



Annual Regulation Outlook 2019

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Annual Regulation Outlook 2019

The Annual Regulation Outlook 2019 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 2019, 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, it stand out the Basel III implementation reports and the Standard on minimum capital requirements for market risk. The FSB has also published CP on resolution planning and solvent wind-down of derivatives and trading portfolios of G-SIB.

Outstanding publications



Basel III

- **(1Q).** The BCBS issued the **Standard on 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).** The BCBS together with the EBA published their relative **Basel III reforms monitoring reports**, which set out the impact of the finalisation of the Basel III reforms with reference date 30 June 2018.
- **(4Q).** Moreover , the BCBS published the results of its latest **Basel III monitoring report** which sets out the impact of the finalisation of the Basel III reforms, and for the first time, it also reflects the finalisation of the market risk framework published in January 2019.



Crypto-assets

- **(1Q).** The BCBS published a **Statement on crypto-assets**, which sets out its prudential expectations related to banks' exposures to crypto-assets and related services.



CVA Risk

- **(4Q).** Further, the BCBS published a **CP on revisions to the Credit Value Adjustment (CVA) risk framework**, which is seeking the views of stakeholders on a set of limited, targeted and final adjustments to the CVA risk framework.



G-SIBs

- **(2Q).** The FSB issued a **Consultation Paper (CP) on Discussion Paper regarding disclosures on resolution planning and resolvability**, that explores how general and firm-specific disclosures on resolution planning and resolvability of G-SIBs could be further enhanced.
- **(2Q).** Moreover, FSB published the **CP on Discussion Paper regarding solvent wind-down of derivatives and trading portfolios**, that sets out considerations related to the solvent wind-down of such portfolios of a G-SIB, which draws on the practices that are emerging in some jurisdictions and the measures to ensure the execution of the wind-down plan.



Main publications

European publications

In Europe, EP and the Council published a package of financial system reforms (CRR II, CRD V, BRRD II and SRMR II). Conversely, the ECB published its priorities for 2020 in relation to the supervision of significant credit institutions. In addition, it also published the Guidance on Internal Models.

Outstanding publications



Basel III implementation

- (2Q). The EP and the Council published the **reform package of the banking system** (CRR II, CRD V, BRRD II and SRMR II) which introduces amendments regarding the leverage ratio, the net stable funding ratio, the minimum requirements for own funds and eligible liabilities, and the review of some issues related to the framework for credit, market, counterparty credit risks, as well as for operational risk.
- (3Q). Moreover, regarding Basel III the EBA issued a **new Basel III implementation assessment**, which includes a quantitative impact study (QIS), and a comprehensive set of policy recommendations in the area of credit and operational risk, output floor and securities financing transactions (SFTs).
- (4Q). The EBA also issued the **Impact study and key recommendations on Basel III reforms: macroeconomic assessment, CVA adjustment and market risk**, which provides a detailed impact assessment and the key policy recommendations on the CVA and market risk reforms.
- (4Q). In parallel with the BCBS Basel III monitoring report, the EBA issued a **Report on its Basel III monitoring exercise** which includes a preliminary assessment of the impact of the Basel reform package on EU banks, assuming its full implementation. Along with this document, the EBA has also published a **Report on liquidity measures** that monitors and evaluates the liquidity coverage requirements currently in place in the EU.



Basel III implementation (cont.)

- (4Q). Finally, the EP and the Council also issued **Directive (EU) 2019/2034 on the prudential supervision of investment firms (IFs)** and the **Regulation (EU) 2019/2033 on the prudential requirements of IFs** to establishing an effective and proportionate prudential framework to ensure that IFs, which are not systemically important, authorised to operate in the Union do so on a sound financial basis and are managed in an orderly manner acting in the best interests of their clients.



Supervisory priorities

- (4Q). European regulators and supervisors (EBA, ESMA, EIOPA, SRB, ESAs, ECB) and relevant international organisms (FSB e IOSCO) have published their **2020 work programmes and strategic priorities and orientations**. Furthermore, the ECB issued its **risk map for 2020** which sets out the main risks faced by the supervised institutions.



