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Regulation Outlook

2Q16

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Design and Layout:

Marketing and Communication Department
Management Solutions

Photographs:

Management Solutions' picture library,
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Executive summary

During this quarter, the BCBS published the final version of the standards on the interest rate risk in the banking book (IRRBB). At the European level, the European Commission passed a Delegated Regulation on the minimum requirement for own funds and eligible liabilities (MREL). In Spain, the Bank of Spain approved the Circular 4/2016, which updates the Circular 4/2004, mainly its Annex IX.

Global publications

- The BCBS published final standards on the **interest rate risk in the banking book (IRRBB)**, which contain an updated version that revises the **principles** and the methods expected to be used by banks for measuring, managing, monitoring and controlling IRRBB. The document also includes a **standardised method** that supervisors may require institutions to follow, and that may be adopted voluntarily by institutions.
- The BCBS released a consultative document proposing revisions to the design and calibration of the Basel III **leverage ratio framework**; and a consultative document on guidelines for the **definitions of non-performing exposures (NPE) and forbearance**, which harmonizes the scope, recognition and derecognition criteria, and the level of application of both terms.
- The FSB published the final version of the Guidance on developing **effective resolution strategies and plans** for **systemically important insurers**.

European publications

- The EBA published the **first list of Other Systemically Important Institutions (O-SIIs) in the EU**, which was drawn up by relevant authorities across the EU jurisdictions. This list identifies a total of 173 institutions identified as O-SIIs in the EU and specifies the additional capital buffers that have been set for each O-SII identified.
- The EBA also launched a consultation paper on its draft **Guidelines on the Liquidity Coverage Ratio (LCR) disclosure**, harmonizing and specifying both the qualitative and quantitative information that institutions are required to disclose on liquidity and namely on the LCR.

European publications (continuation)

- The EBA published a Decision that requires competent authorities to transmit **institutions' data for supervisory benchmarking purposes**, leveraging on the usual data collection procedures and formats of regular supervisory reporting.
- Finally, the EBA consulted on **Guidelines on disclosure requirements**, which aim to adapt them to the BCBS revised Pillar 3 framework.
- The European Commission published a **Delegated Regulation** that specifies the criteria that authorities will need to consider when setting the **MREL** or easily 'bail-inable' instruments for the purpose of loss absorption and recapitalisation of banks.
- The ECB published a second **draft Addendum to the ECB Guide on options and discretions** available in Union law.
- With regard to the insurance sector, the EIOPA released technical specifications for the **Insurance Stress Test 2016**.

Local publications

- In Spain, the Bank of Spain approved the **Circular 4/2016** amending the **Circular 4/2004**, mainly its **Annex IX**, to adapt it to the recent banking and accounting regulatory developments.
- In USA, the Fed, the FDIC and the OCC published a proposed rule on the **net stable funding ratio (NSFR)** which sets out the scope, the NSFR calculation, the shortfall remediation measures and the disclosure requirements. The Fed also published the methodology and results for the **Dodd-Frank Act Stress Test 2016** and the results for the **Comprehensive Capital Analysis and Review (CCAR 2016)**.

Regulatory projections

The EBA will publish in July the results of the stress test of the financial sector of the EU, on a bank-by-bank basis and in the form of aggregated analyses. The European Commission will carry out a review of the MREL and intends to make a proposal to introduce the TLAC into EU law by the end of 2016. In Spain, the Circular 4/2016 will enter into force in October 2016.

Regulatory projections

1. Next quarter

- **(Europe) July 2016**: the results of the EBA EU-wide stress test will be published, on a bank-by-bank basis and in the form of aggregated analyses.
- **(Europe) July 2016**: the Markets in Financial Instruments Directive (MiFID II) shall be transposed into national law of each EU Member State.
- **(Europe) July 2016**: the participants' results of the Insurance Stress Test shall be submitted to the respective national competent authorities.
- **(Europe) July 2016**: competent authorities shall submit the data regarding supervisory benchmarking, own funds, own funds requirements and financial information to the EBA, (within 10 business days from 30 June).
- **(Europe) August 2016**: the period granted to the Council and the European Parliament to raise objections with regard to the Delegated Regulation on the MREL finalises.

2. Next year

- **(Europe) October 2016**: the Regulation on the exercise of options and discretions concerning prudential requirements for significant credit institutions will come into force.
- **(Spain) October 2016**: the Circular 4/2016 amending Circular 4/2004, mainly its Annex IX, and Circular 1/2013 will come into force.
- **(Europe) December 2016**: the European Commission will carry out a review of the MREL and will make a proposal to introduce the TLAC into EU law.
- **(Europe) December 2016**: the EIOPA will publish the EU insurance stress test results.
- **(Europe) January 2017**: the EBA guidelines regarding limits on exposures to shadow banking entities will be applicable.
- **(Spain) March 2017**: certain individual confidential statements (FI 100-2, FI 101 and FI 130) will be incorporated into Annex IX.
- **(Europe) April 2017**: the updated list of O-SIIs will be disclosed, along with the definition of any CET1 capital buffer requirements.
- **(Europe) June 2017**: the EBA guidelines on the LCR disclosure will be applicable.

3. More than a year

- **(Global) December 2017**: the Pillar 3 disclosure requirements will be applicable.
- **(Europe) December 2017**: the EBA guidelines on disclosure requirements 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.
- **(Europe) January 2018**: the MiFID II will be applicable.
- **(USA) January 2018**: the NSFR will be applicable in USA.
- **(Global) December 2018**: the IRRBB revised standards will be applicable.
- **(USA) December 2018**: entities may adopt the amendments by the FASB to the accounting standards of credit losses on financial instruments.
- **(Global) January 2019**: G-SIBs not headquartered in an emerging market economy will be required to comply with a minimum TLAC requirement of 16% of risk-weighted assets and 6% of the LR exposure.
- **(Global) January 2019**: the revised market risk framework of the BCBS will come into effect.
- **(Europe) December 2019**: institutions should report information on market risk following the new standards issued by the BCBS.
- **(Europe) December 2020**: according to the EBA, the effective implementation of the changes in all areas of the IRB Approach should be finalised.

Publications of this quarter

Summary of outstanding publications of this quarter.

Topic	Title	Date	Page
	Basel Committee on Banking Supervision		
Leverage ratio	• Consultative document on revisions to the Basel III leverage ratio framework.	07/04/2016	8
Non-performing exposures and forbearance	• Consultative document on guidelines on prudential treatment of problem assets- definitions of non-performing exposures and forbearance.	15/04/2016	9
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O-SIIs	• 2015 List of O-SIIs in the EU notified to the EBA.	26/04/2016	12
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Supervisory benchmarking	• Decision on data for supervisory benchmarking. • List of institutions for supervisory benchmarking as of June 2016.	03/06/2016	14
Disclosure	• Consultation Paper Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013. • Annex I – Overview.	30/06/2016	15
	European Commission		
MREL	• Delegated regulation supplementing Directive 2014/59/EU with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities (MREL).	24/05/2016	16
	European Central Bank		
Options and discretions	• Consultation Paper on a draft Addendum to the ECB Guide on options and discretions available in Union law.	19/05/2016	17
Governance and risk appetite	• SSM supervisory statement on governance and risk appetite.	22/06/2016	18

07/04/2016
Consultative document on revisions to the Basel III leverage ratio framework.

1. Context

In January 2014, the BCBS issued the Basel III leverage ratio framework to restrict the build-up of leverage in the banking sector and to reinforce the risk-based requirements with a simple, non-risk-based backstop measure.

Moreover, in January 2016, the Group of Central Bank Governors and Heads of Supervision (GHOS), the BCBS's oversight body, agreed that the Basel III leverage ratio should be based on a Tier 1 definition of capital and should comprise a minimum level of 3%, and further discussed additional requirements for global systemically important banks (G-SIBs).

In this context, the BCBS has now published a consultative document that proposes revisions to the design and calibration of the Basel III leverage ratio framework provided in 2014. In particular, the proposed changes are related to the measurement of derivatives exposures; the treatment of regular-way purchases and sales of financial assets; the treatment of provisions; the additional requirements for G-SIBs; and other revisions.

