosure:**
    - The frequencies vary between <u>quarterly, semiannual and annual</u> reporting depending upon the nature of the specific disclosure requirement.
    - The Pillar 3 report must be published <u>concurrently with a bank's financial report</u> for the corresponding period. If a Pillar 3 disclosure is required to be published for a period when a bank does not produce any financial report, the disclosure requirement must be published as soon as practicable.
- **Content of the disclosure:**
    - <u>29 templates</u>, 20 of which are fixed format templates and 9 are flexible format templates. They must be completed with quantitative data.
    - <u>11 tables</u>: they generally relate to qualitative requirements, but quantitative information is also required in some instances.
    - <u>Main topics</u>: risk management and RWA, linkages between financial statements and regulatory exposures, credit risk, counterparty credit risk, securitization, market risk, operational risk and interest rate risk in the banking book.
- **Assurance of Pillar 3 data:** the information should be subject, at a minimum, to the same level of internal review an internal control processes as the one provided within the financial reporting.

3. Next steps

- Authorities will enforce the disclosure requirements in this document from **end-2016.**

02/02/2015

Consultation paper on Guidance on accounting for expected credit losses.

1. Context

In June 2006, the BCBS issued supervisory guidance on Sound Credit Risk Assessment and Valuation for Loans. The document was based on the incurred-loss model of accounting, which served as the basis of accounting and was implemented with significant differences from jurisdiction to jurisdiction, and amongst banks within the same jurisdiction.

The BCBS now publishes new guidelines. The main objective of this document is to set out supervisory requirements on sound credit risk practices associated with the implementation and application of expected credit loss (ECL) accounting models.

This supervisory guidance is structured around 11 principles concerning supervisory requirements for credit risk practices related to ECL; and supervisory evaluation of credit risk practices, accounting for ECL and capital adequacy. The document includes an appendix that describes supervisory requirements specific to jurisdictions applying the IFRS ECL requirements

2. Main points

- **Supervisory requirements for sound credit risk practices that interact with ECL measurement:**
    - Development of appropriate credit risk practices that determine allowances.
    - Implementation of sound methodologies that assess credit risk on all lending exposures.
    - Establishment of a process that groups lending exposures based on shared credit risk characteristics.
    - Determination of an aggregate amount of allowances in line with the Basel Core Principles, which should be consistent with the objectives of the accounting requirements.
    - Definition of policies and procedures that validate internal credit risk assessment models.
    - Use of experienced credit judgment in the assessment and measurement of ECL.
    - Establishment of a credit risk assessment process that provides a strong basis for common systems, tools and data to assess and price credit risk, and account for ECL.
    - Promotion of transparency and comparability through public reporting.
- **Supervisory evaluation of credit risk practices, accounting for ECL and capital adequacy:**
    - Periodic evaluation of the effectiveness of a bank's credit risk practices.
    - Assessment of the methods employed by a bank to determine allowances and their measurement of ECL under the applicable accounting framework.
    - Consideration of a bank's credit risk practices when assessing a bank's capital adequacy.
- **Supervisory expectations:**
    - Internationally active banks and more sophisticated banks are expected to have the highest-quality implementation of an ECL accounting framework.
    - Supervisors may adopt a proportionate approach for less complex banks, taking into account the size, nature and complexity of their lending exposures.

3. Next steps

- Comments to this consultative document should be submitted by **30 April 2015**.

04/03/2015

- **Basel III Monitoring Report (BCBS)**
- **CRD IV/CRR Monitoring exercise (EBA)**

1. Context

The BCBS has published the results of its latest Basel III monitoring report. In parallel with this report, the EBA has conducted its monitoring exercise for banks in the EU. These exercises allowed gathering aggregate results on capital, RWAs, leverage ratio, LCR and NSFR for banks.

Both exercises classify banks in Group 1 (comprised of those internationally active banks with a Tier 1 capital exceeding €3billion) and Group 2. For the BCBS exercise a total of 224 banks participated, comprising 98 Group 1 banks and 126 Group 2 banks. In contrast, the analysis of the EBA exercise is based on data submitted by 40 Group 1 banks and 108 Group 2 banks.

2. Main points

- The exercises were based on the assumption of a **full implementation** of the Basel III/CRD IV framework.
- The results are based on data as of **30 June 2014**.
- The main **average results** obtained were:

Organism	Group	CET1 ratio	Shortfall*	Shortfall reduction**	LR	LCR	NSFR
BCBS	1	10.80%	3.9bn€	74%	4.7%	121%	110%
	2	11.80%	1.8bn€	81%	5.6%	140%	114%
EBA	1	10.80%	2.8bn€	73%	3.9%	113%	102%
	2	12.30%	0.7bn€	n.a.	4.9%	156%	111%

* Shortfall with respect to the minimum requirement of 7% (CET1+Capital Conservation Buffer).

** Shortfall reduction between December 2013 and June 2014.

02/01/2015
Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under the CRR.

1. Context

The CRR specifies disclosure requirements (Pillar 3 disclosures) that institutions have to comply with, which cover all risk areas as well as information about risk management, exposures, RWA and capital requirements.

The EBA is required to issue guidelines on how institutions have to apply materiality, proprietary and confidentiality in relation to the disclosure requirements, and how institutions should asses more frequent disclosures.

The guidelines aim to address the information asymmetry between preparers and users, by providing users with information on the solvency, risks and risk exposures of institutions.

2. Main aspects

- Establishment of **the process and the criteria** that institutions should follow and consider in their assessments of the use of any disclosure waiver and of their need to disclose information the CRR more frequently than annually.
    - The process must be approved by the management body or a designated committee, who must decide whether an item of information should be omitted (waiver) or if the frequency should be considered as appropriate.
    - An institution should especially assess its need to publish information more frequently than annually when one of these indicators applies:
        - It is one of the three largest institutions in its home Member State.
        - It's consolidated assets exceed €30 billion;
        - It's 4-year average total assets exceeds 20% of the 4-year average home Member State GDP.
        - It has consolidated exposures exceeding €200 billion at the financial year-end.
- Specification of **the information** that institutions should provide when using the disclosure waivers or choosing to disclose more frequently:
    - The type of information or the disclosure requirement that is considered as proprietary or confidential.
    - The reasoning for non-disclosure.
    - More general information about the subject matter of the disclosure requirement.

3. Next steps

- These Guidelines will apply six months after publication of the Guidelines in the official languages of the EU.

15/01/2015

Consultation documento on Draft ITS on procedures, forms and templates for the provision of information for resolution plans.

1. Context

The Bank Recovery and Resolution Directive (BRRD) establishes that resolution authorities shall draw up resolution plans containing the actions which may be taken where the institution meets the condition for resolution. In this regard, resolution authorities shall require institutions to cooperate to provide them with all the information necessary for that purpose.

Nevertheless, institutions are also providing information that is relevant for resolution planning purposes to national competent authorities (NCAs). In order to avoid duplication in the transmission of information, the BRRD encourages NCAs to cooperate with resolution authorities.

In this context, the EBA is specifying in these ITS the procedure and a minimum set of templates for the provision of information for the purpose of resolution plans.

2. Main points

- The specified **procedure** is as follows**:**
    - The resolution authority shall first request the information necessary in order to draw up the resolution plans to the NCAs of the relevant institution.
    - Where the information is not already available to the NCA or where the format in which the information is provided by the NCA is not satisfactory, the resolution authority shall directly request the institution to provide the necessary information.
        - Where the information required by the resolution authority is included in the standard templates contained in Annex I to XII of the ITS, the institution shall provide the information by submitting the appropriate templates.
        - Where the information required by the resolution authority is not included in the standard templates, the information shall be provided in the format requested by the resolution authority.
- **Templates** provided in Annex I to XII of the ITS cover information on organizational structure, governance and management, critical functions and core business lines, structure of liabilities, funding sources, off-balance sheet, information systems, etc.

