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Regulation Outlook

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Table of contents

Executive summary

In the second quarter of 2018, the BCBS published its fifth report on the progress in adopting the RDA&RR principles. In Europe, the EBA published a Consultation Paper on Guidelines on disclosure of NPE, and the ECB updated its Manual for the AQR regarding on-site inspections, as well as the Guide to the TRIM on general topics. At local level, it should be highlighted that the Fed published the results of the 2018 DFAST and CCAR.

Global publications

- At internacional level, the BCBS published its **fifth report on the progress in adopting the RDA&RR principles**, which provides an overview of banks' extent of compliance with the principles, analyses the implementation of the principles by Domestic Systemically Important banks (D-SIBs), and proposes key recommendations.
- Moreover, the FSB published **Guidance on principles on bail-in execution** and **Guidance on funding strategy elements of an implementable resolution plan**, which cover those aspects related to the resolution of entities of Global Systemically Important Banks (G-SIBs).
- The FSB also published a **Report on strengthening governance frameworks to mitigate misconduct risk**, developing a list of 19 tools that can be used to tackle the causes and consequences of misconduct risk.

European publications

- Regarding credit risk, the EBA published three Consultation Papers (CP). On one hand, a **CP on Guidelines (GL) on specification of types of exposures to be associated with high risk** aiming to clarify the criteria for identifying investments in venture capital firms and private equity as particularly high risk exposures, and to specify which other types of exposures should be considered as high risk and under which circumstances. On the other hand, a **CP on RTS on the specification of the nature, severity and duration of an economic downturn** and a **CP on GL for the estimation of LGD appropriate for an economic downturn**, which supplements the RTS and focuses on the methods institutions should use to quantify downturn LGD estimates.
- Moreover, the EBA published a **CP GL on disclosure of non-performing (NPE) and forborne exposures (FBE)** which specifies the information related to these exposures and foreclosed assets that banks should disclosure and provides uniform disclosure formats.

European publications (continuation)

- The ECB published a **revised Guide to fit and proper assessments of members of the management bodies** of significant credit institutions, which aims at explaining in greater detail the policies, practices and processes applied by the ECB in this assessment.
- Furthermore, the ECB published a **Draft Guide to internal models** which covers the update of the first chapter of the Guide to the TRIM related to general topics (e.g. roll-out or general principles for internal models).
- Finally, the ECB updated its **Manual for the Phase 2 of the AQR** related to on-site inspections, in order to reflect, among others, two major developments in the AQR methodology: the entry into force of the new accounting standard IFRS 9 on 1 January 2018; and the bank business models focused on investment services.

Local publications

- In Spain, the Government approved the **Proyecto de Ley de distribución de seguros y reaseguros privados**, which transposes the Directive 2016/97 on insurance distribution with the aim of adapting it to the Spanish legal system. Moreover, the Bank of Spain issued a **Draft Circular amending Circular 4/2017 on public and confidential financial information rules and formats, and the Circular 1/2013 on the Risk Information Centre (CIR)**, aiming at establishing certain amendments considered due to the entry into force of IFRS 16.
- In USA, the Fed published a **Final rule on Single-Counterparty Credit Limits (SCCL) for bank holding companies (BHC) and foreign banking Organizations (FBO)**, in order to prevent concentrations of risks. In addition, the Fed also published the **CCAR** and **DFAST 2018 results**.
- In UK, the PRA issued a **Supervisory Statement (SS) 19/13 on resolution planning,** which sets out details on information that firms should submit to the PRA to facilitate resolution planning.

Regulatory projections

At European level, institutions will carry out their first reports to the ECB under AnaCredit, and it is expected that the European Commission (EC) will issue a Delegated Regulation that approves the Final ITS amending Implementing Regulation 620/2014 on supervisory disclosure. At local level, the Ley Orgánica de Protección de Datos Personales (LOPD) is expected to be published in Spain.

Regulatory projections

1. Next quarter

- **(Spain) To be determined**: the publication of the new Ley Orgánica de Protección de Datos (LOPD) is expected.
- **(Europe) September 2018**: institutions are expected to start reporting under AnaCredit.
- **(Europa) September 2018**: the EC is expected to approve the Final ITS amending Commission Implementing Regulation (EU) 650/2014 on supervisory disclosure through an Implementing Regulation.

