



Management Solutions

Making things happen

Regulation Outlook

2Q15

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Executive summary

During this quarter, the BCBS has published a consultative document proposing to modify the treatment of the interest rate risk in the banking book (IRRBB). Moreover, a new impulse has been given to the SRM through several publications made by the EBA related to the Bank Recovery and Resolution Directive (BRRD) and the approval of the Ley de recuperación y resolución de entidades in Spain.

Global publications

- The FSB has set out the objectives and the process that it will follow in the **second revision** of the **Key Attributes of Effective Resolution Regimes for Financial Institutions**.
- The BCBS has published a consultative document proposing to modify the treatment of the **IRRBB**. The document puts forward two alternatives: the former consists on a Pillar 1 approach to calculate capital requirements for IRRBB; the latter involves an improvement of the existing Pillar 2 principles.
- Moreover, the BCBS has published final standards on the **disclosure requirements for the net stable funding ratio (NSFR)**. A common template is included through which institutions shall submit the NSFR and its components.

European publications

- The EBA has published final RTS setting out the **qualitative and quantitative requirements** that competent authorities shall consider when granting institutions **authorization to use AMA** for operational risk.
- The EBA has also published several documents developing technical aspects of the BRRD. In this regard, the EBA has specified the minimum list of indicators that shall be included in **recovery plans**; the factors for the adoption of **early intervention measures**; the conditions under the **sale of business** and the **asset separation tools** may be applied; and the circumstances when an **institution shall be considered failing or likely to fail**.

European publications (continuation)

- Following the adoption by the **Commission of two delegated acts** with regard to the **Liquidity Coverage Ratio (LCR)** and the **Leverage Ratio (LR)** in October 2014, the EBA has modified the templates and instructions of the ITS on supervisory reporting.
- The EBA has also published a consultative document updating the methodology for the **identification of global-systemically important institutions (G-SIIs)** to closely follow the approach of the BCBS.
- The ECB has published a **list of credit institutions** which have become **significant** and were not covered by the **Comprehensive Assessment (CA)** of 2014. Institutions included in this list will be subject to the CA to be carried out in **2015**.

Local publications

- In Spain, the Cortes Generales have approved the **Ley de recuperación y resolución de entidades de crédito y empresas de servicios de inversión**, through which the BRRD is transposed into the Spanish legal system. Thus, this Law sets out the action framework for competent authorities and the resolution tools and procedures. Moreover, the National Resolution Fund is created to fund the resolution measures implemented by the FROB, which will be incorporated into the Single Resolution Fund from January 2016.
- The Ministerio de Economía y Competitividad has adopted a **Proyecto de Orden** setting out the content and disclosure requirements of the **annual corporate governance report** that shall be submitted by **banking foundations**.

Regulatory projections

The BCBS is expected to publish in July 2015 the final document on the revisions to the simpler approaches for calculating capital requirements for operational risk. Moreover, in September the BCBS will publish a Monitoring Report including the results of the QIS on the total loss-absorbing capacity (TLAC) and the revisions to the standardized approach for credit risk, among others.

Regulatory projections

1. Next quarter

- **(Global) July 2015:** the BCBS will publish the final draft on revisions to the simpler approaches for measuring operational risk operational capital.
- **(Europe) July 2015:** the EBA will publish ITS on procedures, forms and templates for resolution planning.
- **(Europe) July 2015:** the EBA will publish RTS and ITS specifying the assessment criteria that shall be considered with regard to the minimum requirement for own funds and eligible liabilities (MREL).
- **(Europe) July 2015:** the EBA will publish RTS on the contractual recognition of bail-in.
- **(Europe) July 2015:** the EBA guidelines on the minimum list of quantitative and qualitative indicators that institutions shall include in their recovery plans will be applicable.
- **(Europa) August 2015:** the EBA guidelines on the sale of business and the asset separation tools will be applicable.
- **(Global) 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.

2. Next year

- **(Europe) October 2015:** the LCR will be applicable. Thus, institutions shall maintain a ratio of at least 60%.
- **(Global) November 2015:** the FSB will publish the final draft on the TLAC.
- **(Global) November 2015:** the FSB will update the list of global systematically important banks (G-SIBs).
- **(Global) December 2015:** the BCBS will publish the final draft on revisions to the standardized approach for credit risk.
- **(Europe) December 2015:** the EBA will publish RTS specifying several aspects with regard to the IRB models, such as the estimation of the probability of default (PD).
- **(Europe) December 2015:** the EBA ITS on supervisory reporting regarding the LR and LCR will be applicable.
- **(Global) January 2016:** the FSB will publish the second review of the Key Attributes of Effective Resolution Regimes for Financial Institutions.
- **(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 EBA guidelines on the Supervisory Review and Evaluation Process (SREP) will be applicable.
- **(Europe) January 2016:** the MREL will be applicable.
- **(Europe) January 2016:** the EBA guidelines on the management of the IRRBB 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 enter 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.
- **(Europe) June 2016:** the Markets in Financial Instruments Directive (MiFID II) will enter into force.
- **(Spain) June 2016:** the Ley de Auditoría de Cuentas will enter into force.

3. More than a year

- **(Global) December 2016:** the new Pillar 3 disclosure framework will be applicable.
- **(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 LR will migrate to a Pillar 1 minimum capital requirement.
- **(Global) January 2019:** the TLAC requirement will enter into force.

Publications of this quarter

Summary of outstanding publications of this quarter.