3. Next steps

- Comments on the ITS should be submitted by 14 February 2015.

27/01/2015
Final Draft RTS on prudent valuation.

1. Context

The CRR sets out requirements relating to prudent valuation adjustments of fair-valued positions to determine prudent values that achieve an appropriate degree of certainty having regard to the dynamic nature of trading book positions.

In July 2013, the EBA consulted on the draft RTS and conducted a Quantitative Impact Study. Now the EBA has published the final draft RTS, in which the results of the QIS and the feedback received have been taken into consideration.

The final RTS put forward two methods for the Additional Valuation Adjustments (AVAs) calculation: the simplified approach and the core approach. The prudent valuation requirements apply to all fair-valued positions regardless of whether they are held in the trading book or banking book.

2. Main points

- **Simplified approach**:
  - Institutions may apply this approach only if the sum of the absolute value of fair-valued assets and liabilities is less than 15 billion €.
    - Exactly matching, offsetting fair-valued assets and liabilities are excluded from the calculation of the threshold.
    - For fair-valued assets and liabilities that have a partial or zero impact on CET1, their values shall only be included in proportion to the impact on CET1.
    - Where the threshold is breached on a consolidated basis, the core approach shall be applied to all entities included in the consolidation.
  - Determination of AVAs: institutions shall calculate AVAs as 0.1% of the sum of the absolute value of fair-valued assets and liabilities. No aggregation is required.
- **Core approach**:
  - Institutions that are above the threshold of the simplified approach have to apply the core approach. It may also be implemented by institutions below the threshold.
  - Determination of AVAs: institutions shall calculate AVAs for each of the categories specified, and then they shall sum the amounts for each of the category level AVAs.
    - Where possible, the prudent value of a position is linked to a range of plausible values and a target level of certainty of 90%. In all other cases, an expert-based approach is specified.
    - For fair-valued assets and liabilities that have a partial or zero impact on CET1, their values shall only be included in proportion to the impact on CET1.
    - All occurrences of “volatility” within the calculation of market price uncertainty AVA and close-out costs AVA are replaced by “variance”.

3. Next steps

- The RTS shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.
- If future accounting requirements alter the approach for determining a fair value, the EBA will consider whether amendments are required to these RTS.

06/02/2015
Opinion on Credit Valuation Adjustment.

1. Context

The CRR mandates the EBA to monitor the own funds requirements for CVA risk and submit a report to the Commission.

In this respect, after conducting a CVA data collection exercise on a sample of 32 banks across 11 jurisdictions, the EBA has published an Opinion that contains **sixteen recommendations**.

2. Main aspects

- **Recommendations concerning the scope of the CVA risk charge**:
  - Clarifying that exchange-traded derivatives are included in the scope.
  - Harmonizing the treatment of securities financing transactions in the EU.
  - Reconsidering, and possibly removing, all EU CVA exemptions.
  - Defining an EBA coordinated approach for yearly monitoring of the impact of transactions exempted from the CVA risk charge and for defining situations constituting a presumption of excessive CVA risks to be considered under SREP.
  - Moving the definitions of ´clearing member` and ´client` to another section of the CRR.
  - Reconsidering the treatment of centrally cleared clients´ trades.
- **Recommendations regarding calculation of capital requirements of CVA risk**:
  - Allowing the use of alternative approaches when no credit spreads time series are available.
  - Amending the regulatory formula for the Advanced method.
  - Clarifying that a unified proxy methodology for both market risk and CVA risk purposes does not constitute a CRR requirement.
  - Amending a specific sentence of the advanced approach for CVA article of the CRR.
  - NCAs should assess the relevance of setting a multiplier higher than 3 for the Stressed VaR input to the CVA risk charge when the stressed CVA VaR does not contain any data from Q2 2008 to Q2 2009.
  - Clarifying the standardized method for CVA.
  - Removing the alternative approach as it is applied by very few institutions across the EU.
- **Recommendation on eligible hedges**: clarifying which instruments can be considered as eligible hedges, separately for the advanced and the standardized methods.
- **Recommendation on the CVA risk charge framework:** moving it to the market risk framework, being treated as a fair value adjustment and constituting a desk as defined in the Fundamental Review of the Trading Book.
- **Recommendation on charges to NFCs established in a third country**: applying the same approach for exempting NFCs for CVA purposes.

3. Next steps

- Based on the findings, the Commission may adopt a delegated act.

03/03/2015

Final Draft ITS on benchmarking portfolios, templates, definitions and IT solutions and the Final Draft RTS on benchmarking portfolio assessment standards and assessment sharing procedures.

1. Context

In the wake of the financial crisis, questions were raised as to why there were significant differences in the calculation of risk-weighted assets (RWAs). In this regard, competent authorities should assess, at least annually, the consistency and comparability in RWAs produced by institutions´ internal modeling approaches, except for operational risk.

The EBA has published ITS and RTS for benchmarking the internal approaches that EU institutions use to calculate own-funds requirements for credit and market isk exposures.

The **ITS** specify the **benchmarking portfolios** as well as the **templates**, **definitions** and **IT solutions** that should be applied in the benchmarking exercise. The **RTS** lay down the **procedures** for sharing the assessments between the competent authorities and with the EBA and the **standards** for the assessment by competent authorities of the internal approaches for credit and market risk.

2. Main aspects

ITS on benchmarking portfolios, templates, definitions and IT solutions.

- Detail of **benchmarking portfolios**:
  - Credit risk: low default portfolios and high default portfolios.
  - Market risk: individual portfolios and aggregated portfolios.
  - Counterparty risk and CVA risk: the BCBS intends to assess the variability for counterparty risk internal models (IMM) and CVA during 2014 and 2015.
- Specification of the **reporting templates**: it contains detailed information on the model parameters (e.g. PD, LGD) for credit risk portfolios and information on historical P&L data for market risk portfolios.
- Reutilization of the **definitions** in the **COREP** part of the ITS on supervisory reporting and extension of these definitions to achieve the higher level of granularity (it will allow the existing infrastructure available to be used for data submissions).

RTS on benchmarking portfolio assessment standards and assessment sharing procedures.

- **Assessment standards**:
  - The variability drivers may cause differences across internal models.
  - An excessive heterogeneity in the observed own funds requirements is not acceptable, but absolute convergence is not a desirable outcome either.
  - The assessment methodology should include variability and the level of capital.
- **Procedures for sharing the assessments**:
  - Competent authorities shall provide the EBA with the conclusions derived from the assessments, which will be aggregated and analyzed by the EBA aiming at extracting relevant common conclusions.
  - The results of the assessment shall be shared in supervisory colleges under the coordination of the EBA.

3. Next steps

- The first benchmarking exercise conducted under the ITS and RTS framework will be based on data referred to Q4 2015 observations.
- Institutions shall report the information by 11 April 2016.

03/03/2015
Decision regarding an EU-wide stress test in 2015.

1. Context

The objective of the EU-wide stress tests is to help supervisors assess the resilience of financial institutions in the EU under adverse market conditions. In this regard, the EBA is required to, at least annually, consider whether it is appropriate to carry out EU-wide stress tests.

In its meeting on February 2015, **the EBA decided not to carry out an EU-wide stress test in 2015** and to start preparing for the next exercise in 2016. Instead of a stress test, **the EBA will be running a transparency exercise in 2015** in line with the one conducted in 2013.

2. Main points

- The decision not to run an EU-wide stress test was driven by an acknowledgment of the progress that banks have made in **strengthening their capital positions**.
- The **transparency exercise** provides updated information on the EU banks:
    - Details of this exercise remain to be decided.
    - The 2013 EU Transparency exercise covered data on banks´ composition of capital, composition of risk weighted assets (RWAs), exposures to sovereigns, credit risk, market risk and securitization, as well as Loan To Value across portfolios.

03/03/2015
DPM and XBRL taxonomy for remittance of supervisory reporting as of 30 June 2015.