2. Next year

- **(Europe) To be determined**: the European Parliament (EP) and the Council are expected to approve the reform package of the financial system proposed by the EC, amending several legislative acts (CRD IV, CRR, BRRD, SRMR and EMIR).
- **(Europe) To be determined**: the EBA will publish several documents related to FinTech (e.g. on cybersecurity or consumer protection).
- **(Europe) November 2018**: the EBA will publish the EU-wide stress test results for 2018.
- **(Global) December 2018**: the BCBS revised standards on IRRBB will be applicable.
- **(Global) December 2018**: the FSB will publish the new list of G-SIBs.
- **(Europe) December 2018**: the EBA will publish the final GL on disclosure of NPE and FBE.
- **(Europe) December 2018**: the EBA will publish several documents on FinTech.
- **(UK) December 2018:** the BoE will publish the stress test results for 2018.
- **(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 RWAs and 6% of the LR exposure, in accordance with the FSB.
- **(Global) January 2019**: the BCBS's large exposures framework will be applicable.
- **(Europe) January 2019**: the EBA Final Guidelines on the treatment of connected clients will come into force.
- **(Europe) January 2019**: the Final Guidelines on the ICAAP and the ILAAP will be considered according to the SREP framework.
- **(Europe) January 2019**: the EBA Guidelines on management of NPLs and FBE will be applicable.
- **(Spain) January 2019**: the Circular of the Bank of Spain amending Circular 4/2017 and the Circular 1/2013, will enter into force, at the same date of application as IFRS 16.
- **(USA) January 2019**: the new requirements on Long-Term Debt (LTD) and TLAC will be applicable.
- **(UK) January 2019**: the ring-fencing rules will be implemented.
- **(Europe) May 2019**: the EBA will update the O-SII list.

3. More than a year

- **(Global) December 2019**: the BCBS will monitor G-SIBs' progress in adopting the RDA&RR principles.
- **(Global) December 2019**: the FSB is expected to conduct a review of the technical implementation of TLAC.
- **(Global) December 2019**: the EBA Final RTS on economic downturn will enter into force.
- **(Global) December 2020**: the BCBS Guidelines on step-in risk will be applicable.
- **(Europe) January 2021**: the EBA Guidelines on IRB parameters estimation will be applicable.
- **(Global) December 2021**: the BCBS new assessment methodology for G-SIBs will be applicable.
- **(Global January 2022**: the revised SA for credit risk, the revised IRB framework, the revised CVA framework, and the revised operational risk framework published by the BCBS will be implemented. Moreover, the LR framework (using the revised exposure definition) and the G-SIB buffer will be applicable.
- **(Global) January 2022**: the BCBS revised market risk framework will be applicable, as well as, the regulatory information required in this regard will be disclosed for the first time.
- **(Global) January 2022**: most of the new disclosure requirements of the BCBS Pillar III updated framework will be implemented.
- **(UK) January 2022**: the PRA will require firms to comply with an end-state MREL.
- **(Europe) December 2022**: the application of IFRS 9 transitional arrangements will finish.
- **(Global) January 2027**: an output floor of 72.5% will be applicable according to the Basel III reform.