Internal models

- (3Q). The ECB published the **Guide to internal models**, which updates and completes the general and the risk-type-specific (credit risk, market risk and counterparty credit risk) and consolidates them with the aim to ensure a common and consistent approach to the most relevant aspects of the applicable regulations on internal models for banks supervised by the ECB.

Main publications

European publications

The EBA also published several documents on credit risk such as the RTS on SA-CCR and a Roadmap on IFRS 9 deliverables. In relation to market risk, the EBA published three CPs of RTS on the internal models approach (IMA) under FRTB.

Outstanding publications



Credit Risk

- (1Q). The EBA published a **CP on GL on credit risk mitigation (CRM) for institutions applying the advanced internal rating-based (A-IRB) approach**, that aims to eliminate the remaining significant differences in approaches in the area of CRM, and a **Report on the results from the 2018 high and low default portfolios (HDPs and LDPs) credit risk benchmarking** to assess the level of variability observed in RWAs.
- (1Q). Further, the EBA published the **Final GL for the estimation of LGD appropriate for an economic downturn**, which set out requirements for the quantification of the calibration target used for downturn LGD estimation, as well as **GL on outsourcing arrangements**, which repeal the 2006 CEBS GL, and aim to establish a more harmonised framework on outsourcing arrangements.
- (2Q). The EBA also published a **CP on GL on loan origination and monitoring** in order to improve institutions' practices, ensure that institutions have robust and prudent approaches, as well as newly originated loans are of high credit quality.
- (4Q). After the CP in the 2Q, the EBA published the **Final draft on RTS on the SA-CCR**, based on the proposals included in the Discussion and Consultation Paper, which specifies key aspects of the SA-CCR and represents an important contribution to its smooth harmonised implementation in the EU.
- (4Q). EBA published the **Draft ITS amending EC Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models** with the aim to integrate the sub-set of templates dedicated to the IFRS 9, changing the reporting templates and benchmarking instructions.



IFRS 9

- (3Q). The EBA published a **Roadmap on IFRS 9 deliverables** providing a comprehensive overview of planned monitoring activities on IFRS 9 implementation.



NPL & NPE

- (2Q). The EP and the council published the **Regulation (EU) 2019/630 on the minimum loss coverage for non-performing exposures (NPE)**.
- (3Q). Moreover, the ECB published a **Communication on supervisory coverage expectations for NPEs** in order to introduce some adjustments to its supervisory expectations for prudential provisioning for new NPEs, specified in the Addendum to the ECB Guide on internal models, that will enhance the consistency and simplicity of the overall approach to NPEs.



Market Risk

- (1Q). The EBA published a **Report on the results from the 2018 market risk benchmarking exercise**.
- (3Q). Conversely, the EBA issued three **CPs on RTS on the new internal model approach (IMA) under the FRTB** in order to specify essential aspects of this method and contribute to a smooth and harmonised implementation of the FRTB in the EU. In particular, these documents are the CP RTS on liquidity horizons, the CP RTS on back-testing and profit and loss attribution (PLA) requirements and the CP RTS on criteria to assess the modellability of risk factors under the IMA.

Main publications

Local publications

The EIOPA has published the results of the 2019 Institutions for Occupational Retirement Provision (IORP) stress test. In addition, the EP and Council have published Regulation (EU) 2019/2088 on sustainability reporting in the financial services sector.

Publicaciones destacadas



Other Risks

- (1Q). The EBA published **GL on specification of types of exposures to be associated with high risk**, aiming to clarify the criteria for identifying investments in venture capital firms and private equity as particularly high risk exposures.
- (4Q). Also, the EBA published the **Risk Reduction Package Roadmaps**, and the **Final Guidelines (GL) on ICT and security risk management** which establishes requirements for credit institutions, IFs and payment service providers (PSPs) on the mitigation and management of their ICT risks.