2. Main points

- Revisions to the treatment of derivative exposures:
  - To implement a modified version of **Standardised Approach for Counterparty Credit Risk** (**SA-CCR)** where:
    - The **replacement cost (RC) component** is measured by the market value (V) of the individual derivative transaction; the cash variation margin received (CVM_r); and the cash variation margin provided (CVM_p), under specified conditions.
    - The **potential future exposure (PFE) add-on component** will be adjusted by setting the PFE multiplier to 1, thereby not recognising any collateral posted by the counterparty.
  - To allow client servicing banks within multi-level client structures to **exempt** from their Basel III leverage ratio exposure measure, **the trade exposures to their clearing members (CMs)** provided that the banks do not guarantee the performance of either their CMs or the qualifying central counterparties (QCCPs).
  - To retain the term **currency of settlement** to specify the eligibility of the currency in which CVM payments are made. However, the BCBS will continue to review the impact of this interpretation specified in the FAQ issued in October 2014.
  - To introduce an **additional criterion** to prevent the offsetting eligibility of any protection that does not provide effective protection against the risks arising from a written credit derivative.
- Treatment of regular-way purchases and sales of financial assets. The BCBS is considering two options for the treatment for measuring these regular-way purchases and sales:
  - **Option A**: banks using settlement date accounting must treat unsettled financial asset purchases as off-balance sheet (OBS) items subject to a 100% credit conversion factor (CCF). Banks using trade date accounting must include the gross cash receivables owed that are attributable to sales of financial assets that are pending settlement.
  - **Option B**: in addition to the criteria included in option A, banks using trade date accounting may, subject to certain conditions, offset cash receivables and cash payables, with an equivalent effect to be permitted for banks using settlement date accounting.
- Revisions to the treatment of provisions
  - To allow both **general and specific provisions** that have decreased Tier 1 capital to reduce the Basel III leverage ratio exposure measure.
  - To reduce the **OBS items** by the amount of any associated specific and general provisions provided that they have decreased Tier 1 capital (after the application of the relevant CCF).
  - To deduct **prudent valuation adjustments (PVAs)** for less liquid positions related to on-balance sheet assets and deducted from Tier 1 capital also from the Basel III leverage ratio exposure measure.
- Additional requirements for G-SIBs. The BCBS proposes to introduce an additional leverage ratio requirement for G-SIBs that could be based on the same Tier 1 definition of capital by which the Basel III leverage ratio minimum is measured. In this regard, some conditions (e.g. whether there should be a limit on Additional Tier 1 capital or not) need to be specified.
- Other proposed revisions. The BCBS has also proposed revisions to the following aspects: the **credit conversion factors for off-balance sheet items** (e.g. to include the CCFs of the revised standardised approach for credit risk); the incorporation of responses to FAQs; the treatment of cash pooling transactions; the treatment of traditional securitisations; the treatment of securities financing transactions (SFTs); and the disclosure requirements (they are subject to the consultation document on Pillar 3 disclosure requirements).

3. Next steps

- Comments shall be submitted by **6 July 2016**.
- The final design and calibration of the proposals will be informed by a comprehensive quantitative impact study (QIS), additional to the BIS III monitoring report.

15/04/2016

Consultative document on guidelines on prudential treatment of problem assets – definitions of non-performing exposures and forbearance.

1. Context

At present, banks categorise problem loans in a variety of ways and there are no consistent international standards for categorising problem loans. In response to this issue, the BCBS analysed jurisdictions' and banks' practices regarding asset categorisation schemes.

Against the results of this analysis that revealed varying practices and layers of definitions across jurisdictions and banks (e.g. definition of default), the BCBS has published a consultative document on guidelines for the **definitions of non-performing exposures (NPE)** and **forbearance** to harmonise the scope, recognition and derecognition criteria, and the level of application of both terms.

2. Main points

- Definition of non-performing exposures (NPE): (i) all exposures "defaulted" under the Basel framework; or (ii) all exposures impaired (in the meaning of exposures having experienced a downward adjustment to their valuation due to deterioration of their creditworthiness) in accordance with the applicable accounting framework; or (iii) all other exposures that are not defaulted or impaired but nevertheless are: (a) material exposures that are more than 90 days past due; or (b) where there is evidence that full repayment of principal and interest without realization of collateral is unlikely, regardless of the number of days past due. Furthermore, the BCBS harmonises the following features:
  - **Scope**: all credit exposures from the regulatory banking book (i.e. on balance sheet loans, debt securities and other amounts due).
  - **Harmonised recognisition criteria**: uniform 90 days past due criterion is applied to all types of exposures within the scope, including those secured by real estate and public sector exposures. This criterion is supplemented by a set of criteria for identifying counterparties in financial difficulties (e.g. patters of payment behaviours in past circumstances or financial analysis).
  - **Collateralisation**: it plays no role in the categorisation of non-performing exposures.
  - **Level of application**:
    - If a bank has more than one exposure to a non-retail counterparty, the bank must consider all exposures to that counterparty as non-performing when any one of the exposures is non-performing.
    - In the case of exposures to a retail counterparty, the non-performing status can be applied at the level of each exposure.
    - In the case of exposures to a group of connected counterparties, non-performing status can be applied at the level of each counterparty.
  - **Upgrading to performing**: specific criteria need to be met to upgrade a non-performing exposure to performing status, especially regarding the amounts in arrears status and the degree of solvency of the counterparty.
  - **Incidence of forbearance**: forbearance measures to a counterparty or in an exposure will not alter the non-performing status of the counterparty or the exposure.
- Definition of forbearance: a concession granted by a bank to a counterparty experiencing financial difficulty in meeting its financial commitments that it would not otherwise consider, irrespective of whether the concession is at the discretion of the bank and/or the counterparty. A concession is at the discretion of the counterparty when the initial contract allows the counterparty to change the terms of the contract in their favour (embedded forbearance clauses) due to financial difficulty. Furthermore, the BCBS harmonises the following features:
  - **Scope**: all credit exposures from the regulatory banking book (same as for non-performing exposures).
  - **Level of application**: applied on a transaction basis (i.e. at exposure level)
  - **Examples of financial difficulties' indicators and concessions**: the situation where a counterparty is currently past due on any of its material exposures for the former and the situation of extending the loan term or rescheduling the dates of payment of principal or interest for the latter.
  - **Categorisation of forborne exposures**: an exposure that was categorised as non-performing at the time of granting forbearance should remain non-performing until a continuous repayment period specified by the supervisor passes after the application of the forbearance measures and it meets the other criteria for exit from the non-performing category.
  - **Incidence of forbearance on the non-performing status of an exposure**: banks should not use forbearance practices to avoid classifying loans as non-performing.
- The final version of these proposed definitions will be used in the following contexts: supervisory asset quality monitoring, management internal credit categorisation systems for credit risk management purposes, Pillar 3 disclosure on asset quality, dissemination of data for asset quality indicators, and to act as a reference point for BCBS' relevant working groups.

3. Next steps

- Comments shall be submitted by **15 July 2016**.

22/04/2016
Standards on interest rate risk in the banking book (IRRBB).

1. Context

In July 2004, the BCBS issued Principles for the management and supervision of interest rate risk, which set out supervisory expectations for banks' identification, measurement, monitoring and control of interest rate risk in the banking book (IRRBB) as well as its supervision. These Principles were the subject of consultation in 2015, when the BCBS presented two options for the treatment of IRRBB: a standardised Pillar 1 approach and an enhanced Pillar 2 approach.

Due to the industry's feedback on the feasibility of a Pillar 1 approach to IRRBB, the BCBS has concluded that the heterogeneous nature of IRRBB would be more appropriately captured in Pillar 2. Despite this conclusion, the BCBS allows supervisors to mandate their banks to follow, or a bank could choose to adopt the standardised approach.