1. Context

In July 2014, the EBA published an XBRL taxonomy (version 2.2) to be used for remittance of data to the EBA of reports with reference dates prior to 30 June 2015. The EBA has now published a new XBRL taxonomy (2.3) that will have as reference date 30 June 2015 onwards.

Moreover, the new taxonomy presents the **data items, business concepts, relations, visualizations and validation rules** described by the EBA Data Point Model (DPM), which are contained in the ITS on supervisory reporting and in the Guidelines on definitions and templates on funding plans.

2. Main points

- The updated taxonomy incorporates **corrections** to the **COREP**, **FINREP**, **asset encumbrance** and **funding plans** reporting structures.
- It also includes the new reporting structure for **additional liquidity monitoring metrics** and **supervisory benchmarking**.

3. Next steps

- Reports with reference dates as of 30 June 2015 onwards are to use the new taxonomy set.
- The existing taxonomy set version (2.2) is to be used for remittance to the EBA of reports with reference dates prior to 30 June 2015.

05/03/2015
Consultation paper on Draft Guidelines on sound remuneration policies and disclosures.

1. Context

Institutions have to apply sound remuneration policies to all staff and specific requirements for the variable remuneration of staff whose professional activities have a material impact on the institutions´ risk profile (identified staff). In this regard, the CRD IV mandates the EBA to develop guidelines on remuneration policies.

The EBA has published guidelines which ensure that a **risk aligned remuneration culture and framework** in the financial sector is implemented, maintained an further developed in line with the **regulatory requirements**. The guidelines apply to all institutions as defined in the CRR (on an individual, consolidated and sub-consolidated basis) and to competent authorities.

2. Main points

- Some aspects are detailed with respect to the **remuneration policy for all staff**, such as:
    - It must promote sound risk management and be consistent with the long-term strategy of the institution.
    - It should be adopted by the management body (except for some jurisdictions where this function may be assigned to the shareholders´ meeting).
    - It should be supported by internal control functions and implemented according to the arrangements and processes established.
- The **remuneration policy for identified staff** is defined, and it should include a fully-flexible policy on variable remuneration (where the variable component must be appropriately balanced by the fixed component).
- The r**equirements regarding remuneration** are specified, for example:
    - Mapping of the remuneration components into either fixed or variable pay.
    - Specific conditions under which allowances count as fixed remuneration.
    - Treatment of sign-on bonus, retention bonus and severance pays.
    - Conditions under which specific functions (i.e. supervisory function of the management body or other control functions) should be remunerated.
- The composition and functions of the **Remuneration Committee** are specified.
- **Competent authorities** should ensure that institutions comply with the CRD IV and CRR requirements on remuneration policies, applying a risk-based approach.
- The EC is suggested to make legislative amendments (introducing exemptions) regarding the treatment of those entities which do not rely extensively on variable remuneration, on the application of the principle of **proportionality**.

3. Next steps

- Comments to this consultation paper shall be submitted by 4 June 2015.
- Provided that the guidelines become final, they will apply from 1 January 2016.

05/03/2015
Discussion Paper on future of the IRB Approach.

1. Context

Despite the positive aspects of the IRB models, the very high degree of flexibility in the IRB framework has compromised comparability in capital requirements across institutions. In this regard, the EBA has launched a discussion paper on the regulatory measures needed to ensure a robust and clear framework for IRB models, which seeks stakeholders´ feedback on the matter.

The discussion paper is divided into three key areas: **review of the IRB regulatory framework**, **supervisory consistency** and **increased transparency**. In addition to these aspects, the EBA believes that a more fundamental review of the IRB Approach in the medium or long term is necessary, and to this end it includes some other issues that would require legislative changes.

2. Main points

- **Review of the IRB regulatory framework**. The EBA is considering regulatory developments on areas such as:
    - Definition of default: addressing aspects such as the materiality threshold, the definition of the forborne exposures and the return to non-defaulted status.
    - Risk estimates: modifying the treatment of multiple defaults, the default rate, the PD estimation, the LGD estimation and the downturn adjustment of LGD.
    - Treatment of defaulted assets: developing guidelines on the treatment of the calculation of LGD for defaulted exposures and the computation of IRB shortfall.
    - Scope of application of the IRB approach: proposing that the roll out period should not be longer than 5 years in total. Nevertheless, NCAs may grant permission for longer roll-out in some cases.
- **Supervisory consistency**: the EBA will monitor the methodologies applied by NCAs for the quality assessment of IRB models. The outcomes will serve as the basis for future developments of guidelines.
    - Benchmarking: the RTS and ITS on this matter are in the final approval phase.
- **Transparency**: certain steps have been taken to ensure that the improvements in models are perceived by market participants (i.e. guidelines for an improved framework of disclosures, ad-hoc disclosures that bridge a gap between current disclosures of institutions and the needs of users, etc.).
- **Possible future regulatory developments in the medium or long term**: these initiatives relate to the treatment of low default portfolios, permanent partial use of the Standardized Approach, harmonization of exposure classes, etc.

3. Next steps

- Comments to this discussion paper shall be submitted by 5 May 2015.
- The views expressed in this paper are preliminary and will not bind in any way the EBA in the future development of RTS, ITS and Guidelines. Its purpose is to receive the industry´s opinion.

09/03/2015

- **Technical Advice on the delegated acts on critical functions and core business lines.**
- **Technical Advice on the delegated acts on the circumstances when exclusions from the bail-in tool are necessary.**
- **Technical Advice on the delegated acts on the deferral of extraordinary ex-post contributions.**

1. Context

The BRRD establishes a framework for the recovery and resolution of credit institutions and investment firms within the EU.

In this context, the European Commission is mandated to issue delegated acts in order to specify the criteria for the definition of critical functions and core business lines, the circumstances when bail-in exclusions are necessary and the conditions under which the payment of contributions to the resolution fund by institutions may be deferred.

Upon request of the Commission, the EBA has published advice on the resolution framework for EU banks relating to the referred delegated acts.

2. Main points

<u>Technical Advice on the delegated acts on critical functions and core business lines</u>

- **Critical functions:** the EBA specifies the <u>criteria</u> to be considered when identifying critical functions (i.e. the impact of the contagion effect, the impact on market confidence and the impact on the market in terms on substitutability) and establishes that the <u>analysis to determine the criticality of a function</u> should be carried out by the concerned institution and complemented by a critical review by competent authorities and resolution authorities.
- **Core business lines:** the EBA includes some <u>indicators</u> to determine core business lines (e.g. revenues generated by the business line as percentage of overall profit, ROE, ROA, etc.).

<u>Technical Advice on the delegated acts on the circumstances when exclusions from the bail-in tool are necessary</u>

- The EBA gives the following **advice on the exclusion of certain liabilities from the bail-in tool**:
  - The <u>size, interconnectedness and complexity</u> of an institution should not automatically justify bail-in exemptions. They should be considered on a case-by-case basis. The delegated acts should not affect resolutions authorities´ responsibilities to <u>ensure that institutions have sufficient MREL</u>.
  - Where the resolution authorities have assumed, when setting the MREL, that certain liabilities would credibly contribute to loss absorption, this should be reflected in the <u>conditions justifying an exclusion of these liabilities</u>.
  - <u>Ad hoc exclusions</u> should be used restrictively, as they represent exceptions from the general principle of equitable treatment of creditors of the same class
  - Resolution authorities should constrain the exclusions based on the <u>impossibility to bail in a liability</u>.
  - <u>Liabilities related to critical functions</u> should be assessed on a case-by-case basis at the time of the resolution action.

<u>Technical Advice on the delegated acts on the deferral of extraordinary ex-post contributions</u>

- The EBA recommends that national authorities should analyze the **impact of allowing ex-post contributions on solvency and liquidity** of institutions, which should only be applied in exceptional cases.

3. Next steps

- The European Commission may take into consideration the EBA´s advice in the drafting of the delegated acts.

