



Annual Regulation Outlook 2018

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Annual Regulation Outlook 2018

The Annual Regulation Outlook 2018 highlights the most relevant standards and rules issued by those financial regulatory bodies monitored by the R&D Area at global, European and local level during the last year.

The objective of this Outlook is to provide an overview of the last and most relevant regulatory developments. Therefore, this document does not include all standards and rules published during 2018, but only those that are considered most relevant by interest in the financial sector.

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Main publications

Global publications

Among the BCBS publications, a consultative document on revisions to the minimum capital requirements for market risk, the fifth report on the progress in adopting the RDA&RR principles, and the G-SIBs revised assessment methodology and the HLA requirement stand out

Outstanding publications



Reform of Basel III

- (1Q). The BCBS published a **consultative document on revisions to the minimum capital requirements for market risk** which introduces amendments on, among others, the standardised approach, the internal models approach, the scope of market risk capital requirements, etc.
- (1Q). Further, the BCBS released the results of its latest **Basel III monitoring report**. In parallel, the EBA conducted its report of the **CRD IV-CRR / Basel III monitoring exercise** on the European banking system.



G-SIBs

- (2Q). The FSB published **Guidance on principles on bail-in execution** and **Guidance on funding strategy elements of an implementable resolution plan**, which cover those aspects related to the resolution of entities of G-SIBs.
- (3Q). Furthermore, the BCBS published the **G-SIBs revised assessment methodology and the higher loss absorbency (HLA) requirement**, which maintains the core elements and fundamental structure of the G-SIBs' framework set out in 2013, although introduces certain enhancements, regarding, among others, the definition of cross-jurisdictional indicators or the introduction of a trading volume indicator.



Conduct risk

- (2Q). The FSB published a **Report on strengthening governance frameworks to mitigate misconduct risk**, developing a list of 19 tools that can be used to tackle the causes and consequences of misconduct.



RDA&RR

- (2Q). The BCBS published its **Fifth report on the progress in adopting the RDA&RR principles**, which provides an overview of banks' extent of compliance with the principles, analyses the implementation of the principles by Domestic Systemically Important banks (D-SIBs), and proposes key recommendations.



Stress test

- (4Q). The BCBS published the **2018 Stress testing principles** which replace the ones published in 2009, and cover, among others, the objectives, governance, or the methodologies of the stress testing framework.



Pillar 3

- (4Q). The BCBS published the **final standards on Pillar 3 disclosure requirements** that complete the third phase of the revised Pillar 3 framework, due to the Basel III reform.



Main publications

European publications

The European Commission (EC), the EBA and the ECB published several documents on NPLs. Further, the EBA published Final GL on disclosure of NPE, as well as a report on the impact of IFRS 9. Moreover, the ECB published a Guide on internal models (TRIM), which updates the general aspects chapter

Outstanding publications



Credit risk

- (4Q). The ECB published a **Regulation on the materiality threshold for credit obligations past due** in order to define the absolute and relative components of such threshold.
- (4Q). Moreover, the EBA published **Final RTS on the nature, severity and duration of an economic downturn**, which require institutions to consider relevant macroeconomic and credit factors when specifying the nature of an economic downturn, among other aspects.



NPL

- (1Q). The European Commission (EC) published a comprehensive package of measures to tackle NPLs in Europe, including a **Proposal for a Regulation on amending CRR as regards NPLs' minimum loss coverage**, a **Proposal for a Directive on credit servicers, credit purchasers and the recovery of collateral**, a **blueprint on the set-up of national asset management companies (AMCs)**, and a **second progress report on the reduction of NPLs**.
- (1Q). Further, the ECB published an **Addendum to the ECB Guidance to banks on NPLs**, specifying quantitative supervisory expectations concerning the minimum levels of prudential provisions.
- (4Q). Moreover, the EBA published **Final Guidelines (GL) on the management of NPEs and forborne exposures (FBE)** which specifies sound risk management practices and established requirements for managing NPE and FBE; as well as **Final GL on disclosure of NPE and FBE**.