In this context, the BCBS has published a document which contains an updated version that revises both the **Principles** and the **methods expected to be used by banks** for measuring, managing, monitoring and controlling IRRBB. This 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

- **Key changes to the Pillar 2 principles**.
  - IRRBB management: greater guidance has been provided on the development of shock and stress scenarios to be applied to the measurement of IRRBB; on the key behavioural and modelling assumptions which banks should consider in their measurement of IRRBB; and on the internal validation process which banks should apply for their internal measurement systems (IMS) and models used for IRRBB.
  - Disclosure requirements: the requirements have been updated to promote greater consistency, transparency and comparability in the measurement and management of IRRBB. Banks must disclose, among other requirements, the impact of interest rate shocks on their change in economic value of equity (EVE) and net interest income (NII), computed based on a set of prescribed interest rate shock scenarios.
  - Supervisory review process: the process has been updated to elaborate on the factors which supervisors should consider when assessing the banks' level and management of IRRBB exposures.
  - Outliers banks: supervisors must publish their criteria for identifying outlier banks. The threshold for the identification of an "outlier bank" has also been tightened, where the outlier/materiality test(s) applied by supervisors should at least include one which compares the bank's change in EVE with 15% of its Tier 1 capital, under a set of prescribed interest rate shock scenarios. Supervisors may implement additional outlier/materiality tests with their own specific measures. There is a strong presumption for supervisory and/or regulatory capital consequences, when a review of a bank's IRRBB exposure reveals inadequate management or excessive risk relative to a bank's capital, earnings or general risk profile.
- **Pillar 1 standardised approach**. Supervisors could mandate the banks under their respective jurisdictions to follow the standardised framework for IRRBB (e.g. if they find that the bank's IMS does not adequately capture IRRBB). The steps involved in measuring a bank's IRRBB, based solely on EVE, are:
  - Allocation of interest rate-sensitive banking book positions to one of these three categories (i.e. amenable, less amenable and not amenable to standardisation).
  - Determination of slotting of cash flows based on repricing maturities. This is a straightforward translation for positions amenable to standardisation; positions less amenable to standardisation are excluded from this step; and not amenable positions have a separate treatment for non-maturity deposits (NMDs) and for behavioural options.
  - Determination of the change in EVE for relevant interest rate shock scenarios for each currency.
  - Add-ons for changes in the value of automatic interest rate options are added to the EVE changes.
  - IRRB EVE calculation. The change in EVE will be the maximum of the worst aggregated reductions to EVE across the six supervisory prescribed interest rate shocks.

3. Next steps

- These revised standards are expected to be implemented by **2018**.

06/06/2016
Guidance on Developing Effective Resolution Strategies and Plans for Systematically Important Insurers.

1. Context

In November 2011, the FSB released The Key Attributes of Effective Resolution Regimes for Financial Institutions which are the international standards for resolution regimes for financial institutions, and in November 2015, the FSB published a consultation document on its draft guidance on resolution planning for systemically important insurers.

In this context, the FSB has now published the final version of **Guidance on Developing Effective Resolution Strategies and Plans for systemically important insurers**, which sets out the objective of the resolution strategies and the considerations for determining a preferred resolution strategy based on a strategic analysis of insurers' business models, the criticality of insurers' functions and policy holder protection arrangements. It also identifies other elements regarding the effective implementation of the resolution strategy.

2. Main points

- **Objectives of the resolution strategies**. The resolution authorities should develop resolution strategies with the aim of resolving insurers through mechanisms that make it possible for shareholders and unsecured creditors to absorb losses, while protecting vital economic functions.
- **Determination of a preferred strategy**. Crisis Management Groups (CMGs) authorities should develop a preferred resolution strategy that is best capable of achieving the institution-specific resolution objectives given the structure and the business model of the insurer, the resolution regimes and the resolution tools available. The preferred resolution strategy should:
  - Identifying the points of entry (i.e. an entity within an insurance group to which resolution authorities would apply resolution tools under their preferred resolution strategy) into resolution.
  - Identifying preferred resolution tools for points of entry, such as: a sale or transfer of the shares in the insurer to a third party or a bridge institution; run-off on a solvent basis (i.e. a limited degree of recapitalization may be necessary); and stay and suspension powers, among others.
  - Determining the choice and the combination of the preferred resolution tools which may also be affected by the existence of Policyholder Protection Schemes (PPS).
- **Strategic analysis underlying the development of the resolution strategy**. This analysis should include:
  - The identification of business segments.
  - The analysis of critical functions.
  - The operational continuity of the insurer.
  - The cross-border cooperation.
  - The extent of coverage and role of PPS.
  - The nature and location of loss-absorbing resources in resolution.
  - The analysis of funding and liquidity sources that will no longer be available to insurance entities in resolution.
- **Implementing the resolution strategy**. The resolution authorities should consider the following aspects to ensure that the resolution strategy can be implemented: the details of the resolution plans (e.g. coordination of roles, communication plans, etc.); the failure scenarios; the resolution triggers; the cooperation agreements of the resolution strategy and plan; the information systems and the data requirements; as well as the measures to exit from the resolution process.

26/04/2016
2015 List of O-SIIs in the EU notified to the EBA.

1. Context

In December 2014, the EBA published Guidelines on the criteria of identifying the Other Systemically Important Institutions (O-SIIs) in the EU, on the basis of the criteria for Domestic Systemically Important Banks (D-SIBs) established by the BCBS.

The O-SIIs are those institutions which are deemed systemically relevant in addition to Global Systemically Important Institutions (G-SIIs), already identified.

In this regard, the EBA has issued the **first list of O-SIIs in the EU**. This list has been drawn up by relevant authorities across the EU jurisdictions on the basis of the criteria provided by the EBA Guidelines, which define the size, importance (substitutability or financial system infrastructure), complexity (or cross-border activities) and interconnectedness of such institutions.

2. Main points

- Relevant authorities have identified a total of **173 institutions as O-SIIs** in the EU (e.g. Santander; BBVA; CaixaBank; Bankia; Popular; and Sabadell in Spain), based on 2015 data. However, in certain cases the institutions' identification is not the final version (e.g. Bulgaria and Poland have not yet submitted their notifications to the EBA; the identification as O-SIIs of certain German institutions is still pending administrative procedures, etc.).
- This list also includes the **additional capital buffers** that the relevant authorities have set for each O-SII identified. The buffers applied to the O-SIIs range between 0% and 2%.

3. Next steps

- Updated lists of O-SIIs will be disclosed on an **annual basis**, along with the definition of any CET1 capital buffer requirements which may need to be set.
- Any higher capital requirements will become applicable at least **one year** after the publication of the list of O-SIIs.

12/05/2016
Consultation Paper on draft Guidelines on the Liquidity Coverage Ratio (LCR) disclosure.

1. Context

In January 2015 the European Commission published the LCR Delegated Act to specify the liquidity coverage ratio (LCR) in credit institutions which is applicable from 1 October 2015. This ratio targets to ensure that credit institutions maintain an adequate level of liquidity buffer to cover the net liquidity outflows under gravely stressed conditions over a period of thirty days.

In this context, the EBA has launched a consultation paper on its draft **Guidelines on the LCR disclosure** which harmonise and specify both the qualitative and quantitative information that institutions are required to disclose on liquidity and namely on the LCR. In particular these Guidelines include a **qualitative** and **quantitative harmonised table** for the disclosure of **general information on liquidity risk management** as well as **qualitative** and **quantitative templates** and relative **instructions** for the disclosure of information **on the LCR composition**.

These draft Guidelines build on the LCR disclosure standards published by the BCBS in March 2014.

2. Main points

- **Scope and level of application**: credit institutions subject to disclosure requirements in the CRR and at the same level as envisaged in the LCR delegated act.
- **Table on liquidity risk management**: it includes qualitative/quantitative information of liquidity risk. In particular, it covers:
  - Strategies and processes in the management of the liquidity risk.
  - Structure and organisation of the liquidity risk management function (authority, statute, other arrangements).
  - Scope and nature of liquidity risk reporting and measurement systems.
  - Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring these policies.
  - A declaration approved by the management body on the adequacy of liquidity risk management systems.
  - A concise liquidity risk statement approved by the management body describing the institution's overall liquidity risk profile associated with the business strategy.
- **LCR disclosure template on quantitative/qualitative information and instructions for the disclosure of LCR composition**.
  - The LCR disclosure template on quantitative information requires credit institutions to provide data on high-quality liquid assets (HQLA), cash-outflows, cash-inflows, liquid buffer, total net cash outflows and LCR, among others.

3. Next steps

- Comments shall be submitted by **11 August 2016**.
- The application of these Guidelines is expected to take place not earlier than **30 June 2017**.