10/03/2015
Consultation paper on Draft RTS and Guidelines on Business Reorganization Plans under BRRD.

1. Context

In the context of the Bank Recovery and Resolution Directive (BRRD), where the resolution authority applies the bail-in tool to recapitalise a credit institution under resolution, the management body of the institution is required to draw up and submit to the resolution authority a business reorganisation plan.

In this regard, the EBA has published RTS on the minimum elements to be included in the reorganisation business plan and on the minimum contents of the reports on the progress in the implementation of the plan.

Jointly with the RTS, the EBA has published Guidelines on the criteria that resolution and competent authorities should take into consideration for the assessment of a business reorganisation plan.

2. Main points

- Elements to be included in the **reorganisation business plan**:
  - The relevant factors that have contributed to the difficulties of the institution.
  - A short description of crisis prevention measures that have already been implemented by the competent authority, the resolution authority or the institution.
  - The business reorganisation strategy and the measures intended to restore the long-term viability of the institution.
  - The projected financial performance of the institution during the reorganisation period.
  - Sufficient data to allow the resolution authority to assess the feasibility of the proposed measures (e.g. macroeconomic assumptions, scenario-based analysis, etc.).
  - Specific implementation milestones and performance indicators, on a quarterly basis.
- Elements to be included in the **progress report**:
  - An overview of the performance of the institution during the implementation of the plan.
  - Any changes in the economic and financial environment.
  - A review and assessment on the progress in the implementation (i.e. the milestones that have been met, the measures realised, etc.).
- **Criteria to be considered while conducting the assessment of the plan**:
  - Commitment: the management body has full awareness of the implications that the plan has for the institution and has appointed individual who are responsible.
  - Credibility: the plan should demonstrate with a high level of confidence that is application will restore the long-term viability of the institution.
  - Appropriateness of the reorganisation strategy and measures: the plan should be feasible and realistic.
  - Consistency: the plan should be consistent with any business plans of the institution.
  - Monitoring and verification: any milestones and performance indicators contemplated should be sufficiently concrete to enable their monitoring and verification.

3. Next steps

- The comments to this consultation paper shall be submitted by **9 June 2015**.

20/03/2015
Consultation Paper on Draft Guidelines on limits on exposures to shadow banking entities.

1. Context

The global financial crisis has revealed fault lines which can transmit risk from the shadow banking system to the regulated banking system, putting the stability of the entire financial system at risk.

In this regard, the EBA has developed these guidelines that are addressed to competent authorities and set the methodology that institutions should use for **setting an aggregate limit on exposures to shadow banking entities (SBE)** which carry out banking activities outside a regulated framework, as well as **tighter individual limits** on exposures to such entities.

2. Main points

- **Scope**: these GL apply to exposures to SBEs (those above 0.25% of institution´s eligible capital), which are undertakings that carry out one or more credit intermediation activities and are not excluded undertakings (i.e. entities subject to prudential and supervisory requirements).
- **General requirements**:
    - To have in place effective processes and control mechanisms.
    - To ensure that the management body review and approve the risk appetite and risk management process to exposures to SBEs.
- **Criteria to set limits on exposures to SBEs.** The EBA specifies two approaches:
    - <u>Principal approach.</u> Institutions should set:
        - An **aggregate limit** to its exposures to the SBEs relative to their eligible capital considering the business model, risk management framework, risk appetite, size of its current exposures to SBEs and interconnectedness.
        - **Tighter individual limits**, taking into consideration the regulatory status of the SBE, its financial situation, etc.
    - <u>Fallback approach</u>: if institutions are not able to apply the principal approach, due to an insufficient level of information or to the lack of effective processes to use that information, they should apply a **limit of 25% of their eligible capital to their aggregate exposures** to SBEs. The EBA is considering two options:
        - Under the first option, the fallback approach applies to all exposures to SBEs.
        - The second option would entail using the fallback approach only for those exposures for which the principal approach could not be used.

3. Next steps

- Comments to these guidelines shall be submitted by **19 June 2015**.
- Competent authorities across the EU will be expected to implement the guidelines by the **end of 2015**.

19/01/2015

- **Commission Delegated Regulation to supplement CRR with regard to the LCR.**
- **Commission Delegated Regulation amending CRR with regard to the LR.**

1. Context

Under the CRR, credit institutions must respect a liquidity coverage requirement (LCR) to ensure that a sufficient proportion of their assets can be made available in the short term and thus to avoid difficulties arising from liquidity shocks. On the other hand, as a complement to risk-based capital requirements, the CRR requires credit institutions to measure and disclose their leverage ratio (LR).

In this context, the European Commission published two Delegated Regulations in October 2014 through which a detailed LCR was specified and some amendments were made to the LR framework.

The European Parliament and the Council have given their backing to these new rules which have been published in the Official Journal and will soon enter into force.

2. Main points

Delegated Regulation with regard to the LCR

- **Scope**: the regulation shall apply to credit institutions supervised under the CRD.
- **LCR ratio**: it results from dividing the credit institution´s liquidity buffer to its net liquidity outflows over a 30 calendar day stress period. Credit institutions shall maintain a LCR of at least 100%.
  - Liquidity buffer: it is the amount of High Quality Liquid Assets (HQLA). In order to be eligible, these HQLA shall comply with some general and operational requirements (they shall be a property or right held by a credit institution and free from any encumbrance, their value shall be determined on the basis of widely available markets, etc.). The HQLA are divided into:
    - Level 1: it is comprised of extremely high liquid assets (i.e. banknotes, exposures to central banks, etc.).
    - Level 2: it is comprised of assets categorized into levels 2A and 2B. A maximum of 40% of aggregated Level 2 assets may comprise a bank´s liquidity buffer, with Level 2B assets not permitted to account for more than 15%.
  - Liquidity net outflows: they are calculated by deducting a bank´s liquidity inflows from its liquidity outflows in the specified stress scenario.

Delegated Regulation with regard to the LR

- **Changes to the LR methodology**:
  - Collateral received cannot be used to reduce the securities financing transactions (SFTs) exposure.
    - Nevertheless, cash receivables and payables of SFTs with the same counterparty may be netted provided that strict conditions are met.
  - Institutions shall determine the exposure value of off-balance-sheet items applying credit risk conversion factors (CCFs) of the standardised approach for credit risk, subject to a floor equal to 10% of their nominal value.
  - Institutions may deduct from the derivatives exposure variation margin received in cash from the counterparty if certain conditions are met.
  - Institutions shall include in the written credit derivatives exposure value the notional amounts reduced by any negative fair value changes incorporated in Tier 1 capital.
    - The resulting value may be further reduced by the effective notional amount of a purchased credit derivative on the same reference, subject to strict criteria.
- **Calculation and reporting period**: institutions shall calculate their LR at the reporting reference date instead of using a three-month average.
- **Scope of consolidation**: it should be aligned with the regulatory scope of consolidation used for determining the risk weighted capital ratios**.**

3. Next steps

- The Delegated Regulation with regard to the LCR shall enter into force on the twentieth day following that of its publication in the Official Journal. Nonetheless, it shall apply from 1 October 2015.
- The Delegated Regulation with regard to the LR shall enter into force on the day following that of its publication in the Official Journal.

21/01/2015
Implementing Regulation laying down implementing technical standards with regard to supervisory reporting.

1. Context

The nature and complexity of institutions´ activities determine the extent of their reporting obligations. In this regard, in June 2014 the Commission Implementing Regulation laying down ITS with regard to supervisory reporting of institutions entered into force.

The Commission has approved another Implementing Regulation amending some aspects of the previous one in order to incorporate specific information with regard to asset encumbrance into the current reporting framework. Moreover, the detailed data point model and the detailed validation rules have been replaced by stringent qualitative criteria for the single data point model and validation rules which will be published by the EBA.