Topic	Title	Date	Page
 Financial Stability Board			
Recovery and Resolution	<ul style="list-style-type: none"> Abbreviated Terms of Reference for the second thematic peer review on resolution regimes. 	13/04/2015	8
 Basel Committee on Banking Supervision			
National discretions	<ul style="list-style-type: none"> Removal of selected national discretions from the Basel II framework. 	21/04/2015	9
IRRBB	<ul style="list-style-type: none"> Consultative Document on the Interest Rate Risk in the Banking Book (IRRBB). 	09/06/2015	10
Liquidity risk	<ul style="list-style-type: none"> Net Stable Funding Ratio (NSFR) disclosure standards. 	22/06/2015	11
 European Banking Authority			
G-SIIs	<ul style="list-style-type: none"> CP on the update of the identification methodology for G-SIIs. 	29/04/2015	12
Own Funds	<ul style="list-style-type: none"> Report on the monitoring of Additional Tier 1 (AT1) instruments of EU institutions – Update. 	05/05/2015	13
Recovery and Resolution	<ul style="list-style-type: none"> GL on the minimum list of qualitative and quantitative recovery plan indicators. 	07/05/2015	14
Recovery and Resolution	<ul style="list-style-type: none"> Final Report GL on triggers for use of early intervention measures. 	11/05/2015	15
Reporting	<ul style="list-style-type: none"> DPM and XBRL taxonomy for remittance of supervisory reporting of funding plans and supervisory benchmarking. 	12/05/2015	16
RWA	<ul style="list-style-type: none"> CP on RTS on Assigning Risk Weights to Specialized Lending Exposures. 	12/05/2015	17
Recovery and Resolution	<ul style="list-style-type: none"> GL on the sale of business tool. GL on the asset separation tool. GL on the minimum list of services. 	21/05/2015	18
IRRBB	<ul style="list-style-type: none"> GL on the management of interest rate risk arising from non-trading activities. 	27/05/2015	19
Recovery and Resolution	<ul style="list-style-type: none"> GL on the interpretation of the different circumstances when an institution shall be considered failing or likely to fail. 	27/05/2015	20
Mortgage Credit Directive (MCD)	<ul style="list-style-type: none"> Final GL on creditworthiness assessment. Final GL on arrears and foreclosure. Opinion on good practices for Mortgage Creditworthiness Assessments and Arrears and Foreclosure. 	02/06/2015	21
Operational Risk - AMA	<ul style="list-style-type: none"> Final RTS on the specification of the assessment methodology under which competent authorities permit institutions to use AMA for operational risk. 	09/06/2015	22
Reporting	<ul style="list-style-type: none"> Final Draft ITS amending ITS on supervisory reporting with regard to the LR. 	16/06/2015	23
Reporting	<ul style="list-style-type: none"> Final Draft ITS amending ITS on supervisory reporting with regard to the LCR. 	24/06/2015	24

Topic	Title	Date	Page
 European Supervisory Authorities			
Securities	<ul style="list-style-type: none"> Final report on securitization. 	13/05/2015	25
EMIR	<ul style="list-style-type: none"> Consultation Paper on RTS on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP (central counterparty). 	10/06/2015	26
 European Central Bank			
Comprehensive assessment	<ul style="list-style-type: none"> Decision identifying the credit institutions that are subject to a comprehensive assessment. 	06/05/2015	27
 Cortes Generales			
Recovery and Resolution	<ul style="list-style-type: none"> Ley de recuperación y resolución de entidades de crédito y empresas de servicios de inversión. 	19/06/2015	28
 Gobierno de España			
Corporate Governance	<ul style="list-style-type: none"> Proyecto de Orden por la que se determina el contenido, la estructura y los requisitos de publicación del informe de gobierno corporativo, y se establecen las obligaciones de contabilidad, de las fundaciones bancarias. 	14/04/2015	29

Publications of this quarter

Global publications



13/04/2015

Abbreviated Terms of Reference for the second thematic peer review on resolution regimes.

1. Context

In November 2011, the FSB issued the Key Attributes of Effective Resolution Regimes for Financial Institutions (KAs), as part of the package of policy measures to address the moral hazard risks posed by systemically important financial institutions (SIFIs).

To ensure their effective implementation, the FSB decided to carry out a thematic peer review which was completed in April 2013 and included a number of recommendations addressed to the FSB and its member jurisdictions. As a result, on October 2014 the FSB reissued the KAs incorporating additional guidance on some aspects.

The FSB has now launched the Abbreviated Terms of Reference providing detail on the **objectives and process of the second peer review on resolution regimes**, which will be published in early 2016.

2. Main points

- The second peer review will focus on **two areas**:
 - The range and nature of the resolutions powers that are available in FSB jurisdictions.
 - The requirements for recovery and resolution planning for banks that could be systemically significant or critical in the event of failure.
- Among others, the **objectives** of the peer review are to:
 - Evaluate the progress made since the first resolution peer review in implementing reforms in the areas covered by this review.
 - Highlight good practices and lessons of experience in reforming resolution regimes.
 - Identify material inconsistencies that are common across jurisdictions.
- The **primary source** of information will be the responses to a **questionnaire** that will be prepared covering issues such as:
 - Reforms relating to bank resolution powers, requirements for recovery and resolution planning, etc.
 - The resolution powers that are available for the banking sector and their nature.
 - The existence and scope of powers for authorities to require banks to adopt measures to improve their resolvability.
- The findings will be used to provide **recommendations** for improvements and follow-up actions.

3. Next steps

- Feedback should be submitted by **8 May 2015**.
- The peer review report will be published in **early 2016**.



21/04/2015

Removal of selected national discretions from the Basel II capital framework.

1. Context

In developing the Basel II framework, the BCBS considered the particular features of the supervisory systems in individual member countries. In this regard, some national discretions were included to allow countries to adapt the Basel standards to different conditions of local financial systems.

However, the use of national discretions can also impair comparability across jurisdictions and increase variability in risk-weighted assets. Consequently, the BCBS has agreed to remove certain national discretions from the Basel II framework.