IFRS 9

- (1Q). The EBA published **GL on disclosure of IFRS 9 transitional arrangements**, which specify a uniform disclosure template to be applied by institutions in order to ensure consistency and comparability of data disclosed during the transitional period.
- (4Q). The EBA also published a **Report on first observation on the impact and implementation of IFRS 9 by EU institutions**, which scrutinises the effective implementation of this standard by European institutions and its impact as initially observed.



TRIM

- (3Q). The ECB published a **Draft Guide to internal models** which covers the consultative update of the risk-type-specific chapters of the Guide to the TRIM.
- (3Q). In addition, the ECB published a **Guide to on-site inspections and internal model investigations** which aims to provide a useful reference document for the supervised entities and other legal entities for which the ECB has decided to launch an on-site inspection.
- (4Q). Further, the ECB published an update of the general topics chapter of the **Guide on internal models (TRIM)** which includes principles on Governance, model use, internal audit, etc.



SSM

- (2Q). The ECB published a **Revised Guide to fit and proper assessments of members of the management bodies** of significant credit institutions, which aims at explaining in greater detail the policies, practices and processes applied by the ECB in this assessment.
- (4Q). Further, the ECB announced the **2019 priorities for the SSM** which will focus on the credit risk, the risk management, and on those activities comprising multiple risk dimensions (e.g. Brexit).

Main publications

European publications

Further, the EBA published the scenarios and the results of the 2018 stress test, as well as Final Guidelines regarding SREP, IRRBB and stress testing. Moreover, the ECB updated its Manual for the AQR regarding on-site inspections

Outstanding publications



Pillar 2

- **(2Q).** The ECB updated its **Manual for the Phase 2 of the AQR** related to on-site inspections, in order to reflect, among others, two major developments in the AQR methodology: the entry into force of the new accounting standard IFRS 9 on 1 January 2018; and the bank business models focused on investment services.
- **(3Q).** The EBA published two GLs on the following aspects: i) **common procedures and methodology for SREP and supervisory stress testing**; and ii) **the management of interest rate risk arising from non-trading activities (IRRBB)**. These final GLs aim to update the existing regulation on this regard, i.e. the EBA GL on SREP published in 2014, and the EBA GL on the management of the IRRBB published in 2015, respectively.
- **(4Q).** Further, the ECB published **GL on the ICAAP and ILAAP**, which include seven principles for each of these processes in order to provide a more detailed set of supervisory expectations.
- **(4Q).** Moreover, the EBA published the **results of the EU-wide 2018 transparency exercise**. Unlike the stress tests, transparency exercises are disclosure exercises where only bank-by-bank data are published and no shocks are applied to the actual data. The sample in this exercise includes 130 banks at the highest level of consolidation in the EU.



Stress test

- **(1Q).** The EBA published the **macroeconomic scenarios for the 2018 EU-wide stress test** that banks are required to consider in order to estimate the potential impact on profits and capital, and an **amended version of the methodological note for the stress test**.
- **(3Q).** Moreover, the EBA published **GLs on institution's stress testing** updating the Committee of European Banking Supervisors GL on stress testing (CEBS GL 32) published in 2010.
- **(4Q).** Further, the EBA published the **2018 wide stress test results**, as well as the results for each bank, considering the impact of the implementation of IFRS 9.



FinTech

- **(1Q).** The EBA also published a **Roadmap on FinTech** setting out its priorities for 2018/2019 and an indicative timeline for the completion of these tasks.



Solvency II

- **(1Q).** The EIOPA published the **second and final set of advice on specific items in the Solvency II Delegated Regulation**, which covers, among other aspects, the recalibration of standard parameters of premium and reserve risks.

Main publications

Local publications

In Spain, the Government published the Anteproyecto de Ley de prevención del blanqueo de capitales y la financiación del terrorismo. Further, the transposition of PSD2 into the Spanish legal system stands out. In USA, it should be highlighted the Fed's publication of results of the 2018 DFAST and CCAR