2. Main points

- <u>Information requirements on asset encumbrance</u> have been added to the uniform requirements in relation to supervisory reporting to NCAs:
    - Institutions shall submit on an individual and a consolidated basis the information specified in **Annex XVI** according to the instructions set out in Annex XVII.
    - Information in Annex XVI shall be submitted in the following **frequency**:
        - Quarterly, parts A, B and D.
        - Annually, part C.
        - Semi-annually, part E.
    - Institutions shall not be required to report the **information in parts B, C or E** of Annex XVI if all of the following conditions are met:
        - Institution has total assets of less than € 30 billion.
        - The asset encumbrance level of the institution is below 15%.
    - Institutions shall only be required to report the **information in Part D** of Annex XVI if they issue bonds subject to special public supervision.
    - The first reporting reference date shall be **31 December 2014**.
    - Information requirements on asset encumbrance shall apply from **1 December 2014**.
- Annex XIV with regard to the <u>detailed data point model</u> is replaced by the following text:
    - All data items set out in Annexes I, III, IV, VI, VIII, X, XII and XVI shall be transformed into a **single data point model** that shall meet some criteria.
- Annex XV with regard to the <u>detailed validation rules</u> is replaced by the following text:.
    - The data items set out in Annexes I, III, IV, IV, VIII, X, XII and XVI shall be subject to **validation rules** ensuring data quality and consistency. The validation rules shall also meet some criteria.

3. Next steps

- The Delegated Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the EU.

20/03/2015

Implementing Regulation laying down ITS with regard to the procedure concerning the approval of an internal model in accordance with Solvency II.

1. Context

The Solvency II Directive states that Member States shall ensure that insurance or reinsurance undertakings may calculate the Solvency Capital Requirement (SCR) using a full or partial internal model approved by supervisory authorities.

In this regard, Solvency II includes a mandate requiring the European Commission to adopt implementing measures setting out the **procedure to be followed for the approval of an internal model**. To this end, the Commission has adopted an Implementing Regulation.

2. Main points

- **The application to calculate the SCR using an internal model** shall explain how the internal model fulfils the Solvency II requirements and it shall include information such as:
    - An explanation of how the internal model covers all the material and quantifiable risks.
    - An assessment of the material strengths and weaknesses of the internal model.
    - The technical specifications of the internal model.
    - The policy for changing the internal model.
- **Assessment of the application**: the supervisory authorities shall determine whether the application is complete within 30 days from the date of the receipt. They may request additional information or require adjustments to be made. In those cases, the undertaking may request a suspension of the 6-month approval period.
- **The supervisory authority shall only approve the application** if:
    - The systems of the undertaking for identifying, measuring, monitoring, managing and reporting risk are adequate and the internal model fulfils the Solvency II requirements.
    - The policy for changing model fulfils the requirements set out in Solvency II.
- **Transitional plan to extend the scope of the model**: it shall be approved by the management body and include the period for implementing the plan, the extension of the scope and the measures and resources necessary to extend the scope of the internal model.
- **Application for major changes to the internal model**: it shall be provided documentary evidence that after applying the major changes, the internal model will comply with Solvency II.
- **Application for changes to the policy for changing the internal model**: it shall include the reason_for changing the policy and evidence that the requirements to approve this policy will be complied with.

3. Next steps

- The Implementing Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Union

25/03/2015

- **Implementing Regulation laying down ITS with regard to the supervisory approval procedure to use undertaking-specific parameters.**
- **Implementing Regulation laying down ITS with regard to the procedures to be used for granting supervisory approval for the use of ancillary own-fund items.**
- **Implementing Regulation laying down ITS with regard to the procedures to be followed for the supervisory approval of the application of a matching adjustment.**

1. Context

The Solvency II Directive allows insurance and reinsurance undertakings to use **specific parameters** to replace a subset of parameters of the standard formula, to take into account the amounts of **ancillary own-funds items** when determining own funds, and to apply a **matching adjustment** to the relevant risk-free interest rate term structure. Nevertheless, these options are subject to prior approval by the supervisor authority.

In this regard, the Commission has adopted implementing measures specifying the procedure to be followed for the supervisory approval of these three options.

2. Main points

Supervisory approval procedure to use undertaking-specific parameters

- **Application**: a written application shall be submitted containing information such as documentary evidence of the internal decision-making process and the subset of standard parameters which are to be replaced by specific parameters.
- **Assessment of the chosen parameters and method**: the supervisory authority shall consider whether the use of specific parameters better reflects the risk profile of the undertaking.
- **Assessment of the application**: the supervisory authority shall confirm within 30 days whether the application is complete. Additional information or adjustments may be requested.
- **Decision**: the supervisory authority shall ensure it decides on an application within 6 months from the receipt of a complete application.
- **Revocation**: the supervisory authority may revoke its approval when an undertaking has ceased to comply with the conditions set out within the Solvency II framework.

Procedures to be used for granting supervisory approval for the use of ancillary own-fund items

- **Application**: a written application shall be submitted for each ancillary own-fund item. It shall consist of a cover letter and supporting evidence.
- **Assessment**: the supervisory authority shall confirm within 30 days whether the application is complete. Additional information or adjustments may be requested.
- **Decision**: the supervisory authority shall ensure it decides on an application within 3 months (in exceptional circumstances the decision shall not take longer than 6 months).
- **Revision or withdrawal**: if an ancillary own-fund item no longer fulfils the conditions under which it was approved, the supervisory authority may reduce its amount or withdraw its approval.

Procedures to be followed for the supervisory approval of the application of a matching adjustment

- **Application**: an undertaking shall submit a written application, including the assigned portfolio of assets, the portfolio of insurance or reinsurance obligations, the cash-flow matching and portfolio management and additional content.
- **Assessment**: the supervisory authority shall confirm within 30 days whether the application is complete. Additional information or adjustments may be requested.
- **Decision**: the supervisory authority shall ensure that it decides on an application within 6 months from the receipt of the complete application.

3. Next steps

- The Implementing Regulations shall enter into force on the day following that of their publication in the Official Journal of the European Union.

EUROPEAN CENTRAL BANK
EUROSYSTEM

06/02/2015

Decision on the conditions under which credit institutions are permitted to include interim or year-end profits in Common Equity Tier 1 capital in accordance with Article 26(2) of Regulation (EU) No 575/2013.

1. Context

The CRR introduced a new procedure whereby the permission of the competent authority is required for the inclusion of interim profits or year-end profits before an institution has taken a formal decision confirming the final profit or loss of the institution for the year in Common Equity Tier 1 (CET1) capital.

In this context, the ECB is the competent authority responsible for granting permission to credit institutions under its direct supervision.

Such permission shall be granted where the following two conditions are met: **profits have been verified** by persons independent of the institution that are responsible for the auditing of the accounts of that institution; and the institution has demonstrated that any **foreseeable charge or dividend has been deducted** from the amount of those profits.

2. Main points

- **Verification of the profits.** The entity shall provide the ECB with a document signed by its external auditor that complies with the following requirements:
    - For year-end profits, the verification shall consist either of an audit report or of a comfort letter stating that the audit has not been completed and nothing has come to the attention of the auditors that causes them to believe that the final report will include a qualified opinion.
    - For interim profits, the verification shall consist either of an audit report or of a review report or, provided that the verification carried out by the credit institution consists of an audit report, a comfort letter.
- **Deduction from profits of any foreseeable charge or dividend.**
    - The entity shall provide a declaration and submit to the ECB a document signed by a qualified person detailing the main components of those interim or year-end profits, including the deductions.
    - The dividends to be deducted shall be the amount proposed by the management body. If such proposal has not yet been taken, it shall be the highest of the following:
        - The maximum dividend calculated in accordance with internal dividend policy.
        - The dividend calculated on the basis of the average pay-out ratio over the last three years.
        - The dividend calculated on the basis of the previous year's pay-out ratio.

3. Next steps

- The Decision shall enter into force on **6 February 2015** and it shall apply from the **reporting reference date of 31 December 2014**.