2. Main points

- The following national discretions have been **removed**:
 - Treatment of past-due loans: the transitional period of three years during which a wider range of collateral may be recognized, for the purpose of defining the secured portion of the past due loan.
 - Definition of retail exposures: the option of setting a minimum number of exposures within a pool to be treated as retail.
 - Transitional arrangements for corporate, sovereign, bank and retail exposures: the discretion of relaxing certain minimum requirements regarding these exposures during the transition period.
 - Rating structures standards for wholesale exposures: the option of requiring banks which lend to borrowers of diverse credit quality to have a greater number of borrower grades.
 - Internal and external audit: the possibility of requiring an external audit of the bank's rating assignment process and estimation of loss characteristics.
 - Re-ageing: the option of establishing more specific requirements on re-ageing.
- In addition, the BCBS has noted that the **national discretion** related to the **IRB approach treatment of equity exposures will expire in 2016**.
- The BCBS has also issued a response to a frequently asked question on **funding valuation adjustment (FVA)**. In this regard, the BCBS has stated that:
 - A bank's adoption of FVA should not have the effect of offsetting or reducing its "own credit" adjustment.
 - A bank should continue to derecognize its debit valuation adjustment in full.

3. Next steps

- The BCBS will continue to monitor national discretions and consider further removals from the framework.



09/06/2015

Consultative Document on the Interest Rate Risk in the Banking Book.

1. Context

Interest rate risk in the banking book (IRRBB) is currently part of the Pillar 2 of the Basel framework. In this regard, the BCBS is proposing changes to the existing treatment of IRRBB for two reasons: first, to help ensure that banks have appropriate capital to cover potential losses from exposures to changes in interest rates; and second, to limit incentives for capital arbitrage between the trading book and the banking book.

The consultative document presents **two options** for the treatment of IRRBB: a **standardized Pillar 1 approach** and an **enhanced Pillar 2 approach**. The framework should be applied to all large internationally active banks on a consolidated basis, but supervisors may also apply it to other institutions.

2. Main points

- **First option – Pillar 1 capital framework for IRRBB.** Institutions shall calculate the minimum capital requirements for IRRBB following 6 stages:
 - Allocation of interest rate-sensitive banking book positions to one of three categories (i.e. amenable, less amenable and not amenable to standardization based on whether it can be decomposed into repricing cash flows with certainty).
 - Determination of slotting of cash flows based on repricing maturities. This is a straightforward translation for positions amenable to standardization; positions less amenable to standardization are excluded from this step; and not amenable positions have a separate treatment for non-maturity deposits and for behavioral options.
 - Determination of the change in Economic Value of Equity (EVE) and the change in Net Interest Income (NII) under the relevant scenarios for each currency.
 - The add-on for changes in the value of automatic interest rate options is added to the EVE changes, and another basis risk add-on to changes in NII.
 - Offset of currencies incurring losses by some weighted sum of currencies that incur gains for each scenario under consideration.
 - Calculation of the IRRBB minimum capital requirements. There are four sets of proposals for consultation with regard to the calculation (i.e. pure EVE minimum capital requirement).
- **Second option – Pillar 2 capital framework for IRRBB.** High-level principles for the management of IRRBB are set out, such as:
 - The board of directors is responsible for oversight of the IRRBB management framework.
 - Measurement of IRRBB should be based on outcomes for both economic value and earnings arising from an appropriate range on scenarios.
 - In measuring IRRBB, key behavioral and strategic assumptions should be fully understood.

3. Next steps

- Comments to this consultation paper shall be submitted by **11 September 2015**



22/06/2015

Net Stable Funding Ratio Disclosure Standards.

1. Context

During the financial crisis many banks, despite meeting the capital requirements, experienced difficulties because they did not prudently manage their liquidity. In this regard, the BCBS strengthened the liquidity framework by developing two minimum standards: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The BCBS has published now final standards specifying the **disclosure requirements for the NSFR**. The document is organized as follows: section 1 presents requirements on the **scope of application, implementation date**, and the **frequency and location of reporting**; and section 2 includes a **common template** that banks should use to report the NSFR results and its components.

2. Main points

- **Scope of application:**
 - The requirements are applicable to internationally active banks on a consolidated basis, but may be used for other banks.
- **Frequency and location of reporting:**
 - Banks must publish the disclosure with the same frequency as the publication of their financial statements, irrespective of whether they are audited.
 - Banks must either include the disclosures in their published financial reports or provide a direct link to the completed disclosure on their websites.
- **Common template:**
 - The NSFR data must be:
 - Calculated on a consolidated basis.
 - Presented in a single currency.
 - Reported as quarter-end observations. For banks reporting on a semi-annual basis the NSFR must be reported for each of the two preceding quarters, and banks reporting on an annual basis must report the NSFR for the preceding four quarters.
 - Disclose both unweighted and weighted values of the NSFR components.
 - In addition to the common template, banks should provide a sufficient qualitative discussion to facilitate an understanding of the results.

3. Next steps

- Banks will be required to comply with the disclosure requirements from the date of the first reporting period after **1 January 2018**. Supervisors will give effect to the disclosure requirements by no later than this date.

Publications of this quarter

European publications



29/04/2015

Consultation paper on the update of the identification methodology for G-SIIs.

1. Context

In compliance with the CRD IV, the EBA methodology to identify global systemically relevant institutions (G-SIIs) closely follows the approach of the BCBS for identifying global systemically important banks (G-SIBs). Consequently, the list of EU G-SIBs identified by the BCBS and the G-SIIs identified by Member States' authorities should be similar.

In January 2015, the BCBS published a new data template with minor revisions for the year 2015 identification exercise. Accordingly, the EBA has published a consultation to update its data template for the identification of G-SIIs.

The consultation amends two standards: the **RTS on the methodology for the identification of G-SIIs** and the **ITS on the uniform standards for the disclosure of indicators by G-SIIs**. Additionally, the consultation includes **guidelines on the further specification of the indicators of G-SIIs for the year** .

2. Main points

- In the future, further updates by the BCBS are expected. If minor technical changes must be adopted by means of **RTS or ITS**, this would result in undue delays. Consequently:
 - The **Annex** of the RTS containing the indicators for identifying G-SIIs is **deleted**.
 - The **former template** included in the ITS is substituted by a **more generic template**, which should be filled in following the instructions issued by the relevant authority each year.
 - From now on, the indicators for identifying G-SIIs and the specific templates should be issued **each year** by the relevant authority.
- Regarding the **guidelines** on the specification of the indicators, for the year 2015 relevant authorities should:
 - Apply the specifications of the data in the **Annex of these guidelines** when determining the scores of relevant entities on the basis of the indicators.
 - Follow the **instructions** which will be published on the EBA website when reporting the data.