03/06/2016

- **Decision on data for supervisory benchmarking.**
- **List of institutions for supervisory benchmarking as of June 2016.**

1. Context

In accordance with the CRD IV, competent authorities (CA) shall, at least annually, assess the range of risk weighted exposure amounts or own funds requirements, except for operational risk, for exposures or transactions in the benchmark portfolios resulting for the internal approaches of institutions.

In April 2014, the European Commission published an Implementing Regulation on supervisory reporting of institutions and in March 2015, the EBA published ITS with regard to templates, definitions and IT solutions for benchmarking reporting.

In this context and due to the delay in the submission of the data, the EBA has now published a **Decision on data for supervisory benchmarking** that requires CAs to transmit institutions' data for supervisory benchmarking purposes, leveraging on the usual data collection procedures and formats of regular supervisory reporting. A **list of reporting institutions** has also been made available along with the Decision.

2. Main points

- **Scope**:
    - CAs shall submit the data for those institutions permitted to use internal approaches for the calculation of RW exposure amounts or own fund requirements except for operational risk.
    - A total of 131 reporting institutions are included in the list provided.
        - In Spain, seven banks are included: Santander, BFA Tenedora de Acciones, Criteria Caixa Holding and BBVA shall submit data on credit and market risk whereas Popular, Sabadell and Bankinter shall only submit data on credit risk.
- **Data to be reported**:
    - Supervisory benchmarking data.
    - Own funds, own funds requirements and financial information where such data are not already submitted to the EBA. This data shall be submitted with annual frequency and reference date of 31 December of each calendar year.
    - For institutions belonging to banking groups, this data shall be submitted to the EBA only at the highest level of their consolidation in the EU. For stand-alone institutions, on an individual basis.
- **Date of submission**:
    - CAs shall submit to the EBA the data within 10 business days from the reporting remittance dates referred to in either the Benchmarking Implementing Regulation or the Reporting Regulation.
    - The EBA shall issue annually a calendar including submission dates for the CA.

3. Next steps

- This Decision enters into force **immediately**.
- Institutions should submit data to their CA by **30 June 2016**.
- CAs shall submit all 2015 data within **10 business days from 30 June 2016**.

30/06/2016

- **Consultation paper on Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013.**
- **Annex I.**

1. Context

In January 2015, the BCBS released a **revised Pillar 3 framework** (RPF). This revised framework supersedes the Basel II version of the Pillar 3 requirements.

The incorporation of the RPF into the EU law would require an update of the disclosure requirements laid down in the CRR, which would only take place as part of a comprehensive review process of the regulation. In the meantime, EU banks will face market pressure to provide disclosures in line with the BCBS RPF when it becomes applicable (i.e. December 2016).

In this context, the EBA has published a **Consultation Paper on Guidelines (GL) on disclosure requirements**. The aim of these GL is to provide institutions with the necessary guidance to comply with the CRR requirements while implementing the RPF. The GL do not waive the obligation for institutions to comply with the existing CRR disclosure requirements, which still apply in their entirety even if they are not specified in the GL.

2. Main points

- **Scope**. These GL apply to Global or Other Systemically Important Institution (G-SIIs or O-SIIs). Moreover, competent authorities may require institutions that are neither G-SII nor O-SII to apply these GL.
- **Formats and disclosures**. The GL contain Tables for qualitative and quantitative information; and Templates for quantitative information. Templates come with a flexible or a fixed format (e.g. information on capital requirements and RWA), while Tables come with a flexible format.
- **Coverage**. The GL contain the following disclosure requirements (in certain cases some adjustments have been made to the RPF tables and templates):
    - General requirements on disclosures: the GL implement the RPF principles (related to clarity, consistency over time, comparability, etc.), as well as the guidance on the disclosure of confidential and proprietary information, the location of disclosure, etc.
    - Capital requirements: information on capital requirements and RWA for all the risks (template OV1) and for equity exposures (template CR10).
    - Risk management: disclosures on risk management (table OVA), credit risk (table CRA), counterparty credit risk (table CCRA) and market risk (table MRA).
    - Scope of application: disclosures on the difference in the scope of consolidation (template LI1), measurement of exposure (template LI2), and additional information (table LIA).
    - Credit risk and credit risk mitigation: general information (tables CRB and CRC, and templates CR1, CR2 and CR3), disclosures on the standardized approach (table CRD and templates CR4 and CR5), and disclosures on the IRB approach (table CRE and templates CR6, CR7, CR8 and CR9).
    - Counterparty credit risk: among others, disclosures on breakdown of counterparty credit risk by exposure computation method (template CCR1), breakdown of the CVA charge (template CCR2), etc.
    - Market risk: qualitative disclosures (table MRB) and quantitative disclosures (templates MR1, MR2, MR3 and MR4).
- **Timing and frequency of disclosures**. The GL specify the frequency for the disclosure requirements:
    - Tables and textual guidance are to be disclosed annually.
    - Templates are to be disclosed semi-annually, except in the following cases:
        - Templates on linkages between the accounting and regulatory scopes of consolidation and the accounting and regulatory exposure values, as well as on the backtesting of PD under the IRB approach, are to be disclosed annually.
        - A limited set of templates with a fixed format and focused on RWA variations and capital requirements are to be disclosed quarterly.

3. Next steps

- Comments to this consultation paper shall be submitted by **29 September 2016**.
- These Guidelines will apply for the **year-end 2017 disclosures**. However, G-SIIs are recommended to implement a limited subset of disclosures relating to RWA and capital requirements as soon as year-end 2016 so as to provide users with information suitable for comparison with international peers.

24/05/2016

Delegated Regulation supplementing Directive 2014/59/EU with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities (MREL).

1. Context

The Bank Recovery and Resolution Directive (BRRD) requires that relevant resolution authorities draft resolution plans for banks, which should include a minimum requirement for own funds and eligible liabilities (MREL) and a deadline by which to achieve it. The purpose of the MREL is to ensure that banks hold sufficient amounts of regulatory capital instruments and high-quality bail-inable liabilities that could be readily used to absorb losses and to recapitalise the bank once it emerges from a resolution.

In this context, the European Commission (EC) has published a **Delegated Regulation which specifies the criteria** that authorities responsible for resolving banks will need to consider when setting the MREL or easily 'bail-inable' instruments for the purpose of loss absorption and recapitalisation of banks. Additionally, it covers other aspects such as the liabilities excluded from bail-in or the transitional period to reach the final MREL among others.

2. Main points

- **Loss absorption amount**:
  - The default loss absorption amount shall be the sum of the own funds requirements set out in the CRR, any requirement to hold additional own funds in excess of these requirements as set out in the CRD IV, and the combined buffer requirements as defined in the CRD IV; or any higher amount necessary to comply with the Basel I floor according to the CRR or any applicable leverage ratio requirement.
  - The resolution authorities shall determine the loss absorption amount and, for that purpose, it shall request from the competent authority a summary of the capital requirements currently applicable to an institution or group. The loss absorption amount shall be:
    - Equal to the default loss absorption amount, or
    - Either (i) higher than the default loss absorption amount (e.g. when the need to absorb losses in resolution is not fully reflected in the default loss absorption amount); (ii) lower than the default loss absorption amount (e.g. when additional own funds requirements are assessed not to be relevant to the need to ensure losses can be absorbed in resolution).
- **Recapitalisation amount**:
  - It shall be determined by resolution authorities and shall be at least equal to the amount necessary to satisfy applicable capital requirements necessary to comply with the condition for authorisation after the implementation of the preferred resolution strategy. These capital requirements shall include: own funds requirements set out in the CRR; any requirement to hold additional own funds in excess of these requirements as set out in the CRD IV; the Basel I floor according to the CRR; any applicable leverage ratio requirement; and any additional amount that the resolution authority considers necessary to maintain sufficient market confidence after resolution.
  - This additional amount shall be equal to the combined buffer requirement which would apply to the institution after the application of resolution tools.
  - The recapitalisation amount shall be zero if the liquidation of the institution under normal insolvency proceedings is feasible and credible.
- **Combined assessment of the MREL**: resolution authorities shall ensure that the MREL is sufficient to allow the write down or conversion of an amount of own funds and qualifying eligible liabilities at least equal to the sum of loss absorption and the recapitalisation amounts; and shall express the calculated the MREL as a percentage of total liabilities and own funds of the institution, with derivative liabilities included in the total liabilities on the basis that full recognition is given to counterparty netting rights.
- **Liabilities excluded from bail-in**: the resolution authority shall identify any liabilities which are excluded from bail-in or are reasonably likely to be fully or partially excluded from bail-in.