EUROPEAN CENTRAL BANK
EUROSYSTEM

26/03/2015
Regulation on reporting of supervisory financial information.

1. Context

Credit institutions are subject to regular reporting requirements as set out in the Capital Requirements Regulation (CRR). The Commission published an Implementing Regulation laying down Implementing Technical Standards (ITS) with regard to supervisory reporting of institutions on a consolidated basis. Reporting of supervisory financial information on an individual basis is outside of its scope; therefore, national competent authorities (NCAs) may impose requirements concerning the reporting of supervisory financial information on an individual basis.

This Regulation should lay down the **common minimum set of supervisory financial information that should be reported by significant and less significant supervised entities on an individual basis** to NCAs.

2. Main points

- Description of the formats, frequencies, reference dates and remittance periods regarding information submitted by **significant supervised groups and entities:** the Regulation distinguishes between groups applying IFRS 9 and groups applying national accounting frameworks; entities which are part of a group and entities which are not part of a group; as well as groups established in non-participating Member states or a third country.
- Explanation of the formats, frequencies, reference dates and remittance periods regarding information submitted by **less significant supervised groups and entities:** the Regulation distinguishes between entities which are part of a group and entities which are not part of a group.
- Detail on the **data quality checks** and the **IT language** for the transmission of information from NCAs to the ECB.

3. Next steps

- The first reference date for reporting concerning significant supervised groups and significant supervised entities which are not part of a supervised group shall be **December 31, 2015**.
- The first reference date for reporting concerning significant supervised entities which are part of a supervised group and subsidiaries of significant supervised groups established in a non-participating Member State or a third country shall be **June 30, 2016**.
- The first reference date for reporting concerning less significant supervised groups and entities shall be **June 30, 2017**.
- This Regulation shall enter into force on the **day following that of its publication** in the Official Journal of the European Union.

GOBIERNO
DE ESPAÑA

02/01/2015
Anteproyecto de Ley de Auditoría de Cuentas.

1. Context

The European Parliament and Council approved the Directive and Regulation on statutory audits of annual accounts and consolidated accounts on April 2014. The aim of both legislative texts is to increase auditor transparency and independency and to enhance audit companies quality, strengthening confidence on economic and financial information.

The Consejo de Ministros has approved the Anteproyecto de Ley de Auditoría de Cuentas due to the need of adaptation to the European legislation.

2. Main points

- **Rotation requirement**: contracts should last up to 10 years.
- **Establishment of limitations to fees received from EIP** (Public Interest Entities – credit institutions, insurance companies and listed companies, and other currently standing such as collective investment firms, pension funds and mutual guarantee societies).
- **Independency strengthening.** There are 11 incompatible listed services, such as: accounting, internal audit, law, internal control and risk management procedures design services, along with fiscal and valuation services.
- **Transparency enhancement**:
    - Establishment of further contents within the audit report for all auditors.
    - Requirement of an additional report to be delivered to the Audit Committee.
    - Systemic institutions must disclose additional information and additional contents within the transparency annual report.
- **Audit Committee establishment requirement**:
    - Members must be non-executive and the majority of them must be independent.
- **Elimination of barriers to the audit function exercise.**
    - Organization structure and dimensioning requirements can be established to auditors.
    - Establishment of a public, regular and mandatory tender process for auditor selection.

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.
- The Directive and Regulation enter into force no later than June 2016.

GOBIERNO DE ESPAÑA

16/02/2015

Real Decreto 84/2015, de 13 de febrero, por el que se desarrolla la Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito.

1. Context

The transposition of the CRD IV requires a substantial modification of several local regulations. The Spanish Government adapted the most urgent CRD IV pacakage measures to national law through the Real Decreto of urgent measures in 2013, and through the Ley de ordenación, supervision y solvencia de entidades de crédito, which was approved in June 2014.

Moreover, it is necessary to adapt the new supervisory competences regulatory framework to the Spanish law, especially the division of responsibilities between the ECB and the Bank of Spain.

The main objective of the Real Decreto is to **finalise the regulatory development of the Ley 10/2014**, and to **consolidate the regulation within a unique legislative text**.

2. Main points

- **Access requirements**. The rule lays out the subjective functioning conditions for financial institutions in Spain, in relation to the authorization procedure, the significant participation regime, the suitability requirements and corporate governance.
    - Remunerations policy: specification of the type of information that institutions should publish.
    - Corporate governance: definition of the main functions that the Remuneration, Nomination and Risk Committees must perform.
- **Financial institutions solvency**:
    - Financial institutions must conduct a capital levels self-assessment process in relation to the nature, scale and complexity of their activities. Institutions must also count with adequate procedures that cover the main risks to which its activity is exposed to.
    - It includes the capital buffers' regime, which can be established by the ECB or the Bank of Spain.
- **Financial institutions supervision**. It describes the supervision function of the Bank of Spain (ie. supervision of solvency requirements compliance and supervision of the internal models used by institutions to calculate capital requirements) and the collaboration framework with other supervisors, especially with the ECB within the Single Supervisory Mechanism (SSM).

3. Next steps

- The Real Decreto comes into force the next day of its publication in the Boletín Oficial del Estado.
- However, institutions should publish information related to corporate governance and the remunerations policy in their web.

25/02/2015
Código de Buen Gobierno de las Sociedades Cotizadas.

1. Context

In May 2006, the CNMV approved the Código unificado de buen gobierno de las sociedades cotizadas. The code set out several recommendations on corporate governance.

The CNMV now publishes a new code that completes the regulatory reform of the corporate governance framework. The objective of this document is to improve the transparency of financial information that listed companies offer to investors, shareholders and other stakeholders; as well as to protect minority shareholders. The new code is comprised of 64 **recommendations** and 25 **principles** that explain the former.

2. Main points

- **Board of Directors**.
  - The number of independent board members should represent at least half of the total members of the board.
  - Greater transparency and detail of information should exist within the selection and nomination process of proprietary board members.
  - The independent coordinator board member should assume greater responsibilities when the president acts as executive director simultaneously.
- **Corporate Social Responsibility (CSR)**.
  - Companies should have a CSR policy that includes: objectives, strategy, practices, methods, supervisory mechanisms, etc.
- **Board of Directors´ remuneration.**
  - The variable components of remuneration should be linked to predetermined and measurable criteria.
  - The payment of part of the variable component should be deferred for a minimum period of time.
  - Contractual agreements may include a clause that allows the company to demand the payment of variable components.
  - The amount of contractual cancellation payment should not exceed the equivalent amount of two years total annual remuneration and should not be paid until the established criteria had been met.
- **Monitoring of recommendations.**
  - Listed companies may decide whether or not to follow these recommendations, but if they decide not to, they must justify their decision.

3. Next steps

- The aspects covered in this code shall apply in the 2015 exercise and shall be sent to the CNMV through the corporate governance

06/03/2015

Dodd-Frank Act Stress Test 2015: Supervisory Stress Test Methodology and Results.

1. Context

Under the Dodd-Frank Act, the Federal Reserve is required to conduct an annual stress test of BHCs (Bank Holding Companies) with total consolidated assets of $50 billion or more.

In conducting the supervisory stress tests, the Federal Reserve projects balance sheet, RWAs, net income, and resulting post-stress capital levels and regulatory capital ratios over a nine-quarter "planning horizon". The projections are based on three scenarios: baseline, adverse, and severely adverse.

2. Main points

- **Severely adverse scenario**:
  - <u>Losses</u> are projected to be $490 billion for the 31 BHCs in the aggregate over the nine quarters of the planning horizon (the accrual loan portfolios and trading and counterparty positions are the biggest sources of losses).
  - <u>The projected capital ratios</u> are detailed in the table below. All BHCs reach Tier 1 common ratios over the 5% regulatory requirement.
- **Adverse scenario**:
  - <u>Losses</u> are projected to equal nearly $315 billion for the 31 BHCs over the nine-quarter planning horizon (the accrual loan portfolio is the largest source of losses).
  - <u>Capital ratios</u>: the aggregate tier 1 common capital ratio is projected to fall to a minimum of 10.8% over the planning horizon and to be 11.6% at the end of the planning horizon.