3. Next steps

- Comments to this consultation shall be submitted by **20 May 2015**.



05/05/2015

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

1. Context

Pursuant to article 80 of the CRR, the EBA shall monitor the quality of own funds instruments issued by institutions across the EU. In this regard, the EBA has published an update of its first report on the monitoring of AT1 capital instruments, which is partly based on the review of 15 AT1 issuances that took place between August 2013 and November 2014.

The report contains a detailed analysis with the EBA's views on some of the terms and clauses of the selected issuances. Additionally, the report identifies a number of areas where further guidance might be necessary for a common interpretation of some CRR provisions.

2. Main points

- The monitoring process has shown that a few **terms and clauses** of existing AT1 instruments should be avoided in the future:
 - In the first monitoring report, those terms were related to calls, write-down or conversion, formal issues and contingent clauses.
 - In addition to these provisions, in this update the EBA clarifies its position with regard to:
 - Changes in the assessment of the competent authority regarding tax effects in case of a write down.
 - Redemptions.
 - Tax gross up clauses.
 - Pre-emption right for shareholders.
 - Other issues.
- The EBA's monitoring has also shown that there are **differences in the interpretation** of some provisions of the CRR that need to be tackled to promote a common interpretation:
 - The calculation of the amount available for the write-up when the instrument features a double trigger.
 - The triggers for the loss absorption of AT1 instruments. The triggers shall be based on the CET1 of the institution but it is unclear whether these triggers should be based on the institution's solo or consolidated (or sub-consolidated) CET1.
 - The eligibility criteria for instruments issued by subsidiaries in third countries (calculation of third country CET1).
 - The loss absorption in institutions that issued instruments with different triggers.

3. Next steps

- This report is published as a **draft final report**. The EBA will exchange views with institutions and market participants on this report and will hold a public hearing on May 18, 2015.
- The EBA expects to publish the **final report** by the **end of May 2015**.

07/05/2015

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

1. Context

The bank recovery and resolution Directive (BRRD) requires credit institutions and investment firms across the EU to develop recovery plans defining the measures they would adopt to restore their long-term financial viability in distressful situations. Competent authorities are the responsible for assessing such plans.

In this regard, the EBA has published Guidelines on the **minimum list of indicators** that institutions should include in their **recovery plans**.

2. Main points

- Establishment of **mandatory indicator categories**, and **indicators** within each category, that institutions should include in their recovery plans:
 - Capital indicators: CET1, total capital ratio and leverage ratio.
 - Liquidity indicators: liquidity coverage requirement, net stable funding ratio and cost of wholesale funding.
 - Profitability indicators: ROA or ROE and significant operational losses.
 - Asset quality indicators: growth rate of non-performing loans and coverage ratio.
- Establishment of **additional indicator categories**, and **indicators** within each category, that institutions should include in their recovery plans unless they provide justifications that such categories are not relevant to their risk profile, size, etc.:
 - Market-based indicators: rating downgrade, CDS spread and stock price variation.
 - Macroeconomic indicators: GDP variations and CDS of sovereigns.
- Institutions **may not include the specified indicators** if they provide satisfactory justifications that the indicators are not relevant to their risk profile, size, etc. In any case, the institutions should include **at least one indicator** from each of the mandatory categories.
- Institutions should **recalibrate** the indicators when necessary and at least **annually**.

3. Next steps

- These Guidelines apply from **July 31, 2015**



11/05/2015

Final Report Guidelines on triggers for use of early intervention measures.

1. Context

The Bank Recovery and Resolution Directive (BRRD) framework introduced a common set of early intervention measures. In this context, the EBA has published these final Guidelines which are addressed to competent authorities (NCAs) and aim to promoting the consistent application of triggers for the decision on the application of early intervention measures.

In particular, the triggers are based on the scores supporting the outcomes of the Supervisory Review and Evaluation Process (SREP), the material deterioration or anomalies identified in key indicators under SREP and significant events.

2. Main points

- The **triggers** for the NCAs' decision on the application of early intervention measures are based on:
 - The outcomes of the SREP. NCAs should take a decision on whether to apply early intervention measures in the following cases:
 - Where an institution is assigned the Overall SREP score of 4.
 - Where an institution is assigned the Overall SREP score of 3 and the score of 4 for specific individual SREP elements (i.e. business model and strategy, capital adequacy, etc.).
 - Material deterioration or anomalies in key financial and non-financial indicators under SREP.
 - Significant events:
 - Major operational risk events (e.g. fraud, natural disaster, etc.).
 - Significant deterioration in the amount of eligible liabilities and own funds for the purpose of meeting the MREL.
 - Unexpected loss of senior management who have not been replaced.
 - Significant rating downgrades by one or more external rating agencies.
- The EBA does not establish any **quantitative threshold** for capital or liquidity requirements.

3. Next steps

- These Guidelines apply from **1 January 2016**.
- However, the implementation of these Guidelines and triggers do not prevent competent authorities from applying early intervention measures where such triggers are not met.

12/05/2015

DPM and XBRL taxonomy for remittance of supervisory reporting of funding plans and supervisory benchmarking.

1. Context

In March 2015, the EBA published a XBRL taxonomy (version 2.3) to be used for the remittance of data under the ITS on supervisory reporting. The EBA has now published an update to the XBRL taxonomy (version 2.3.1) incorporating corrections only to the **funding plans** and **supervisory benchmarking** structures.

2. Main points

- The remittance of reports for **funding plans** and **supervisory benchmarking** is to use the new taxonomy set (2.3.1).
- This update only affects the funding plans and supervisory benchmarking reports. Therefore, the remittance of **COREP**, **FINREP**, and **asset encumbrance** for reference dates of 30 June 2015 onwards will continue using the report structures as defined in the 2.3 taxonomy (which are also included in this 2.3.1 package).
 - Additional guidance for the COREP reporting of the Own Funds modules is provided .