3. Next steps

- This Regulation shall enter into force on the **twentieth day** following that of its publication in the Official Journal of the European Union (OJEU).
- The draft regulation is now passed on to the Council and the European Parliament for their consideration who are entitled to an objection period of **3 months**.
- According to the BRRD, the Commission shall carry out an MREL review by the end of **2016** which will take into consideration the total loss-absorbing capacity (TLAC) requirement.
- The Commission intends to make a proposal to introduce the TLAC into EU law in **2016**.

EUROPEAN CENTRAL BANK
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19/05/2016
CP on a draft Addendum to the ECB Guide on options and discretions available in Union law.

1. Context

The CRD IV/CRR and other delegated acts include options and discretions that competent authorities have to define. The ECB, as competent authority, has to decide on whether and how to exercise the options and discretions for significant institutions in the context of the SSM.

In March 2016, the ECB published a Guide and a Regulation (EU) 2016/445 on the exercise of options and discretions available in Union law concerning prudential requirements for credit institutions.

In this context, the ECB has published a **draft Addendum to the ECB Guide on options and discretions** available in Union law. In particular, this document addresses eight options and discretions regarding two sections and four chapters of the Guide, and completes not only the existing Guide but also the Regulation.

2. Main points

Section II of the ECB Guide. The ECB's policy and criteria for the exercise of options and discretions in the CRR and CRD IV.

- **Chapter 1. Consolidated supervision and waivers of prudential requirements**.
    - Capital waivers: two requirements are introduced relative to capital waivers of subsidiary and parent institutions.
    - Exclusion of intragroup exposures from the calculation of the leverage ratio: to grant this exception the ECB will assess applications from supervised entities taking into account certain specific aspects (e.g. the potential impact of a change in economic market conditions; the materiality of the intragroup exposures, etc.).
    - Valuation of assets and off-balance sheet items – use of IFRS for prudential purposes: the ECB has determined not to exercise the option that allows competent authorities to require credit institutions to effect, for prudential purposes, the valuation of assets and off-balance sheet items and the determination of own funds in accordance with the International Accounting Standards also in cases where the national applicable accounting framework requires the use of n-GAAP.
- **Chapter 3. Capital requirements**.
    - Calculation of risk-weighted exposure amounts – intragroup exposures: the ECB is of the view that a request not to apply the requirements on calculation of RW exposures may be approved, following a case-by-case assessment for credit institutions that submit a specific application.
- **Chapter 4. Liquidity**.
    - Additional collateral outflows from downgrade triggers: the ECB will assess the materiality of additional outflows and collateral needs (i.e. at least 1% of total outflows of a given institution) notified by credit institutions for all contracts under which the contractual conditions will lead to outflows within 30 calendar days of a downgrade by 3 notches in its external credit assessment.
    - Cap on inflows: the ECB considers that the cap of 75% of total liquidity outflows from the Delegated Regulation on the liquidity coverage requirement can be fully or partially waived following a specific assessment of the applications submitted by the supervised entities.
- **Chapter 9. Governance arrangements and prudential supervision**.
    - Combining the functions of chairman and CEO: the authorisation to combine the two functions should be granted only in exceptional cases and only where corrective measures are in place to ensure that both functions are not compromised by their being combined.
    - Internal capital adequacy assessment process (ICAAP) for credit institutions permanently affiliated to a central body: the ECB is inclined to grant credit institutions (affiliates and central body) the exemption of been complying with the ICAAP requirements on a solo basis.

Section III of the ECB Guide. The ECB's general policy regarding the exercise of certain options and discretions in the CRR and CRD IV where further action or assessment is required.

- **Chapter 7. Authorisation requirements**.
    - Initial capital requirement on going concern: the ECB intends to exercise this option and to determine the policy on the exercise of that option, including the potential development of more detailed specifications, following an assessment of specific future cases.

3. Next steps

- Comments to this draft Addendum shall be submitted by **21 June 2016**.
- The Regulation (EU) 2016/445 will enter into force on **1 October 2016**.

EUROPEAN CENTRAL BANK
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22/06/2016
SSM supervisory statement on governance and risk appetite.

1. Context

Internal governance is a key element within the Supervisory Review and Evaluation Process (SREP) as it has a significant impact on an institution's overall risk profile and business model sustainability. In 2015, the ECB conducted a depth assessment of the institutions' management bodies and their risk appetite framework (RAF) across all significant institutions (SIs) in the euro area through a thematic review.

In this context, the ECB has published a **report on governance and risk appetite** which summarises the findings of the thematic review. In particular, this report identifies good practices and concludes that many euro area banks still need to improve to reach best international practices. However, it does not aim to give exhaustive guidance on effective governance and RAFs.

2. Main points

- **Board composition**. The main focus areas identified as having a potential impact on the functioning of the board are:
    - Size and structure: the ECB assessed (i) the impact of the size of the board on the effectiveness of discussions and (ii) the definition of the scope, structure and composition of a board's committees. The analysis revealed that, in general, institutions with large boards can conduct interactive discussions.
    - Independence: "formal" and "in mind" independence was assessed. The former refers to the number of independent members within the board and the latter to potential conflicts of interest. The analysis revealed that the level of independence of the board as a whole could be further strengthened in several institutions.
    - Collective knowledge and diversity: some areas of expertise could be further strengthened (IT and accounting) and, within larger and international institutions, national diversity of the board is insufficient in a few cases.
    - Succession planning: some institutions have been identified where succession planning was not defined or left room for improvement.
- **Functioning and effectiveness of boards**. The possible root causes of the identified weaknesses vary from one institution to another, but often relate to the following:
    - Organization of boards: time of debate is limited; documentation is not sent sufficiently far in advance to board members; board members are not sufficiently proactive in defining agendas; and information asymmetries among board members.
    - Interactions among board members: excessive concentration of power, domination of the debate by an individual or a group of members, and information asymmetries among board members.
    - Quality of documentation: lack of conciseness and clarity of the documentation; the impact of data aggregation issues on the quality of the risk reports; and insufficient detail in the minutes of board committee meetings.
    - Oversight of the internal control framework: oversight of control functions (risk, compliance, and internal audit) should be further strengthened.
- **The design of RAFs**. Heterogeneity in the maturity of the RAFs of SIs has been identified. At the time of the thematic review, around 30% of the RAFs of the SIs had been developed within the last 18 months and 12% were still under development. Some aspects of the RAFs have been further assessed:
    - Scope: some material risk areas were missing, such as non-financial risks or profitability and business risk; and the risk appetite metrics were not always adjusted properly to the institution's business model and risk profile.
    - Limits: they are not set at an appropriate level to manage risk-taking effectively; they do not include enough material concentration areas; the escalation process in the event of a limit breach is not defined or displays weaknesses; and data aggregation issues hamper an effective reporting of limit breaches.
- **Implementation of RAFs**. The main weaknesses identified relate to: the integration of the RAFs into the other structural processes of the institution (strategy, budget process, capital and liquidity planning, recovery plan and remuneration framework); the involvement of the board and the internal audit; and the establishment of the RAF at the level of entities and business lines.

3. Next steps

- The yearly SREP will assess the implementation of all the measures and action plans that institutions have communicated in order to remedy all the relevant findings of this report.

26/05/2016

- **Insurance Stress Test 2016 – Technical specifications.**
- **Stress Test 2016 Reporting and Template.**
- **Stress Test 2016 technical information.**

1. Context

One objective of the EIOPA is to develop criteria for the identification and measurement of systemic risk and an adequate stress testing regime which includes an evaluation of the potential for systemic risk that may be posed by financial institutions to increase in situations of stress.

In pursuit of this mandate and based on the experience of the 2014 stress test exercise, the EIOPA has published technical specifications for the **Insurance Stress Test 2016**, which is designed to assess the resilience of the European insurance sector to severe adverse market developments. In particular, this document covers the scope, scenarios, valuation basis and technical specifications, templates and results of the insurance stress test.