Outstanding publications



Spain

- **(1Q).** The Spanish Government published an **Anteproyecto de Ley de prevención del blanqueo de capitales y de la financiación del terrorismo** (AML/CFT), aiming to adapt the Spanish legal system to the AML IV Directive.
- **(2Q).** The Spanish Government approved the **Proyecto de Ley de distribución de seguros y reaseguros privados**, which transposes the Directive 2016/97 on insurance distribution with the aim of adapting it to the Spanish legal system.
- **(2Q).** The Bank of Spain (BdE) issued a **Draft Circular amending Circular 4/2017 on public and confidential financial information rules and formats, and the Circular 1/2013 on the Risk Information Centre (CIR)**, aiming at establishing certain amendments considered due to the entry into force of **IFRS 16 on leases**.
- **(3Q).** The Spanish Government published an **APL de medidas para la transformación digital del sistema financiero**, which mainly addresses the concept of regulatory sandbox, its functioning, and the adoption of other measures to facilitate digital transformation.
- **(4Q).** The Spanish Government has approved the **Royal Decree-law 14/2018, which amends the consolidated text of the Securities Market Law**, in order to complete the transposition of MiFID II into the Spanish legal system.
- **(4Q).** Further, the Spanish Government approved the **Royal Decree-law 19/2018, on payments services and other financial measures**, which transposes the PSD2 in order to adapt this Directive to the Spanish legal system.

Spain (continuation)

- **(4Q).** The Spanish Government approved the **Royal Decree-law 22/2018, on macroprudential measures**, with the aim to assign the Bank of Spain (BdE), the National Securities Market Commission (CNMV), and the Directorate General for Insurance and Pension Funds (DGSFP), the macroprudential tools to prevent and mitigate systemic risks.



USA

- **(1Q).** The Fed published a **Proposed supervisory guidance on management of business lines and independent risk management and controls for large financial institutions** for clarifying the Fed supervisory expectations regarding risk management for these institutions.
- **(1Q).** Regarding the stress test and the capital adequacy, the Fed published the **instructions to participating firms** as well as the **scenarios to be used by banks and supervisors for the 2018 Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Test (DFAST)**.
- **(2Q).** Moreover, the Fed published a **Final rule on Single-Counterparty Credit Limits (SCCL) for bank holding companies (BHC) and foreign banking Organizations (FBO)**, in order to prevent concentrations of risks. In addition, the Fed also published the 2018 results of the **CCAR** and the **DFAST**.
- **(3Q).** The Fed, the FDIC and the OCC published a **Statement regarding the impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA)**, which covers certain areas (e.g. stress testing, resolution plans or Volcker Rule).
- **(3Q).** Further, the Fed and the FDIC published a **Proposed Guidance on resolution planning for eight large, complex U.S. Banking Organizations**, that updates the agencies' expectations for how a firm's resolution strategy should address certain aspects (e.g. capital or liquidity).

Main publications

Local publications

In UK, Supervisory Statement 19/13 on resolution planning and the CP 17/18 on credit risk: definition of default published by the PRA stands out. Furthermore, the BoE published the results of the 2018 stress test regarding the UK banking system

Outstanding publications



UK

- **(1Q)**. The Prudential Regulation Authority (PRA) published a **Consultation Paper (CP) 6/18 on credit risk mitigation: eligibility of guarantees as unfunded credit protection**, to clarify its expectations on the eligibility of these guarantees under the credit risk mitigation (CRM) framework of the CRR.
- **(2Q)**. The PRA also issued the **Supervisory Statement (SS) 19/13 on resolution planning**, which sets out details on information that firms should submit to the PRA to facilitate resolution planning.
- **(3Q)**. Further, the PRA published the **CP 17/18 on credit risk: definition of default**, which sets out the PRA's approach to implementing the thresholds for determining when a credit obligation is considered material with respect to the CRR default definition. Further, this CP updates the PRA's expectation in Supervisory Statement (SS) 11/13 on IRB approaches.
- **(4Q)**. The Bank of England (BoE) published the **results of the 2018 stress test of the UK banking system** that have been assessed against the annual cyclical scenario (ACS) which is more severe than the global financial crisis and apply the same variables as in the 2017 test in order to allow the BoE to isolate the impact of IFRS 9.
- **(4Q)**. Moreover, the PRA also published the **CP 23/18 enhancing banks' and insurers' approaches to managing the financial risks from climate change**, with the aim of giving proposals related to governance, risk management and scenario's analysis, that allow to address them.

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