3. Next steps

- The quantitative results from the Dodd-Frank stress tests (DFAST) are one component of the Federal Reserve's analysis during the Comprehensive Capital Analysis and Review (CCAR), which is an annual exercise to evaluate the capital planning processes and capital adequacy of large financial institutions. The CCAR results will be released on March 11, 2015.

Table 3. Projected stressed capital ratios under the severely adverse scenario, 2014:Q4–2016:Q4: 31 participating bank holding companies

Bank holding company	Tier 1 common ratio (%)			Common equity tier 1 ratio (%)[1]			Tier 1 risk-based capital ratio (%)			Total-risk based capital ratio (%)			Tier 1 leverage ratio (%)		
	Actual 2014:Q3	Ending	Minimum	Actual 2014:Q3	Ending	Minimum	Actual 2014:Q3	Ending	Minimum	Actual 2014:Q3	Ending	Minimum	Actual 2014:Q3	Ending	Minimum
Ally Financial Inc.	9.7	7.9	7.9	n/a	8.0	8.0	12.7	10.1	10.1	13.5	11.6	11.6	10.9	8.8	8.8
American Express Company	13.2	15.4	12.5	13.6	15.1	13.0	13.6	15.6	13.5	15.1	17.3	15.4	11.6	13.0	11.4
Bank of America Corporation	11.3	7.4	7.1	12.0	7.2	7.1	12.8	7.9	7.8	15.8	10.4	10.4	7.9	5.1	5.1
The Bank of New York Mellon Corporation	13.9	16.0	12.6	15.1	15.1	12.6	16.3	16.1	13.6	17.0	16.5	14.2	5.8	6.0	5.2
BB&T Corporation	10.5	8.1	8.1	n/a	8.2	8.2	12.4	9.8	9.8	15.2	11.8	11.8	9.7	7.4	7.4
BBVA Compass Bancshares, Inc.	11.0	6.3	6.3	n/a	6.9	6.9	11.3	6.9	6.9	13.3	8.7	8.7	9.6	5.5	5.5
BMO Financial Corp.	11.5	9.0	9.0	n/a	7.4	7.4	11.5	7.4	7.4	15.5	10.3	10.3	8.3	5.2	5.2
Capital One Financial Corporation	12.7	9.5	9.5	12.7	9.4	9.4	13.3	10.1	10.1	15.2	11.8	11.8	10.6	7.9	7.9
Citigroup Inc.	13.4	8.2	8.2	15.1	7.1	6.8	15.1	7.1	6.8	17.7	9.5	9.2	9.0	4.7	4.6
Citizens Financial Group, Inc.	12.9	10.7	10.7	n/a	10.9	10.9	12.9	10.9	10.9	16.1	14.3	14.3	10.9	8.8	8.8
Comerica Incorporated	10.6	9.0	9.0	n/a	8.7	8.7	10.6	8.7	8.7	12.8	10.5	10.5	10.8	8.9	8.9
Deutsche Bank Trust Corporation	36.6	34.7	34.7	n/a	28.6	28.6	36.6	28.6	28.6	37.0	29.8	29.8	11.9	11.0	11.0
Discover Financial Services	14.8	15.3	13.9	n/a	14.5	13.3	15.6	15.2	14.1	17.8	16.9	15.8	13.7	13.3	12.6
Fifth Third Bancorp	9.6	7.9	7.9	n/a	7.4	7.4	10.8	8.5	8.5	14.3	11.5	11.5	9.8	7.7	7.7
The Goldman Sachs Group, Inc.	14.4	9.3	6.3	15.1	7.1	5.8	17.0	8.1	6.4	19.8	10.0	8.1	9.0	5.9	5.4
HSBC North America Holdings Inc.	14.0	8.9	8.9	16.3	8.9	8.9	17.3	10.0	10.0	26.1	14.8	14.8	9.4	6.0	6.0
Huntington Bancshares Incorporated	10.3	9.0	9.0	n/a	8.7	8.7	11.6	9.4	9.4	13.7	11.6	11.6	9.8	8.0	8.0
JPMorgan Chase & Co.	10.9	6.5	6.5	11.1	6.4	6.3	12.6	7.3	7.3	15.0	9.6	9.6	7.6	4.6	4.6
KeyCorp	11.3	9.9	9.9	n/a	9.6	9.6	12.0	9.9	9.9	14.1	12.1	12.1	11.2	9.3	9.3
M&T Bank Corporation	9.8	7.3	7.3	n/a	7.5	7.5	12.5	8.8	8.8	15.4	11.6	11.6	10.6	6.8	6.8
Morgan Stanley	15.0	8.8	6.2	15.2	8.3	6.3	17.1	8.8	6.5	19.8	11.3	8.6	8.2	4.9	4.5
MUFG Americas Holdings Corporation	12.7	8.0	8.0	12.7	8.0	8.0	12.7	8.0	8.0	14.6	10.2	10.2	11.4	7.1	7.1
Northern Trust Corporation	12.8	12.4	12.3	12.8	10.9	10.8	13.6	11.4	11.3	16.0	13.6	13.6	7.9	7.4	7.4
The PNC Financial Services Group, Inc.	11.0	9.5	9.5	11.1	8.4	8.4	12.8	9.9	9.9	16.1	12.5	12.5	11.1	8.7	8.7
Regions Financial Corporation	11.8	8.3	8.3	n/a	8.5	8.5	12.7	9.0	9.0	15.5	11.4	11.4	11.0	7.6	7.6
Santander Holdings USA, Inc.	11.0	9.4	9.4	n/a	10.3	10.3	13.1	10.7	10.7	15.0	12.5	12.5	12.3	9.6	9.6
State Street Corporation	13.7	14.1	11.8	15.0	9.7	8.1	16.7	11.2	9.7	19.1	13.1	11.6	6.4	5.4	4.8
SunTrust Banks, Inc.	9.6	8.2	8.2	n/a	8.2	8.2	10.5	9.0	9.0	12.3	10.8	10.8	9.5	7.6	7.6
U.S. Bancorp	9.5	8.6	8.5	9.7	8.2	8.1	11.3	9.6	9.6	13.6	11.7	11.7	9.4	8.1	8.0
Wells Fargo & Company	10.8	7.5	7.5	11.1	6.9	6.9	12.6	8.2	8.2	15.6	11.1	11.1	9.6	6.4	6.4
Zions Bancorporation	11.9	5.1	5.1	n/a	6.0	6.0	14.4	7.3	7.3	16.3	9.4	9.4	11.9	5.9	5.9
31 participating bank holding companies	11.9	8.4	8.2	n/a	7.8	7.6	13.5	8.6	8.4	16.2	11.0	10.8	8.8	5.9	5.9

13/03/2015

Comprehensive Capital Analysis and Review 2015: Assessment Framework and Results.

1. Context

In November 2011, the Fed issued the capital plan rule and began requiring Bank Holding Companies (BHCs) with total consolidated assets of $50 billion or more to submit annual capital plans for review. In this regard, following the publication of the Dodd Frank Act stress test results, the Fed has now launched the assessment framework and results of the Comprehensive Capital Analysis and Review (CCAR) 2015.

The CCAR includes both a **qualitative assessment** of the strength of each BHC´s internal capital planning processes and a **quantitative assessment** of each BHC´s capital adequacy. When the Fed objects to a BHC´s capital plan, the BHC may not make any capital distribution unless expressly permitted by the Fed.