The EIOPA 2016 stress test exercise will be based on the Solvency II framework standards and reporting. It is not a substitute to any specific stress test carried out under Solvency II (e.g. ORSA).

2. Main points

- **Scope**.
  - The selection of undertakings lies with the National Competent Authorities (NCAs). The sample shall include a minimum of 75% of the national market share in terms of gross life technical provisions (excluding health and index-linked and unit-linked) by year-end 2015. Nevertheless, a reduction of the market share coverage from 75% to 50% will be allowed in certain cases.
  - The sample shall include solo life and mixed insurers offering any type of interest guaranteed products.
  - Selected undertakings shall be representative of each national market, although each national sample shall include and adequate number of median and small sized undertakings and mutuals.
- **Scenarios**. The Stress Test 2016 includes two market dedicated stress scenarios:
  - Low for Long scenario (LY). It has been developed internally by the EIOPA and it assesses the impact of a long-lasting low yield scenario with low rates for all maturities. In this regard, the EIOPA has designed a specific curve based on the interest rate term structures observed for the Euro Area in the past 2 years.
  - Double-hit (DH). It has been developed in cooperation with the European Systemic Risk Board (ESRB) and encompasses a set of market shocks triggered by two simultaneous events: a shock in government bond prices and a drop in the risk free rate curve. The DH scenario includes several variables such as interest rate stresses for maturities of 1, 2, 5, 10, 20 and 30 years; equity stresses for the stock market; corporate bond stresses; government bond stresses; etc.
- **Valuation Basis and Technical Specifications**.
  - The valuation of the pre-stress test balance sheet will be based on Solvency II and so the pre- and post-stress figures (e.g. balance sheet and cash flows) will be based on the related technical specifications.
  - The reference date for the exercise will be 1 January 2016.
  - Some technical specifications are provided with regard to the liability cash-flow run-off projections, stresses on equity, assessment of the effect of derivatives, etc.
- **Templates**. Participants shall fill in the reporting templates in the provided spreadsheet, which are grouped in three main sections: i) baseline scenario, ii) DH scenario, and iii) LY scenario.
- **Results**: EIOPA will not disclose direct links between names and solvency ratios, but rather will disclose in an anonymized or aggregated way the sensitivity of undertakings to the applied stresses.

3. Next steps

- The participants' results will need to be submitted to the respective NCA no later than the **15 of July 2016**.
- The submission from participants will be validated at national level by **end of August 2016**, followed by a centralized validation process by EIOPA until the **end of September 2016**.
- The communication of EU stress test results is envisaged by **end year 2016**.

06/05/2016

Circular 4/2016, de 27 de abril, del Banco de España, por la que se modifican la Circular 4/2004, de 22 de diciembre, a entidades de crédito, sobre normas de información financiera pública y reservada y modelos de estados financieros, y la Circular 1/2013, de 24 de mayo, sobre la Central de Información de Riesgos.

1. Context

The Circular 4/2004 sets out the accounting regime for Spanish credit institutions. Moreover, its Annex IX develops the general credit risk management framework with regard to those aspects related to accounting.

In this regard, the Bank of Spain (BdE) has approved the Circular 4/2016 which aims to update the Circular 4/2004, mainly its Annex IX and the associated regulatory reporting, adapting it to the recent banking and accounting regulatory developments. Amendments to the Circular 4/2004 are not temporary, but instead they will remain in force when the IFRS9 is adopted in the EU, without prejudice to further amendments of Annex IX to adapt allowance standards to the expected loss model that will be introduced by IFRS9.

Moreover, the Circular modifies Circular 1/2013, on the risk information center (CIR), to adapt its information requirements to the amendments in Annex IX.

2. Main points

<u>Amendments to the Circular 4/2004</u>

- **Update and replacement of the content of Annex IX by the content of Annex 1**:
  - <u>Introduction</u>. The general credit risk management framework, the criteria for the classification of transactions based on the risk associated, and the criteria for the valuation of forborne real estate assets will be applied to all activities of the institution (debt instruments and off-balance-sheet exposures that bear credit risk), regardless of whether they are classified as activities in Spain or as foreign exposures; whereas the alternative solutions for the estimation of allowances and the references for the valuation of foreclosed real estate assets will be applied to activities in Spain. Similar methodologies shall be applied to foreign dependent institutions, but taking into account local particularities.
  - <u>General credit risk management framework</u>. It is divided into four sections:
    - **Approval of transactions**. The Circular specifies the content of the approval policies, highlighting that the pricing policy should aim to cover at least the cost of funding, the cost of structure and the cost of the credit risk associated with each transaction type.
    - **Forbearance**. Concepts applying to forborne exposures are adapted to FINREP, and the treatment for their classification is simplified.
    - **Credit risk assessment, monitoring and control**. It includes the general principles for the estimation of allowances (governance, integration into management, effectiveness, simplicity, documentation and traceability), highlighting the effectiveness principle, by which institutions will be required to perform regular backtesting, benchmarking using the alternative solutions provided by Annex IX and sensitivity analysis; requirements for the development of internal methodologies for individual estimation of specific allowances and internal methodologies for collective estimation of specific and generic allowances; requirements regarding individual and collective estimations; internal validation of the compliance with these principles and requirements (before using methodologies for the first time and regularly since their application); and criteria to identify transactions for which allowances will be estimated individually and transactions for which allowances will be estimated collectively.
    - **Collateral and valuation**: the types of effective collateral are defined, and there is a tightening of valuation requirements regarding collateral.
  - <u>Classification of transactions based on the credit default risk</u>.
    - Transactions may be classified into **three risk categories**: normal, doubtful and default.
    - The **substandard** category is removed and a new subcategory of risks under **special surveillance** is included within the normal risk category (exposures for which there are solvency weaknesses but no doubts regarding the full repayment, such as forborne exposures identified within FINREP as in the probation period).
    - The **distinction between normal and doubtful risks**, including the drag effect of 20%, is aligned with FINREP.
    - The classification of a transaction as **write off** takes into account, in addition to the time lapse since its classification as doubtful, the time lapse since the part not covered by collateral is fully covered with allowances.

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- Allowances for credit losses.
    - **Criteria for the estimation of allowances** are provided. In particular, effective collateral should be considered when calculating the level of allowances.
    - **Alternative solutions** are provided by the BdE for the estimation of allowances, for those institutions which have not developed internal methodologies. These alternative solutions consist of risk weights, based on the level of risk, applied to the amount of transactions not covered by effective collateral (for debt instruments the gross amount shall be used, whereas for off-balance-sheet exposures the nominal value using CCFs within the CRR shall be employed).
- Country-risk. No amendments are made compared to the current Annex IX.
- Foreclosed real estate assets. The new framework allows for the liberalisation of allowances, and reversals of impairments since the initial recognition of foreclosed real estate assets when the appraisal value is demonstrated by the institution's ability to realise the asset (based on the inventory turnover).

- **Financial statements**. Amendments to the statements of annexes I, III, IV and V of the Circular 4/2004 are introduced to adapt them to the content of Annex 1.
- **Intangible assets**. They shall be accounted for using a defined useful life. When the useful life cannot be reliably estimated, the assets would be amortised in a period of 10 years. It is presumed, unless otherwise proven, that goodwill's useful life is 10 years. This new accounting standard is applicable to individual annual statements, and to consolidated statements not directly subject to IFRS.
- **Transmission of equity instruments** (financial assets traded in secondary markets in Spain): the change in ownership should be accounted for on the settlement date.

Amendments to the Circular 1/2013

- **Amendment to Annexes 1 and 2**. Certain sections of annexes 1 and 2 of Circular 1/2013 regarding data on the value of collateral will be replaced by the content of Annex 3, in order to adapt them to the amendments introduced by Annex 1 of Circular 4/2016.

3. Next steps

- The Circular will enter into force on **1 October 2016**.
- The amendment to identify those entities required to report the FI 20 statement will enter into force on the **day following that of its publication in the Official Journal**.
- The amendment on FI 2 statement, within Annex IV of the Circular 4/2004, will enter into force on **30 June 2016**.
- The introduction of individual confidential statements FI 131, FI 141-3 and FI 143 to Annex IV of the Circular 4/2004 will enter into force on **31 December 2016**.
- The removal of the T.10 statement, within Annex IV of the Circular 4/2004, will enter into force on **1 January 2017**.
- The introduction of individual confidential statements FI 100-2, FI 101 and FI 130 to Annex IV of the Circular 4/2004 will enter into force on **31 March 2017**.