Stress test

- (1Q). The ECB published the **Final results of the SSM-wide stress test 2018**, which will feed into the SSM SREP, as well as the **Sensitivity analysis of liquidity risk** as its 2019 stress test.
- (2Q). The EBA published the **2020 EU-wide stress test draft methodology**, describing how banks should calculate the stress impact of the common scenarios and establishing constraints for their bottom-up calculations.
- (3Q). The ESMA published the **Final GL on liquidity stress test in Alternative Investment Funds (AIFs) and Undertakings for the Collective Investment in Transferable Securities (UCITS)**, applied to managers, depositaries and national competent authorities (NCAs).
- (4Q). On the other side, the EBA published the **2020 EU-wide stress test final methodology**.
- (4Q). The EIOPA issued the **2019 Institutions for Occupational Retirement Provisions (IORPs) stress test results** with the aim of assessing the resilience and potential vulnerabilities of the European Defined Benefit (DB) and Defined Contribution (DC) pension sector.



Reporting

- (2Q). The ESAs published a **CP on ITS on the reporting of intra-group transactions and risk concentration for financial conglomerates** in order to define a reporting framework in terms of its scope, frequency, format of reporting and transmission.



EMIR

- (2Q). The EP and the Council published the **Regulation (EU) 2019/834, amending EMIR** which aims to address the shortcomings observed in the functioning of the OTC derivatives market.



Climate change

- (4Q). The EC published the **European Green Deal** which sets a new growth strategy that aims to transform the EU into a resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.
- (4Q). The EP and the Council published the **Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector** and the **Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks**.
- (4Q). Besides, the EBA published the **Action Plan on Sustainable Finance**.



€STR

- (1Q). The ECB published **Recommendations on the transition path from EONIA to the €STR and on a €STR based forward-looking term structure methodology** to market participants.
- (2Q). The ECB launched a **Public consultation on the EONIA to €STR Legal Action Plan** which includes recommendations to address the legal implications of such transition.



Main publications

Local publications

In Spain, the Government approved Royal Decree 102/2019 establishing AMCESFI and published the Draft Royal Decree on the legal regime of payment services and payment institutions, completing the transposition of PSD2. In USA, the publication by the Fed of the results of the DFAST and CCAR of 2019 are noteworthy.

Outstanding publications



Spain

- **(1Q).** The Spanish Government approved **Royal Decree 102/2019, that sets out the Macroprudential Authority on the Financial Stability Council (AMCESFI), establishes its legal regime, and develops certain aspects regarding macroprudential tools.**
- **(1Q).** Moreover, the Spanish Government approved a **Draft Royal Decree to develop the Law 5/2019 regulating real estate credit agreements**, with the aim to complete the transposition of the Directive 2014/17/UE.
- **(1Q).** Regarding to corporate governance, the CNMV published the **Technical Guide 1/2019 on Nomination and Remuneration Committees (CNR)**, in order to foster a proper functioning of CNR within the firms.
- **(2Q).** The Government approved the **Royal Decree 309/2019 that partially develops the Law 5/2019 regulating real estate credit agreements** with the aim to complete the transposition of the Directive 2014/17/UE on credit agreements for consumers relating to residential immovable property; as well as to develop several aspects needed to ensure the borrowers' rights set out in Law 5/2019.
- **(2Q).** Moreover, the Government published the **Draft Royal Decree on the legal regime of the payments services and payment institutions**, which completes the transposition of the PSD2.
- **(2Q).** Furthermore, the Bank of Spain (BdE) published three **Draft Circulars** related to **public and confidential financial information rules and formats**; on the **materiality threshold for credit obligations past due**; and on the **amendments to Circular 1/2013 on the Risk Information Centre (CIR).**

Spain (continuation)

- **(3Q).** The BdE published a **Draft Circular amending Circular 4/2017**, addressed to credit institutions, with the aim to adapt the rules and annexes that set out the confidential statements that credit institutions should submit to the BdE in order to adequate the formats of these statements to the amendments included in the European Commission (EC) Implementing Regulation (EU) 680/2014, laying down ITS with regard to supervisory reporting of institutions, and ECB Regulation (EU) 534/2015 on reporting of supervisory financial information.
- **(4Q).** BdE published the **Circular 3/2019 defining the threshold for the significance of overdue receivables** in order to define the absolute and relative components of materiality threshold for those Spanish less significant credit institutions; and the **Circular 4/2019 on public and reserved financial information standards and model financial statements** which establishes certain requirements relating to the publication of financial information, for EFCs (eg. characteristics and elements of the internal information or the recognition, valuation, presentation and information criteria).