Publications of this quarter

Summary of outstanding publications of this quarter

Topic	Title	Date	Page
	Basel Committee on Banking Supervision		
RDA&RR	• Progress in adopting the Principles for effective risk data aggregation and risk reporting	22/06/2018	10
	Financial Stability Board		
Misconduct risk	• Report on Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors	24/04/2018	11
TLAC	• Call for public feedback on Monitoring the Technical Implementation of the FSB Total Loss-Absorbing Capacity (TLAC) Standard	06/06/2018	12
Resolution	• Principles on bail-in execution • Funding strategy elements of an implementable resolution plan	22/06/2018	13
	European Banking Authority		
Resolution	• Final ITS on the provision of information for the purpose of resolution plans • Annex I – Templates / Annex II – Instructions	17/04/2018	16
Credit risk	• Consultation Paper on Draft Guidelines on specification of types of exposures to be associated with high risk under Article 128 of the CRR	18/04/2018	17
Securitisations	• Consultation Paper on Draft Guidelines on the STS criteria for non-ABCP securitisation • Consultation Paper on Draft Guidelines on the STS criteria for ABCP securitisation	23/04/2018	18
NPL	• Consultation Paper on Draft Guidelines on disclosure of non-performing and forborne exposures	03/05/2018	19
Credit risk	• Consultation Paper on RTS on the specification of the nature, severity and duration of an economic downturn • Consultation Paper on Guidelines for the estimation of LGD appropriate for an economic downturn	23/05/2018	20
O-SII	• 2017 List of O-SIIs in the EU notified to the EBA	24/05/2018	22
Supervisory disclosure	• Final Draft on ITS amending Commission Implementing Regulation (EU) 650/2014 on the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities • Annex I / Annex II / Annex III / Annex IV / Annex V	04/06/2018	23
Outsourcing	• Consultation Paper on Guidelines on outsourcing arrangements • Annex (register templates for GIs on outsourcing)	26/06/2018	24
	European Central Bank		
TRIM	• Draft Guide to internal models – General topics chapter	03/04/2018	26
Suitability assessment	• Guide to fit and proper assessments - revised version	29/05/2018	27
AQR	• Asset Quality Review – Phase 2 Manual	20/06/2018	28

Topic		Title	Date	Page
Prudential Regulatory Authority				
Insurance	•	Supervisory Statement (SS) 4/18 on financial management and planning by insurers	17/05/2018	43
Resolution planning	•	Supervisory Statement (SS) 19/13 on Resolution planning	14/06/2019	44

22/06/2018
Progress in adopting the Principles for effective risk data aggregation and risk reporting.

1. Context

In January 2013, the BCBS issued the principles for effective risk data aggregation and risk reporting (RDA&RR). These principles, which became effective in January 2016, aim to improve risk management practices and decision-making processes by strengthening banks' risk data aggregation and risk reporting practices. Since the publication of this framework, the BCBS has been monitoring banks' implementation.

In this context, the BCBS has published its **fifth Progress report on bank´s adoption of the RDA&RR principles**. This report provides an overview of banks' extent of compliance with the principles, including key observations by supervisors; analyses the implementation of the principles by domestic systemically important banks (D-SIBs); and proposes key recommendations to further facilitate implementation.

2. Main points

- **Scope of the assessment**. 7 supervisors with G-SIBs under their supervision completed an assessment questionnaire, whose responses included 30 banks designated as G-SIBs in 2011 or 2012.
- **Assessment results**. Supervisors were asked to rate their banks' current levels of compliance with each of the principles, and the results show that:
  - Banks have accelerated their efforts and taken positive action to comply with the principles. However, overall most banks had made, at best, marginal progress in their implementation of the principles, which is unsatisfactory.
  - No principle is fully complied with by all banks. Nevertheless, it should be noted that the performances of individual banks could be masked by averaging effects.
  - Even though the implementation deadline of 1 January 2016 has passed, only three banks have achieved full compliance with all principles.
- **Key observations by supervisors**. The assessment reflects that, among others:
  - All banks now have in place implementation roadmaps assessed by their supervisors, in line with the recommendation set out in the progress report for the 2016 assessment.
  - Some banks have facilitated the implementation of the principles (e.g. by increasing resource commitments to implementation, or enhancing compliance control frameworks).
  - Banks continue to experience difficulties in implementing the principles across an entire banking group and in managing the interdependencies between RDA&RR programmes and other bank-wide strategic projects.
  - Supervisors have applied a range of assessment techniques (e.g. thematic reviews, fire drills) which focus on banks' implementation of the principles.
- **Implementation by D-SIBs**. D-SIBs have made some progress in implementing the principles. Nevertheless, it should be noted that this information is derived, in part, from D-SIBs' self-assessments of their implementation of the principles, which could be overly optimistic.
- **Key recommendations**. The BCBS proposes three new recommendations:
  - Banks should continue to implement the principles in line with their roadmaps and consider how implementation would benefit other initiatives (e.g. recovery and resolution plans, or revision to the supervisory reporting framework).
  - Supervisors should maintain supervisory intensity to ensure banks' implementation of the principles and continue to promote home-host cooperation.
  - G-SIB supervisors should continue to review the implementation monitoring efforts on these principles.

3. Next steps

- The BCBS will continue to monitor G-SIBs' progress in adopting the principles and plans to conduct the **next assessment in 2019**.