3. Next steps

- The revised taxonomy will be used for reports on funding plans and supervisory benchmarking regarding reference dates of **31 December 2014 onwards**.



12/05/2015

Consultation Paper on RTS on Assigning Risk Weights to Specialized Lending Exposures.

1. Context

The CRR contains specific mandates for the EBA to develop draft RTS to specify how institutions shall take into account certain factors (i.e. financial strength and political and legal environment) in assigning risk weights to specialized lending exposures.

The proposed RTS specify **how these factors should be assessed**, as well as **how institutions should combine these factors**, in order to determine the final assignment to a category.

2. Main points

- Institutions should first verify whether a specialised lending exposure is considered in **default**. In such cases, institutions shall assign directly that exposure to category 5.
- Regarding **all other specialised lending exposures**:
 - Exposures are divided into 4 classes:
 - Project finance.
 - Real estate.
 - Object finance.
 - Commodities finance.
 - Once institutions have identified the class, the relevant assessment criteria (which are specified in the annex of the consultative document) shall be applied to determine the overall category. In this regard, the EBA provides two alternatives, seeking input from stakeholders:
 - **Option 1**: institutions shall establish which is the highest cardinal number of the categories the exposure has been assigned to among all factors, and assign the exposure to a category that is at most one level lower than the highest cardinal number.
 - **Option 2**: institutions shall define the weight for each factor, and the final assignment to a category depends on the weighted average of the cardinal numbers of the categories the factors have been assigned to.

3. Next steps

- Comments to this consultation paper shall be submitted by **August 11, 2015**.

21/05/2015

- **GL on the sale of business tool.**
- **GL on the asset separation tool.**
- **GL on the minimum list of services.**

1. Context

The Bank Recovery and Resolution Directive (BRRD) establishes a framework of tools for the orderly resolution of failing institutions.

In this regard, the EBA has published three documents addressed to EU resolution authorities in order to comply to the mandates of the BRRD in relation to the **sale of business and the asset separation tool**, and the **minimum list of services** that authorities may require from failing institutions to maintain.

2. Main points

GL on the sale of business tool

- The BRRD allows the **application of the sale of business tool** without complying with the **requirement to market** if the compliance could cause material threat to financial stability or undermine the effectiveness of the tool.
- The EBA has therefore specified:
 - The **circumstances under which the application of the requirements could cause material threat to financial stability** (i.e.: the risk of discontinuance of critical functions or the withdrawal of short-term funding or deposits).
 - The **elements that could undermine the effectiveness of the sale business tool** (ie.: the risk that marketing to a wider circle of potential purchasers may result in additional uncertainty and loss of market confidence and, considering the disclosure principle, the fact that certain potential purchasers may be more likely to ensure financial stability).

GL on the asset separation tool

- The EBA has detailed the manner through which resolution authorities should **assess the conditions** established by the BRRD to **allow the application of the separation tool**:
 - Market conditions: resolution authorities should assess whether the market for the concerned assets is impaired, based on indicators such as incurred losses, high volatility in prices and reduction of share prices.
 - Disposal of the concerned assets: resolution authorities should assess the impact of a disposal of the concerned assets on the markets where they are traded, taking into account factors such as the size of the markets and the expected timeframe of liquidation.
 - Situation of the financial markets and the effects of the disposal: resolution authorities should assess the impact taking into account factors such as the risk of a systemic crisis, an impairment to the functioning of the interbank funding market and whether the sale of the assets can result in contagion.

GL on the minimum list of services

- The EBA has specified the **list of the minimum services and facilities** that the institution under resolution should provide to a recipient in order to operate effectively the business transferred to it:
 - Human resources support
 - Information technology
 - Transaction processing
 - Real estate
 - Treasury-related services
 - Trading/asset management
 - Position management
 - Risk management and valuation
 - Accounting
 - Cash handling

3. Next steps

- The Guidelines shall apply as of **1 August 2015**.
- The Guidelines should be reviewed by **31 July 2017**.



27/05/2015

Guidelines on the management of interest rate risk arising from non-trading activities.

1. Context

The CRD IV requires that the Supervisory Review and Evaluation Process (SREP) performed by competent authorities (CAs) shall include the exposure of institutions to the interest rate risk arising from non-trading activities (IRRBB). In this regard, the EBA has published an updated version of the CEBS guidelines on technical aspects of the management of IRRBB under the SREP.

The updated guidelines, which are addressed to CAs are structured into two major parts: **high-level principles** and **detailed guidelines**.

2. Main points

- The original **high-level principles** have been modified. Particularly, a general re-wording has been performed in order to improve clarity and consistency, and additional guidance on internal governance arrangements and on the calculation of the supervisory standard shock has been inserted. The **resulting principles** are the following:
 - Internal capital: institutions should demonstrate that their internal capital is commensurate with the level of IRRBB.
 - Measurement: institutions should measure their exposure of IRRBB in terms of changes to economic value (EV) and to expected net interest income (NII).
 - Scenarios: institutions should routinely measure EV and NII under different scenarios (i.e. for changes in the interest rate yield curve, etc.).
 - Internal governance: institutions should implement robust internal governance arrangements and have in place policies to address IRRBB.
 - Supervisory standard shock: institutions should report to the CA the change in EV that results from the outcome of the standard shock.
- **Detailed guidelines** have been introduced. They are intended to highlight key technical aspects of the main IRRBB risks and to provide an overview of how managers should take these aspects into account in their ICAAP. The detailed guidance focuses on **five areas**:
 - The use of scenarios for stress testing
 - Measurement assumptions
 - Methods of measuring IRRBB
 - The governance of IRRBB
 - The identification, calculation and allocation of capital to IRRBB

3. Next steps

- The guidelines will apply from **1 January 2016**. Therefore, the original CEBS guidelines will be repealed with effect from this date.

27/05/2015

Guidelines on the interpretation of the different circumstances when an institution shall be considered failing or likely to fail.