USA

- **(1Q).** The Fed published the **2019 Capital Analysis and Review (CCAR) summary instructions**, which provide information regarding the requirements and expectations for CCAR 2019, the stress testing and capital planning cycle. Moreover, the Fed published the **2019 CCAR and Dodd-Frank Act Stress Test (DFAST) scenarios** to be used by banks and supervisors. Furthermore, the Fed published a **Final rule on amendments to the Capital Plan Rule** in order to limit the scope of potential objections to a firm's capital plan.
- **(2Q).** Regarding the supervisory stress test, the Fed published the results of the **2019 DFAST** and the assessment framework and results of the **2019 CCAR**, which assess whether firms have sufficient capital to continue operating and lending to households and businesses.

Main publications

Local publications

In the USA, the Fed, FDIC and OCC have published several Final rules such as the one on regulatory capital thresholds and liquidity requirements or the Final rule on the simplification of the Capital Rule. In particular, the OCC's final rule on modifications to the Stress Test Rule for the National Banks and Federal Saving Associations stands out.

Outstanding publications



USA (continuation)

- **(3Q)**. The Fed, FDIC, and OCC published the **Final rule on simplifications to the Capital Rule**, which applies solely to banking organizations that are not subject to the advanced approaches capital rule (i.e. in general those firms with less than \$250 billion in total consolidated assets and less than \$10 billion in total foreign exposure), and simplifies the capital treatment for MSAs, temporary difference DTAs, investments in the capital instruments of unconsolidated financial institutions, and minority interest.
- **(3Q)**. Further, the Fed, the OCC, the FDIC, the SEC and the CFT published the **Final Rule on revisions to Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds**, which is intended to streamline the Volcker Rule by eliminating or modifying requirements that are not necessary to effectively implement its statute, without diminishing the safety and soundness of banking entities.
- **(4Q)**. The Fed, and the FDIC issued a **Final Rule on modifications to resolution plan requirements** in order to address the amendments to the Dodd-Frank Act made by the EGRRCPA.
- **(4Q)**. Moreover, the Fed issued the **Final Rule on Prudential Standards for Large Bank Holding Companies (LBHC), Savings and Loan Holding Companies (SLHC), and Foreign Banking Organizations (FBO)**.

USA (continuation)

- **(4Q)**. The Fed, FDIC and OCC also issued the **Final Rule on Changes to applicability thresholds for regulatory capital and liquidity requirements**, with the aim of better aligning the regulatory requirements for LBHCs based on their risk profile, taking into account their size and complexity, as well as its potential systemic risks.
- **(4Q)**. In addition, the Fed, FDIC and OCC published a **Final rule on revisions to the Supplementary Leverage Ratio (SLR)** in order to exclude from the SLR certain funds of banking organizations deposited with central banks if the banking organization is predominantly engaged in custody, safekeeping, and asset servicing activities.
- **(4Q)**. On the other side, the Fed, FDIC and OCC issued a **Final Rule on Standardized Approach for Calculating the Exposure Amount of Derivative** in order to address an alternative approach to the agencies' current exposure methodology (CEM) for calculating derivative exposure under the agencies' regulatory capital rules.
- **(4Q)**. Finally, the OCC published the **Final Rule amending Stress test Rule National Banks and Federal Saving Associations**, in order to adapt the regulation to the legislative modifications that the stress test regulation has suffer.