FINANCIAL STABILITY BOARD

24/04/2018
Report on Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors.

1. Context

Misconduct in some financial institutions has the potential to significantly harm consumers, undermine trust in financial institutions and markets and create systemic risks. In this regard, the FSB published in 2015 a workplan on measures to reduce misconduct risks which included standards and codes of behaviour, a toolkit of measures related to wholesale market conduct, guidance on compensation practices in addressing misconduct, and a toolkit for firms and supervisors.

In this context, the FSB has now published a **Report on strengthening governance frameworks to mitigate misconduct risk**, developing a list of 19 tools, addressed to firms and supervisors, that can be used to tackle the causes and consequences of misconduct and to address three overarching issues identified, namely: i) mitigating cultural drivers of misconduct, ii) strengthening individual responsibility and accountability, and iii) addressing the 'rolling bad apples' phenomenon.

2. Main points

- **Mitigating cultural drivers of misconduct**. This Report includes the following tools to effectively develop and communicate strategies for reducing misconduct in firms and for authorities to effectively supervise such approaches:
  - Senior leadership of the firm articulate desired cultural features that mitigate the risk of misconduct (e.g. clear cultural vision that will guide appropriate behaviour within the firm).
  - Identify significant cultural drivers of misconduct by reviewing a broad set of information and using multidisciplinary techniques (e.g. inductive methods that establish clear definitions of the various dimensions which caracterise the topic of culture).
  - Act to shift behavioural norms to mitigate cultural drivers of misconduct (e.g. reinforce the governance frameworks).
  - Build a supervisory programme focused on culture to mitigate the risk of misconduct (e.g. conduct reviews at those firms with the highest behaviour and culture related risks rather than across all institutions).
  - Use a risk-based approach to prioritise for review the firms or groups of firms that display significant cultural drivers of misconduct (e.g. those where troubling information about the senior executives of a firm is received).
  - Use a broad range of information and techniques to assess the cultural drivers of misconduct at firms (e.g. interviews/meetings with board members).
  - Engage firms' leadership with respect to observations on culture and misconduct.
- **Strengthening individual responsibility and accountability**. This Report includes the following tools that seek to identify key responsibilities and functions in a firm and assign them to individuals to promote accountability and increase transparency:
  - Identify key responsibilities, including mitigation of the risk of misconduct, and assign them (e.g. by considering legislative or regulatory requirements).
  - Hold individuals accountable of certain firm's functions or business activities.
  - Assess the suitability of individuals assigned key responsibilities (e.g. integrity and professional competency).
  - Develop and monitor a responsibility and accountability framework.
  - Coordinate the supervisory techniques with other authorities (e.g. with conduct regulator or prudential regulator).
- **Addressing the rolling bad apples phenomenon**. This Report includes the following tools to improve interview processes and onboarding of new employees and for regular updates to background checks to avoid hiring individuals with a history of misconduct:
  - Communicate conduct expectations early and consistently in recruitment and hiring processes (e.g. by providing written materials to address conduct concerns).
  - Enhance interviewing techniques (e.g. ethical dilemmas).
  - Leverage multiple sources of available information before hiring (e.g. public databases, social media or criminal records checks).
  - Reassess employee conduct regularly (e.g. monthly, yearly or at career milestones).
  - Conduct exit reviews to gain insights into the conduct of departing employees.
  - Supervise firms' practices for screening prospective employees and monitoring current employees (e.g. employment and disciplinary policies).
  - Promote compliance with legal or regulatory requirements regarding conduct-related information about applicable employees, where these exist.

06/06/2018

Call for public feedback on Monitoring the Technical Implementation of the FSB Total Loss-Absorbing Capacity (TLAC) Standard.

1. Context

In November 2015, the FSB issued a standard on the adequacy of Total Loss-Absorbing Capacity (TLAC) for Global Systemically Important Banks (G-SIBs) in resolution, i.e. the TLAC standard, which comprises a set of principles and a Term Sheet that implements those principles, and defines a minimum requirement for the instruments and liabilities that should be readily available for bail-in within resolution at G-SIBs.