1. Context

In accordance with the Bank Recovery and Resolution Directive (BRRD), a determination that an institution is failing or likely to fail constitutes one of the conditions that need to be met before resolution authorities take resolution actions or exercise the write down or conversion power.

In this regard, the EBA has published final Guidelines providing a set of **objective elements** that should support the determination that an institution is failing or likely to fail. They are addressed to competent authorities and resolution authorities

2. Main points

- Establishment of the **objective elements** on which the decision on whether an institution should be considered as failing or likely to fail should be taken. The assessment should analyze:
 - If the institution infringes the own funds requirements or has assets which are less than its liabilities, based on objective elements such as the level and composition of own funds held by the institution, or the results of an asset quality review.
 - If the institution infringes the liquidity requirements or is unable to pay debts as they fall due, considering objective elements such as significant adverse developments affecting the evolution of the institution's liquidity position, or a non-temporary increase in the costs of funding.
 - If the institution infringes other requirements for the continuing authorization, based on whether there are serious weaknesses in the institution's governance arrangements or operational capacity.
- The process for the **determination that the institution is failing** depends on the authority responsible for the determination:
 - Competent authorities: CAs should carry out the assessment of the objective elements on a continuous basis through the **SREP**, and should base its determination that the institution is failing on the following:
 - An overall SREP score of 'F' or
 - An overall SREP score of '4' and failure to comply with supervisory and early intervention measures.
 - Resolution authorities: when they are entrusted to make the determination that the institution is failing, they should base their decision on the objective elements.

3. Next steps

- These Guidelines will apply from **1 January 2016**.



02/06/2015

- **Final Guidelines on creditworthiness assessment.**
- **Final Guidelines on arrears and foreclosure.**
- **Opinion on good practices for Mortgage Creditworthiness Assessment and Arrears and Foreclosure.**

1. Context

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

In this regard, the EBA has issued two sets of Guidelines in order to ensure that the MCD provisions on these matters are implemented and supervised consistently across the EU. Additionally, the EBA has published an Opinion listing some good practices to support the competent authorities to implement the MCD.

2. Main points

Final Guidelines on creditworthiness assessment:

- The guidelines set out **requirements for creditors when assessing consumer creditworthiness**. In particular, creditors should:
 - Take reasonable steps to verify the consumer's underlying income capacity, the consumer's income history and any variability over time.
 - Maintain complete documentation of the information that leads to mortgage approval for at least the duration of the credit agreement.
 - Identify and prevent misrepresentation of information.
 - Assess consumer's creditworthiness taking into account relevant factors (i.e. other servicing obligations) and the adequacy of the consumer's income when the loan term extends past normal retirement age.
 - Make reasonable allowances for consumer's expenditures and potential future negative scenarios.

Final Guidelines on arrears and foreclosure:

- The guidelines set out **requirements for creditors regarding arrears and foreclosure**. Particularly, they should:
 - Establish policies and procedures that detect consumers going into payment difficulties in order to achieve effective engagement with them; and train staff dealing with these consumers.
 - Maintain a level of contact and communication with a consumer in payment difficulties that enables consumer engagement.
 - Communicate information to consumers such as the number of payments missed or paid in part, the total sum of the payment shortfall, etc.
 - Consider individual circumstances of the consumer when deciding on which forbearance measures to take.
 - Document the reasons why the options offered to the consumer are appropriate and the dealings with the consumer in payment difficulties.

Opinion on good practices

- The Opinion sets out **good practices** on:
 - Creditworthiness assessment:
 - Verification of information.
 - Reasonable debt service coverage.
 - Appropriate loan-to-value ratios.
 - Lending and supervisory processes.
 - Arrears and foreclosure: for example, to ensure that creditors provide to the borrower information regarding the consequences of missing payments and the timelines of the resolution process.

3. Next steps

- These sets of Guidelines will apply from **21 March 2016**.

09/06/2015

Final RTS on the specification of the assessment methodology under which competent authorities permit institutions to use AMA for operational risk.

1. Context

For the purposes of own funds requirements for operational risk, the CRR allows competent authorities (CAs) to permit institutions to use an AMA based on institutions' operational risk measurement systems, provided that all qualitative and quantitative standards are met and provided that institutions meet the general risk management standards set out in the CRD IV.

In this regard, the EBA has published final RTS specifying the assessment methodology CAs must refer to when assessing whether an institution AMA framework is effective in capturing its operational risk profile. Thus, CAs will only grant permission where institutions prove that all the relevant **qualitative and quantitative requirements** set out in these RTS have been met.

2. Main points

- **Qualitative standards:**
 - Governance arrangements. E.g. the operational risk management function is independent from the business units and the senior management involvement is active and consistent.
 - Use test requirement. E.g. institutions use the AMA for internal purposes and demonstrate the soundness and stability of the AMA output.
 - Audit and internal validation. E.g. the audit and internal validation functions confirm that the operational risk management and measurement processes are reliable, and the audit and internal validation governance is of a high quality.
 - Data quality and IT infrastructure. E.g. the quality of the data used in the AMA framework is maintained over time and institutions ensure soundness and performance of the IT infrastructure used for AMA.
- **Quantitative standards:**
 - Use of the four elements. Institutions apply the standards relating to the use of the following four elements: internal data, external data, scenario analysis and business environment and internal control factors.
 - Assumptions of the operational risk measurement system. E.g. institutions apply the appropriate level of granularity in their models and have in place appropriate processes for the identification of loss distributions.
 - Expected loss (EL) and correlation. E.g. the institutions' methodologies for the estimation of EL are consistent with the operational risk measurement systems and institutions support their correlation assumptions on an appropriate combination of empirical data analysis and expert judgement.
 - Capital allocation mechanism. E.g. the allocation of own funds requirements takes into account potential internal differences in risk and quality between the parts of the group.
 - Insurance and other risk transfer mechanisms. E.g. institutions avoid the multiple counting of risk mitigation techniques and the risk mitigation calculation appropriately reflects the insurance coverage.