17/06/2016
Accounting Standards Update on financial instruments – Credit losses (Topic 326).

1. Context

According to the generally accepted accounting principles (GAAP), it is required an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. However, some concerns have been raised on this provision as it restricts the ability to record credit losses that are expected, but do not yet meet the probable threshold.

In this regard, the Financial Accounting Standards Board (FASB) has published an **Accounting Standards Update of credit losses on financial instruments** that replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In particular, this document determines the scope and the estimation techniques to measure credit losses relating to assets measured at amortized cost and to available-for-sale debt securities.

2. Main points

- **Scope**. The amendments affect an entity to varying degrees depending on the credit quality of the assets held by the entity, their duration, and how the entity applies current GAAP. Notwithstanding that, <u>these amendments affect</u>, in general terms:
  - Entities holding financial assets and net investment in leases that are not accounted for at fair value through net income.
  - Loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.
- **Assets measured at amortized cost**. It is required that a financial asset (or a group of financial assets) measured at amortized cost basis is presented at the net amount expected to be collected.
  - The <u>allowance for credit losses</u> is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset.
    For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (PCD assets) that are measured at amortized cost basis, the allowance is determined in a similar manner to other financial assets measured at amortized cost basis, although the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense.
  - The <u>income statement</u> reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period.
  - The <u>measurement of expected credit losses</u> is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.
- **Available-for-sale debt securities**. The credit losses of these securities should be recorded through an <u>allowance for credit losses</u>.
  - The value of these securities may be realized either through <u>collection of contractual cash flows</u> or <u>through sale of the security</u>.
  - The amount of the allowance is limited to the <u>amount by which fair value is below amortized cost</u> because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value.
  - <u>For purchased available-for-sale securities with a more-than-insignificant amount of credit deterioration since origination</u>, the allowance for credit losses is determined in a similar manner to other available-for-sale debt securities, although the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense.

3. Next steps

- For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments are effective for fiscal years beginning after **15 December 2019**, including interim periods within those fiscal years.
- For all other public business entities, the amendments are effective for fiscal years beginning after **15 December 2020**, including interim periods within those fiscal years.
- All entities may adopt the amendments earlier as of the fiscal years beginning after **15 December 2018**, including interim periods within those fiscal years.

05/05/2016

Proposed Rule on Net Stable Funding Ratio (NSFR).

1. Context

The financial crisis exposed the vulnerability of large and internationally active banking organizations to liquidity shocks. This experience demonstrated a need to address the institutions' possibility of default and failure and to implement a more rigorous approach to identifying, measuring, monitoring, and limiting reliance by banking organizations on less stable sources of funding.

In this context, the Fed, the FDIC and the OCC (the agencies) have published a proposed rule on the net stable funding ratio (NSFR) consistent with the NSFR final standard and the NSFR disclosure standards published by the BCBS in October 2014 and June 2015, respectively. In particular this rule sets out the **scope** tailored to the risk of banking organizations, **NSFR calculation**, **shortfall remediation** measures and **disclosure requirements**.

2. Main points

- **Scope**. The applicable NSFR requirements would depend on the size, complexity and type of activities of each company:
  - The <u>most stringent NSFR requirement</u> would apply to the largest firms (covered companies): those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure, as well as those banking organizations' subsidiary depository institutions that have assets of $10 billion or more.
  - The <u>modified and less stringent version of the NSFR requirement</u> would apply to holding companies with less than $250 billion, but more than $50 billion in total consolidated assets, and less than $10 billion in on-balance sheet foreign exposure.
- **NSFR calculation**.
  - <u>NSFR requirement</u>: ratio of the available stable funding (ASF) amount to the required stable funding ratio (RSF) amount. This ratio would be required to be equal or greater than 1.0.
    - <u>ASF amount</u>: calculated by applying standardised weightings (ASF factors) to equity and liabilities based on their expected stability of the funding (i.e. funding tenor; funding type; and counterparty type) over a one-year time horizon.
    - <u>RSF amount</u>: calculated by applying standardised weightings (RSF factors) to assets, derivative exposures, and commitments based on their liquidity characteristics over the NSFR's one-year time horizon (i.e. credit quality; tenor; type of counterparty; market characteristics; and encumbrance).
  - <u>Modified NSRF requirement</u>: a lower minimum amount of stable funding is required equivalent to 70% of the amount (RSF) that would be required for a covered company.

NSFR shortfall remediation measures.
  - If a covered company's NSFR falls below 1.0, the covered company would be required to notify its appropriate Federal banking agency of the shortfall no later than 10 business days.
  - In addition, a covered company would be required to develop a plan for remediation if the company's NSFR falls below, or is likely to fall below, the minimum requirement. This plan would include the assessment of the covered company's liquidity profile, the actions to be taken, etc. and would be reported on a monthly basis to its federal banking agency.
- **Disclosure requirements**.
  - Covered companies and modified NSFR holding companies would be required to publicly disclose, on a quarterly basis, its NSFR and NSFR components in a standardised tabular format (i.e. a template similar to the Basel III disclosure standards) and to discuss certain qualitative features of its NSFR calculation to facilitate an understanding of the company's calculation and results.

3. Next steps

- Comments to this proposed rule shall be submitted by **5 August 2016**.
- The NSFR would become effective by **1 January 2018**.
  - A covered company that becomes subject to this proposed rule after the effective date would be required to comply with the proposed NSFR requirement beginning on **April 1 of the following year**.
  - A modified NSFR holding company that becomes subject to the proposed rule after the effective date would be required to comply with the proposed modified NSFR requirement **1 year after** the date it meets the applicable thresholds.

24/06/2016
Dodd-Frank Act Stress Test 2016: Supervisory Stress Test Methodology and Results.

1. Context

The Dodd-Frank Act requires the Fed to conduct an annual stress test of Bank Holding Companies (BHCs) with $50 billion or more in total consolidated assets and any nonbank financial company that the Financial Stability Oversight Council has determined shall be supervised by the Fed.

In this regard, the Fed has published the **methodology and results for the Dodd-Frank Act Stress Test 2016** (DFAST 2016), in which 33 BHCs have participated. In conducting its supervisory stress tests, the Fed calculated its projections of a BHC's balance sheet, risk-weighted assets (RWAs), net income, and resulting regulatory capital ratios under the adverse and severely adverse scenarios.

The results of the DFAST 2016 projections suggest that, in the aggregate, the 33 BHCs would experience substantial losses under both the adverse and the severely adverse scenarios. However, all institutions register CET1 ratios above the minimum requirement under both scenarios.

2. Main points

- **Severely adverse scenario**.
    - Losses are projected to be $526 billion for the 33 BHCs in the aggregate over the nine quarters of the planning horizon (the biggest sources of loss are accrual loan portfolios and trading and counterparty positions).
    - The aggregate CET1 would fall from an actual 12.3% in the fourth quarter of 2015 to a post-stress level of 8.4% in the first quarter of 2018 (the projected capital ratios are detailed in the table of the following page).
- **Adverse scenario**.
    - Losses are projected to equal $324 billion for the 33 BHCs over the nine-quarter planning horizon (the accrual loan portfolio is the largest source of losses).
    - The aggregate CET1 would fall 173 basis points to its minimum over the planning horizon of 10.5% in the first quarter of 2018.

3. Next steps

- The DFAST results are one component of the Federal Reserve's analysis during the Comprehensive Capital Analysis and Review (CCAR), which is an annual exercise to evaluate the capital planning processes and capital adequacy of large BHCs. **CCAR results** will be released on **June 29, 2016**.