In this context, the FSB has published a **Call for public feedback on monitoring the technical implementation of the TLAC standard**, which aims at examining whether the implementation of the TLAC standard is proceeding in a manner consistent with the timeliness and objectives of this standard, and identifying any technical issues or operational challenges in its implementation. In particular, the FSB is seeking views and evidence on: i) the regulatory adoption of TLAC principles and Term Sheet, ii) cross-border implementation of the TLAC standard, iii) G-SIBs issuance strategies and overall progress, iv) distribution of TLAC instruments and liabilities in the market, and v) any technical issues affecting the TLAC's implementation.

According to the TLAC standard, G-SIBs are expected to meet a Minimum TLAC requirement of at least 16% of the resolution group's risk-weighted assets as from 1 January 2019 and at least 18% as from 1 January 2022. Moreover, the Minimum TLAC requirement should also be at least 6% of the Basel III leverage ratio denominator as from 1 January 2019, and at least 6.75% as from 1 January 2022.

2. Main points

- **Regulatory adoption of the TLAC principles and Term Sheet,** including the relevant provisions of the BCBS standard on TLAC holdings and Pillar 3 disclosure requirements, through rules, regulations and policies in G-SIB home and relevant host jurisdictions.
- **Cross-border aspects of the implementation of the TLAC standard,** relating to the identification of material subgroups, the determination of internal TLAC requirements and trigger conditions and mechanism for internal TLAC.
- **G-SIBs' issuance strategies and overall progress towards meeting external and internal TLAC requirements,** including nature and composition of the issued TLAC-instruments and specific features (e.g., triggers) and level of public disclosures by each bank.
- **Distribution of TLAC instruments and liabilities in the market,** including obstacles relating to issuance and holdings.
- **Any technical issues,** jurisdiction-specific circumstances or other material factors affecting or likely to affect the implementation of the TLAC standard.

3. Next steps

- Responses on the issues identified in this document should be sent by **20 August 2018**.
- The FSB will report on the results of its monitoring by **June 2019**.

22/06/2018

- **Principles on bail-in execution**
- **Funding strategy elements of an implementable resolution plan**

1. Context

In November 2011, the FSB published the Key Attributes of Effective Resolution Regimes for Financial Institutions. Since then, the resolution authorities for Global Systemically Important Banks (G-SIBs) have been working to develop firm-specific resolution strategies and plans, which involve the application of bail-in powers. Further, the FSB also published in 2016 the Guiding Principles on the temporary funding needed to support the orderly resolution of a G-SIB, which are intended to assist authorities in their resolution planning work.

In this context, following the consultation launched in November 2017, the FSB has now published a **Guidance on principles on bail-in execution**, addressed to resolution authorities, which establishes a set of principles to make the G-SIB bail-in resolution strategies operational (principles covering aspects of bail-execution such as its scope, valuation, exchange mechanisms, etc.).

Along with this document, the FSB has also published a **Guidance on funding strategy elements of an implementable resolution plan**, addressed to resolution authorities, which sets out proposed guidance on the development of a plan for funding in resolution covering some key elements (e.g. strategy for maintaining liquidity in resolution, firm capabilities to support monitoring, reporting and estimating funding needs in resolution).

2. Main points

Guidance on principles on bail-in execution

- **Principles on bail-in scope**, which provide guidance on transparency of the scope of the instruments and liabilities subject to the bail-in powers of resolution authorities; the application of discretionary exclusions from bail-in; information requirements to support the application of bail-in powers; and disclosures on the scope of bail-in to enhance transparency and market confidence.
- **Principles on valuation**, which establish a framework for the application of bail-in powers covering the timing and allocation of responsibilities between authorities for valuations; firms management information system capability; information requirements; and valuation methodologies across a resolution group.
- **Principles on exchange mechanisms**, which provide guidance to address a number of operational issues, including the mechanism by which losses are absorbed; how creditors will document and track their claims; and the method to determine or adjust compensation to creditors.
- **Principles on securities law and securities exchange requirements**, which address the steps that home resolution authorities should take as part of ex ante resolution planning in order to: identify securities law and securities exchange requirements relevant to the bail-in period; and plan for the firm's compliance with the applicable disclosure requirements during such period, among other aspects.
- **Principles on governance**, which seek to provide guidance on issues regarding the change of ownership and control of the firm following the end of the bail-in period, such as the requirements for regulatory approvals and authorisations which may differ across jurisdictions.
- **Principles on communications**, which assist authorities in the development of a coordinated strategy to manage market and creditor communications during the bail-in period.