3. Next steps

- These RTS shall enter into force on the **twentieth day** following that of its publication in the Official Journal of the European Union.
- For institutions using an AMA, or for institutions which have already applied for a permission to use AMA, these RTS shall apply from **one year after its entry into force**.



16/06/2015

Final Draft ITS amending ITS on supervisory reporting with regard to the Leverage Ratio.

1. Context

The leverage ratio (LR) intends to constrain leverage and to bring institutions' assets more in line with their capital in order to help mitigate destabilizing deleveraging processes in downturn situations. In this regard, in October 2014 the Commission adopted a delegated act amending the original CRR provisions on the calculation of the LR.

In order to update the LR disclosure and reporting framework following the Commission's adoption of the delegated act, the EBA has published ITS amending the ITS on supervisory reporting with regard to the LR. The procedure followed has been to **replace the Annexes X and XI entirely**, and the updated set of templates will on aggregate lead to a reduction in the number of cells.

2. Main points

- Amendments have been made on the **following templates**:
 - C45.00 (LRCalc): the title has changed from C45.00 (LRCalc) to C47.00(LRCalc) and the new and adjusted rows reflect changes brought by the delegated act, such as:
 - The removal of the three-monthly average calculation.
 - Changes to the calculation of the exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, etc.
 - Updates on the calculation of the exposure value of derivatives, to capture the part of cash variation margin.
 - C40.00 (LR1): some amendments have been introduced related to the collection of data on alternative treatment of derivatives, off-balance sheet items, etc.
 - C46.00 (LR6): this template has been fully removed.
 - C42.00 (LR3): some adjustments have been made in the labelling and content.
 - C43.00 (LR4): an extra row related to the additional treatment for credit derivatives has been added.
 - C44.00 (LR5): the template has been removed as the three-monthly average calculation has changed to an end-of-quarter calculation.

3. Next steps

- The ITS shall apply from the later of **six months from the date of their publication** in the Official Journal and **December 2015**.
- Validation rules, data point model (DPM) and XBRL taxonomies reflecting the amended templates are being finalized and will be published at a later stage.

24/06/2015

Final Draft on supervisory reporting with regard to the Liquidity Coverage Ratio.

1. Context

The liquidity coverage ratio (LCR) is intended to cover the net liquidity outflows under gravely stress conditions over a period of 30 days by holding adequate liquidity buffers. In this regard, in October 2014 the Commission adopted a delegated act specifying the detailed rules of the LCR for EU-based credit institutions.

Following the Commission's adoption of the delegated act, the EBA has published now final ITS amending the ITS on supervisory reporting with regard to the LCR. Thus, **Annexes XXIV and XXV** will replace the previous LCR templates and instructions. These new templates and instructions are applicable to credit institutions, but not to investment firms.

2. Main points

- The **new templates** included in **Annex XXIV** are the following:
 - C72.00 Liquidity coverage – liquid assets: comprises information of liquid assets which qualify as Level 1 assets or as Level 2 assets.
 - C73.00 Liquidity coverage – outflows: includes data about liquidity outflows measured over the next 30 days.
 - C74.00 Liquidity coverage – inflows: contains information about liquidity inflows measured over the next 30 days.
 - C75.00 Liquidity coverage – collateral swaps: encloses information about any transaction maturing within 30 days in which non-cash assets are swapped for other non-cash assets.
 - C76.00 Liquidity coverage – calculation of the LCR: contains information about calculations for the purpose of reporting the LCR.
- The **new instructions** are included in **Annex XXV**

3. Next steps

- These ITS shall apply from the later of **six months from the date of their publication** in the Official Journal and **December 2015**.
- Validation rules, data point model (DPM) and XBRL taxonomies reflecting the amended templates are being finalized and will be published at a later stage.



13/05/2015

Final report on securitization.

1. Context

In the wake of the financial crisis, various initiatives were undertaken to ensure a safer and more transparent securitisation market. In this regard, the EU built an extensive regulatory framework aimed at establishing transparency rules for structured finance instruments (SFIs).

In this context, the ESAs (EBA, ESMA and EIOPA) have published a report on securitisation that includes an assessment of the existing framework and **recommendations** that should be considered in light of further work on the transparency and due diligence requirements of SFIs and similar products.

2. Main points

- Recommendations regarding **due diligence requirements**:
 - Harmonized due diligence requirements across investor types should be introduced.
 - Due diligence requirements should drive disclosure requirements.
 - Standardized investor reports should reflect the dynamics of SFIs and be stored in a centralized public space.
- Recommendations regarding **disclosure requirements**:
 - Data providers should be allowed to fulfil disclosure requirements.
 - Loan by loan data should be provided to investors.
 - All type of investors should be empowered to effectively conduct their own stress tests.
- Recommendations regarding **transversal issues**:
 - Further work should be done to explain and review definitions and key terms in relevant EU legislation.
 - Appropriate measures should be introduced to enhance investor protection through disclosure requirements for all SFIs.
 - A harmonized due diligence and disclosure framework should be complemented with a comprehensive regime for supervision and enforcement.

10/06/2015

Consultation Paper on RTS on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP.

1. Context

In order to address risks related to the derivative markets, the European Market Infrastructure Regulation (EMIR) requires OTC derivative contracts to be cleared and derivative transactions to be reported to trade repositories. Additionally, it sets a framework to enhance the safety of central counterparties.

In this regard, the ESAs have published a consultation paper specifying the **risk-management procedures for non-centrally cleared OTC derivatives**; the **procedures concerning intragroup derivative contracts**; and the **criteria for the identification of impediment for the prompt transfer of funds**.