2. Main points

- **Qualitative assessment**:
  - The Fed objected to the capital plans of two BHC based on qualitative grounds:
    - <u>Santander Holdings USA, Inc.</u>: specific deficiencies were identified in a number of key areas, including governance, internal controls, risk management, etc.
    - <u>Deutsche Bank Trust Corporation</u>: significant weaknesses were identified regarding risk-identification, aggregation processes, internal controls, etc.
  - The Fed issued a conditional non-objection to <u>Bank of America Corporation</u> and is requiring the BHC to correct certain weaknesses and to resubmit a capital plan by September 30, 2015.
- **Quantitative assessment**:
  - For the first time, <u>no firm fell below the quantitative benchmarks</u> that must be met in CCAR.
  - <u>BHCs have significantly increased their capital positions</u> since 2009. In this regard, the CET1 ratio has more than doubled from 5.5% in 1Q09 to 12.5% in 4Q14, which reflects a total increase of more than $641 billion in common equity capital.
  - All but one of the 31 BHCs participating in CCAR 2015 are expected to <u>further increase common equity</u> between 2Q15 and 2Q16.

3. Next steps

- The Fed´s decisions with regard to planned capital distributions in CCAR 2015 will apply from the **beginning of the 2Q15 to the end of the 2Q16**.
- BHCs which received an objection, Santander and Deutsche Bank, may choose to resubmit their capital plans in advance of the next CCAR exercise, but they are not required to do so.
- The Fed may require a BHC to resubmit its capital plan in future quarters for a number of reasons (i.e. changes in risk profile, financial condition, etc.).

18/03/2015

Proposal requiring banking organizations to include existing Legal Entity Identifiers on certain regulatory reporting forms.

1. Context

As evident by the financial crisis, regulators and the public found it difficult to identify parties involved in financial transactions. Therefore, they were often unable to assess the extent of a firm´s exposures across all of its legal entities. In this context, the FSB began leading an international initiative to implement a global identifier that would uniquely identify parties to financial transactions, the **Legal Entity Identifier (LEI)**.

In this regard, the Fed has announced a proposal that would require banking organizations to include their existing LEIs on certain regulatory **reporting forms**.

2. Main points

- The LEI shall be collected for **all banking and nonbanking legal entities** reportable on:
    - The Banking, Non-Banking, SLHC and 4K schedules (except the Branch schedules) within the **FR Y-10**.
    - The Organization Chart section within the **FR Y-6** and **FR Y-7**.
- Regarding the **reporting date**, the Fed is proposing:
    - To add the LEI to the FR Y-6 and FR Y-7 with fiscal year ends beginning **June 30, 2015**.
    - A one-time information collection for all FR Y-10 reportable entities as of **June 30, 2015**.
- The proposal is only requiring the reporting of a LEI when it has already been issued for the reportable entity at the time of collection. Thus, the Fed is **not requiring a LEI to be obtained for the sole purpose of reporting**.

3. Next steps

- Comments to this proposal shall be submitted within 60 days of its publication in the Federal Register.
- The proposal would require banking organizations to include LEIs for its relevant units on certain reporting forms as of June 30, 2015.

12/02/2015
Tool for Calculating Capital Requirements Under Simplified Supervisory Formula Approach.

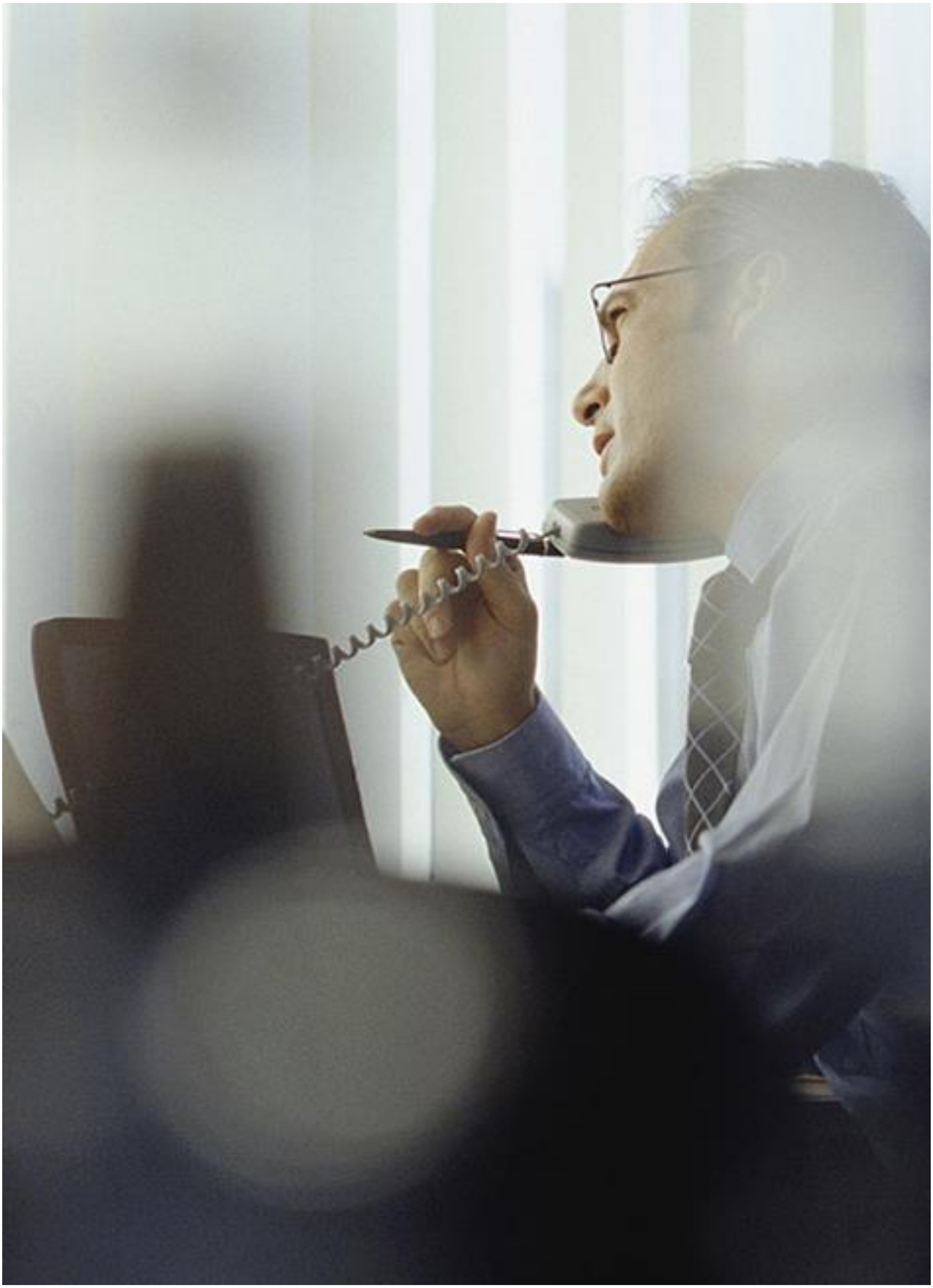
1. Context

Banks may opt to use the simplified supervisory formula under the standardized approach, which is part of the revised capital rule that became effective January 1, 2015. This revised capital rule replaced the existing generally applicable risk-based capital standards with a standardized approach.

The OCC, the Fed and the FDIC have developed an automated tool to help those national banks and federal savings associations which use the simplified supervisory formula calculate risk-based capital requirements for securitization exposures.

2. Main points

- The simplified supervisory formula approach is designed to apply relatively higher risk-based capital requirements to the more **risky junior tranches of securitizations**.
- The **automated tool**:
    - Helps banks calculate risk-based capital for securitization exposures and helps reduce potential burden.
    - Requires five inputs to calculate the minimum required risk-based capital for a securitization exposure. The inputs are typically readily available to investors.
    - Requires manual inputs consistent with the requirements of the revised capital rule. In this regard, banks should continue to reference the revised capital framework when determining regulatory capital requirements.
- Additionally, banks are expected to have **comprehensive understanding** of their securitization exposures and to meet all due diligence requirements.



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