Guidance on funding strategy elements of an implementable resolution plan

- **Strategy for maintaining liquidity in resolution**, which should ensure that the adequate liquidity in resolution and the methodology to estimate funding needs in resolution are feasible and consistent with the overall resolution strategy for the G-SIB.
- **Firm capabilities to support monitoring, reporting and estimating funding needs in resolution**, which should include the assessment of its capabilities: i) to measure sources and positioning of liquidity and funding needs; ii) to report liquidity information at a material operating entity level on a timely basis; and iii) to identify and mobilise assets that could be used as collateral.
- **Development of the resolution funding plan by the authorities**, which should cover, among others, the interaction of measures in the resolution funding plan with measures in the firm's contingency funding and recovery plans; the authorities' approach to assessing liquidity stress in the run-up to resolution; and home authority's framework for estimating funding needs.

Guidance on funding strategy elements of an implementable resolution plan (continues)

- **Firm assets and private sources of resolution funding**, which should be apply to firm assets that will remain available in the context of different failure scenarios; the availability, size and mobility of private sources of funding; and the actions taken by authorities to increase the willingness of private counterparties to provide funding to a G-SIB in resolution.
- **Temporary public sector backstop funding mechanisms and ordinary central bank facilities**, which should include the pre-conditions and operational procedures necessary to access any identified these temporary public funding mechanisms; the alignment of its use with the objectives of the preferred resolution strategy; etc.
- **Information sharing and coordination between authorities**, which should cover, among other aspects, whether the resolution funding plan establishes a clear allocation of responsibilities and a communication plan among the relevant home and host authorities, and whether it captures the implications of local regulatory requirements or other aspects specific to material operating entities in host jurisdictions.

17/04/2018

- **Final ITS on the provision of information for the purpose of resolution plans.**
- **Annex I – Templates.**
- **Annex II – Instructions.**

1. Context

Relevant, accurate and updated information on institutions is crucial in order for resolution authorities (RAs) to draw up resolution plans and substantiate their resolvability assessment and resolution strategy. In this regard, the EBA developed ITS on reporting for resolution plans in 2015, which were endorsed by the European Commission (EC) in 2016 (Regulation 2016/1066).

In this context, following the consultation launched in October 2017, the EBA has published the **Final ITS on the information which institutions must provide to RAs for the purpose of drawing up and implementing resolution plans**, which aims at achieving three objectives: i) clarifying the scope of the reporting framework; ii) specifying the minimum procedural and technical reporting requirements; and iii) updating the templates.

In conducting this review, the EBA has taken into account the need for proportionality. The revised ITS are without prejudice to the right of RAs to set simplified obligations for banks whose failure would have a limited impact on financial markets, on other institutions and on funding conditions.

2. Main points

- **Scope**. The revised ITS establish a minimum set of information items to be reported by all credit institutions, as well as investment firms and other entities included in the scope of the BRRD. Moreover, these ITS recognise the possibility of RAs to request additional information or to collect the information set out in the ITS with a higher frequency or at more levels that set out in the ITS.
- **Procedural requirements**.
    - <u>Cooperation between RAs with supervisors</u>. Supervisory authorities must share with RAs information in the templates which is already available to them. Where the information is not already available, the RA will directly request the institution to provide the information.
    - <u>Frequency</u>. Templates must be collected on annual basis.
    - <u>Level and scope of reporting</u>. Requirements on level and scope are inherently linked to the rationale of each template, which are underpinned by certain principles (e.g. templates with general information on banking groups should at least be collected at parent level for the entire group).
    - <u>Reporting format and data point model</u>. The EBA has also developed in parallel with these ITS a single data point model (DPM) and XBRL taxonomies based on the DPM database.
- **Requirements on minimum content and revised templates**. Three main blocks of templates have been identified:
    - <u>General information on a banking group</u>. It enables RAs to map a group and locate its various entities, to identify the main distribution of assets and RWAs, consolidation perimeters, and the main contact points. Within this block, certain amendments have been introduced (e.g. information on ownership has been simplified, information on contact details has been deleted).
    - <u>Quantitative information on on- and off-balancesheet items</u>. This information will be used for a wide range of purposes such as setting and monitoring MREL. Within this block, certain amendments have been introduced (e.g. the central template ‘Liability structure’ has been restructured; a new ‘intragroup financial interconnections’ template and a new template on deposit protection have been added).
    - <u>Critical functions</u>. This block relates to identifying critical functions, mapping them across group entities and identifying which core business lines, services, financial market infrastructures and information support them. Within this block, certain amendments have been introduced (e.g. a new ‘criticality assessment’ template has been added).