2. Main points

- **Risk-management procedures for non-centrally cleared OTC derivatives:**
 - Margin calculation. The RTS propose two methods through which counterparties may calculate initial margin requirements (i.e. the standardised method and the initial margin models).
 - Eligibility and treatment of collateral. The RTS set out the list of eligible collateral, eligibility criteria, requirements for credit assessments and requirements regarding the calculation and application of haircuts.
 - Operational procedures and documentation. It is necessary for counterparties to implement robust operation procedures that ensure that documentation is in place between counterparties and internally at the counterparty.
- **Procedures concerning intragroup derivative contracts:** a number of key elements are specified (e.g. time that competent authorities have to grant an approval, information to be provided, obligations for the counterparties, etc.).
- **Criteria for the identification of impediment for the prompt transfer of funds:**
 - A legal impediment shall be deemed to exist where there are restrictions such as currency and exchange controls, limitations on the prompt transfer of own funds, etc.
 - A practical impediment shall be deemed to exist where there is insufficient availability of unencumbered or liquid assets or there are operational obstacles for the prompt transfer of own funds or repayment of liabilities.

3. Next steps

- Comments to this consultation paper shall be submitted by **10 July 2015**.
- The RTS propose that the requirements will enter into force on **1 September 2016**. Nonetheless, some requirements (e.g. the initial margin) will be phased-in.



06/05/2015

Decision identifying the credit institutions that are subject to a comprehensive assessment.

1. Context

In accordance with the Regulation through which specific tasks are conferred on the ECB with regard to the prudential supervision of credit institutions, the ECB undertook a comprehensive assessment (CA) in 2014.

In this regard, the ECB should carry out a CA of the credit institutions that **have become significant and were not covered by the previous assessment**. To this end, the ECB is identifying the credit institutions that shall be subject to the CA to be carried out.

2. Main points

- The **institutions included in the CA** are the following:
 - Banque Degroof S.A.
 - Agence Française de Développement.
 - J.P. Morgan Bank Luxembourg S.A.
 - Mediterranean Bank plc.
 - Sberbank Europe AG.
 - VTB Bank (Austria) AG.
 - Novo Banco, SA.
 - Unicredit Banka Slovenija d.d.
 - Kuntarahoitus Oyj (Municipality Finance plc).
- **Novo Banco, SA** shall only be subject to the **stress test part** of the CA

3. Next steps

- The ECB will carry out the CA in **2015**.
- The Decision by the ECB shall enter into force on **May 6, 2015**

Publications of this quarter

Local publications



19/06/2015

Ley de recuperación y resolución de entidades de crédito y empresas de servicios de inversión.

1. Context

The financial crisis highlighted the challenge arising from carrying out an orderly resolution of a credit institution without using public funds. In this regard, the European Parliament and the Council incorporated the Single Resolution Mechanism (SRM) into the European law through the Bank Recovery and Resolution Directive (BRRD).

In this context, the Cortes Generales have approved a Ley that transposes the BRRD into the Spanish law. It establishes the entities' early intervention mechanisms, the resolution processes at the preventive stage and the resolution procedure, as well as the action framework for the competent authorities.

2. Main points

- Establishment of the **action framework** for competent authorities, which should be read in conjunction with the powers granted to the Single Resolution Board:
 - Preventive resolution authority (Bank of Spain and CNMV): responsible for the preventive stage.
 - Executing resolution authority (FROB): responsible for applying the resolution tools in the event of an entity failing.
- Creation of the **National Resolution Fund**, which will be funded by contributions of entities and managed by the FROB. From January 2016, the national resources will be incorporated in the Single Resolution Fund.
- Description of the **resolution process**:
 - Early intervention: this stage includes the elaboration of the **recovery plan** by the entities and its approval by the supervisor; and the adoption of **early intervention measures** by the supervisor, such as the replacement of managers.
 - Preventive stage of resolution: it consists of the elaboration of the **resolution plan** by the preventive resolution authority, which includes the measures that the FROB may apply in case of resolution; and the **resolvability assessment**.
 - Resolution: it is initiated provided that the following conditions are met:
 - The institution is failing or likely to fail.
 - There is no reasonable prospects that any alternative measure would prevent the failure of the institution.
 - A resolution is necessary in the public interest.
- Establishment of the **tools** that may be applied in the resolution: the sale of business tool, the bridge institution tool, the bail-in tool, etc.

3. Next steps

- The Ley shall enter into force on the **following day** that of its publication in the BOE. Nevertheless, provisions regarding the bail-in tool shall enter into force in **January 1, 2016**.
- The level of national resources within the National Resolution Fund shall be reached by **December 31, 2024**.



14/04/2015

Proyecto de Orden por la que se determina el contenido, la estructura y los requisitos de publicación del informe de gobierno corporativo, y se establecen las obligaciones de contabilidad, de las fundaciones bancarias.

1. Context

In December 2013 the Ley 26/2013 was approved, requiring the foundational parts of the former savings banks to be managed through banking foundations. Thus, savings banks began their transformation, and banking foundations became the largest shareholders of these financial entities.

In this context, the Ministerio de Economía y Competitividad has adopted a Proyecto de Orden developing the content, structure and disclosure requirements of the **annual corporate governance report** that shall be submitted by banking foundations; and defining the scope of the BdE empowerment to generate **financial information standards** applicable to this type of entities.

2. Main points

- **Annual corporate governance report:**
 - Transparency principle: information included within the report shall be clear, complete and accurate. The Board is responsible for its preparation and content.
 - Content and structure: the report shall include, among others, the following issues:
 - Structure, composition and functioning of the governance bodies.
 - Definition of the nomination policy.
 - Investment policy in the controlled entity.
 - Remuneration policy.
 - Conflicts of interest policy.
 - Disclosure requirements: the Board shall submit the report to the foundations protectorate within four months after the end of the financial period. Moreover, it shall be published on the banking foundation website.
 - The annex includes the format of the tables that should be submitted within the annual corporate governance report.
- **Financial information standards:**
 - Financial information may be public (such as information to third parties of the fair image of the assets) or confidential (such as information to the Bank of Spain).
 - The financial information standards shall establish the form, frequency and timeline of the publication of public and confidential statements, as well as the correlations between public and confidential statements.
 - When developing the standards, homogeneous disclosure criteria and generally accepted accounting principles shall be applied.

3. Next steps

- The Order shall enter into force the following day that of its publication in the BOE. Nevertheless, it is still in the **project stage** of the regulatory procedure.

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