Main publications

Local publications

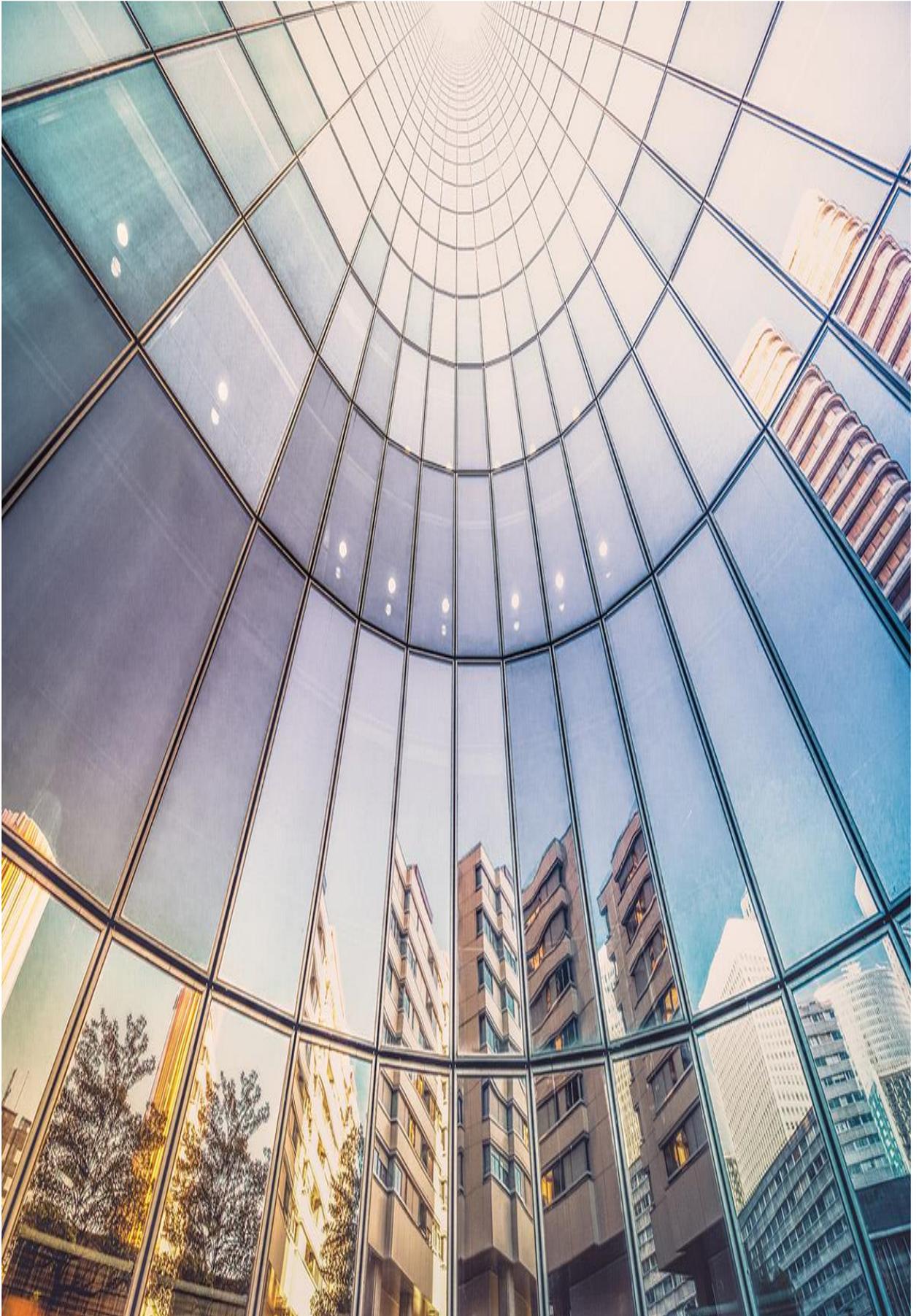
In UK, the publication by the PRA of Supervisory Statement 5/19 on liquidity risk management for insurers and CP 21/19 on credit risk: estimation of PD and LGD are noteworthy. Furthermore, the BoE also published the results of the 2019 stress test of the UK banking system.

Outstanding publications



UK

- **(1Q)**. The Bank of England (BoE) published a document on **key elements of the 2019 UK stress test scenarios**, as well as a **Guidance for participating banks** for conducting their own analysis for the 2019 stress test.
- **(3Q)**. The PRA published a **CP 21/19 on credit risk: Probability of Default and Loss Given Default estimation**, in order to update the Supervisory Statement (SS) 11/13 on IRB which, among others, introduces proposals on the compliance with the EBA roadmap for IRB, and the cyclical of downturn LGD estimates; and a **SS 5/19 on liquidity risk management for insurers**.



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