Table 3. Capital ratios, actual 2015:Q4 and projected 2016:Q1–2018:Q1, under the severely adverse scenario: 33 participating bank holding companies

Percent

Bank holding company	Common equity tier 1 capital ratio			Tier 1 capital ratio			Total capital ratio			Tier 1 leverage ratio		
	Actual 2015:Q4	Ending	Minimum	Actual 2015:Q4	Ending	Minimum	Actual 2015:Q4	Ending	Minimum	Actual 2015:Q4	Ending	Minimum
Ally Financial Inc.	9.2	6.1	6.1	11.1	8.3	8.3	12.5	10.0	10.0	9.7	7.2	7.2
American Express Company	12.4	12.3	11.4	13.5	13.4	12.6	15.2	15.1	14.3	11.7	10.9	10.9
BancWest Corporation	12.3	8.6	8.6	12.3	8.6	8.6	14.6	11.0	11.0	10.1	7.0	7.0
Bank of America Corporation	11.6	8.1	8.1	12.9	9.6	9.6	15.7	12.5	12.5	8.6	6.4	6.4
The Bank of New York Mellon Corporation	11.5	11.2	10.5	13.1	13.1	12.2	13.5	13.6	12.7	6.0	5.9	5.5
BB&T Corporation	10.3	6.9	6.9	11.8	8.5	8.5	14.3	10.9	10.9	9.8	7.0	7.0
BBVA Compass Bancshares, Inc.	10.7	6.5	6.5	11.1	6.8	6.8	13.7	9.3	9.3	9.0	5.4	5.4
BMO Financial Corp.	11.9	5.9	5.9	11.9	6.4	6.4	14.9	8.7	8.7	9.3	4.9	4.9
Capital One Financial Corporation	11.1	8.2	8.2	12.4	9.4	9.4	14.6	11.4	11.4	10.6	8.0	8.0
Citigroup Inc.	15.3	9.2	9.2	15.5	10.5	10.3	18.5	13.5	13.4	10.2	7.0	6.9
Citizens Financial Group, Inc.	11.7	8.8	8.8	12.0	9.0	9.0	15.3	12.3	12.3	10.5	7.8	7.8
Comerica Incorporated	10.5	8.3	8.3	10.5	8.3	8.3	12.7	10.2	10.2	10.2	7.9	7.9
Deutsche Bank Trust Corporation	34.1	30.1	30.1	34.1	30.1	30.1	34.3	31.2	31.2	13.9	12.2	12.2
Discover Financial Services	13.9	12.4	11.9	14.7	13.1	12.6	16.5	14.5	14.1	12.9	11.4	11.3
Fifth Third Bancorp	9.8	6.8	6.8	10.9	7.8	7.8	14.1	11.1	11.1	9.5	6.8	6.8
The Goldman Sachs Group, Inc.	13.6	10.2	8.4	15.6	11.5	9.8	18.7	14.3	12.6	9.3	6.9	6.3
HSBC North America Holdings Inc.	15.7	9.1	9.1	17.3	11.0	11.0	22.6	15.2	15.2	10.0	6.2	6.2
Huntington Bancshares Incorporated	9.8	5.0	5.0	10.5	6.3	6.3	12.6	8.6	8.6	8.8	5.0	5.0
JPMorgan Chase & Co.	12.0	8.3	8.3	13.7	9.9	9.9	16.0	12.1	12.1	8.5	6.2	6.2
KeyCorp	10.9	6.4	6.4	11.4	6.8	6.8	13.0	8.9	8.9	10.7	6.0	6.0
M&T Bank Corporation	11.1	6.9	6.9	12.7	8.2	8.2	14.9	10.3	10.3	10.9	6.9	6.9
Morgan Stanley	16.4	10.0	9.1	18.4	11.6	10.2	22.0	14.6	13.5	8.3	5.4	4.9
MUFG Americas Holdings Corporation	13.6	10.1	10.1	13.6	10.1	10.1	15.6	12.2	12.2	11.4	7.0	7.0
Northern Trust Corporation	10.8	9.6	9.6	11.4	10.1	10.1	13.2	11.9	11.9	7.5	6.5	6.5
The PNC Financial Services Group, Inc.	10.6	7.6	7.6	12.0	8.7	8.7	14.6	11.0	11.0	10.2	7.4	7.4
Regions Financial Corporation	10.9	7.3	7.3	11.7	7.9	7.9	13.9	10.0	10.0	10.3	6.9	6.9
Santander Holdings USA, Inc.	12.0	11.8	11.8	13.5	12.7	12.7	15.3	14.2	14.2	11.6	10.0	10.0
State Street Corporation	13.0	9.6	9.6	15.9	12.8	12.8	18.2	14.7	14.7	6.9	5.4	5.4
SunTrust Banks, Inc.	10.0	7.5	7.5	10.8	8.2	8.2	12.5	9.9	9.9	9.7	7.4	7.4
TD Group US Holdings LLC	13.1	8.4	8.4	13.2	8.4	8.4	14.3	9.8	9.8	8.3	5.0	5.0
U.S. Bancorp	9.6	7.5	7.5	11.3	8.9	8.9	13.3	10.8	10.8	9.5	7.6	7.6
Wells Fargo & Company	11.1	7.2	7.2	12.6	8.7	8.7	15.8	11.7	11.7	9.4	6.6	6.6
Zions Bancorporation	12.2	6.6	6.6	14.1	8.3	8.3	16.1	10.1	10.1	11.3	6.5	6.5
33 participating bank holding companies	12.3	8.4	8.4	13.5	9.8	9.8	16.2	12.3	12.3	9.2	6.7	6.7

30/06/2016
Comprehensive Capital Analysis and Review 2016: assessment framework and results.

1. Context

In November 2011, the Fed began requiring Bank Holding Companies (BHCs) with consolidated assets of $50 billion or more to submit annual capital plans for review. In this regard, the Fed evaluates BHC's capital adequacy, capital planning process, and planned capital distributions within the Comprehensive Capital Analysis and Review (CCAR).

Following the publication of the Dodd Frank Act Stress Test 2016 results, the Fed has now published the **assessment framework and results of the CCAR 2016**, in which 33 BHCs have participated.

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

2. Main points

- **Qualitative assessment results**
  - Many BHCs continued to improve their capital planning practices, both in terms of the estimation methods used to conduct their stress tests and the risk measurement and management, internal controls, and governance.
  - The Fed objected to the capital plans of two BHCs based on qualitative grounds:
    - Santander Holding USA, Inc.: Santander has made progress in improving certain approaches to loss and revenue projection. However, some ongoing deficiencies were revealed in the risk management framework, including important features of the risk measurement and monitoring function; stress testing processes; and internal controls, governance, and oversight functions.
    - Deutsche Bank Trust Corporation: although there were some improvements in certain aspects of capital planning, the Fed identified deficiencies in the risk management and control infrastructure, including risk measurement processes, stress testing processes, and data infrastructure.
  - The Fed issued a conditional non-objection to Morgan Stanley and is requiring the BHC to address certain weaknesses (regarding scenario design practices, modelling practices, governance, etc.) and to resubmit a capital plan by 29 December 2016.
- **Quantitative assessment results**
  - As in the 2015 CCAR, no firm was objected to on quantitative grounds in CCAR 2016.
  - The aggregate Common Equity Tier 1 ratio (CET1) for the 33 BHCs in the severely adverse scenario would decline from 12.3% in 4Q15 to 7.1% at its minimum point over the planning horizon; whereas in the adverse scenario it would decline to 9.2%.
  - BHCs have significantly increased their capital positions since 2009. In this regard, the CET1 ratio has more than doubled from 5.5% in 1Q09 to 12.2% in 1Q16. This reflects an increase of more than $700 billion in common equity capital.
  - 31 of the 33 BHCs participating in CCAR 2016 have estimated that their common equity will increase between 3Q16 and 2Q17.

3. Next steps

- The Fed's decisions with regard to planned capital distributions in CCAR 2016 will apply from the **beginning of 3Q16 to the end of 2Q17**.
- BHCs that received an objection may choose to resubmit their capital plans in advance of the next CCAR exercise, but they are not required to do so.
- The Fed may require a BHC to resubmit its capital plan in future quarters for a number of reasons (e.g. changes in risk profile, financial condition, etc.).

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Javier Calvo Martín
Partner in Management Solutions
javier.calvo.martin@msgermany.com.de

Manuel Ángel Guzmán Caba
R&D Manager in Management Solutions
manuel.guzman@msspain.com

Cristina Peredo Robinson
R&D Senior Consultant in Management Solutions
cristina.peredo.robinson@msspain.com

Management Solutions
Tel. (+34) 91 183 08 00
www.managementsolutions.com

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Design and Layout
Marketing and Communication Department
Management Solutions – Spain

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