3. Next steps

- Information under the new framework will have to be submitted in the first year, by **31 May 2019** at the latest, when RAs will collect information as of 31 December 2018; and from **2020 onwards, by 30 April** at the latest.

18/04/2018

- **Consultation Paper on Draft Guidelines on specification of types of exposures to be associated with high risk under Article 128 of the CRR.**

1. Context

The CRR sets out in Article 128 the requirements for classifying an exposure as item associated with particular high risk, which result in an assignment of a 150% risk weight for the considered exposure. In this regard, the CRR gives mandate to the EBA for drafting Guidelines (GL) specifying which types of exposures other than those mentioned are associated with particularly high risk and under which circumstances.

In this context, the EBA has published a **Consultation Paper (CP) on GL on specification of types of exposures to be associated with high risk under Article 128 of the CRR** aiming to clarify the criteria for identifying investments in venture capital firms and private equity as particularly high risk exposures, and to specify which other types of exposures should be considered as high risk and under which circumstances.

The EBA recognises that the revised standardised approach (SA) for credit risk published by the BCBS in December 2017 no longer includes provisions on higher risk exposures. However, it also considers beneficial to issue these GL in order to ensure detection of high risk, before the application of the revised Basel III framework in 2022.

2. Main points

- **Investments in venture capital firms**. Institutions should consider that investments in venture capital firms cover at least any investment meeting both of the following conditions:
  - It belongs to either: i) non-debt exposures not listed on an exchange conveying a subordinated, residual claim on the assets or income of an enterprise not listed on an exchange, or ii) debt exposures and other securities, partnerships, derivatives, or other vehicles the economic substance of which is similar to the exposures previously specified and not listed on an exchange.
  - It is held with the objective of providing funding to newly established enterprises (e.g. expansion of the business of the enterprise).
- **Investments in private equity**. Institutions should consider that investments in private equity cover at least any investment meeting both of the following conditions:
  - It belongs to either: i) all non-debt exposures not listed on an exchange conveying a subordinated, residual claim on the assets or income of an enterprise, or ii) debt exposures and other securities, partnerships, derivatives, or other vehicles the economic substance of which is similar to the exposures previously specified and not listed on an exchange.
  - It is held with the intention of generating a profit through a leveraged buyout, an initial public offering, sale of the equity stake by other means or any transaction with a similar economic substance.
- **Other types of exposures to be considered high risk exposures**. Institutions should consider as such at least those exposures which exhibit levels and ranges of risk drivers not common to other obligors or transactions of the same exposure class. In this regard:
  - Institutions should consider at least all of the following exposures:
    - Any financing of speculative investments in both financial and non-financial assets other than immovable property, where the obligor has the intention to resell the assets for profit, and where there is a particularly high risk of loss in case of default of the obligor, and there are insufficient other income and assets of the obligor for mitigating the loss risk for the financing institution.
    - Any exposure for which an issue specific external rating is not available and which can be considered as specialised lending exposure, where the institution has identified a high risk of loss (e.g. significant uncertainty or exposure related to project finance).
  - Additionally, institutions should assess additional relevant types of exposures which potentially carry a particularly high risk of loss due to being structurally different; and identify any other relevant types of exposures carrying a particularly high risk of loss that are not identified.
  - Moreover, all equity exposures should be considered as high risk if the risk weight for any debt exposure to the same issuer is 150% or where any debt of such issuer would receive a 150% risk weight if these debt obligations were exposures of the institution.

3. Next steps

- Comments to this CP shall be submitted by **17 July 2018**.

23/04/2018

- **Consultation Paper on Draft Guidelines on the STS criteria for non-ABCP securitisation.**
- **Consultation Paper on Draft Guidelines on the STS criteria for ABCP securitisation.**

1. Context

In January 2018 the new EU securitisation framework, which comprises of the Regulation 2017/2402 (Securitisation Regulation) and of the Regulation 2017/2401, containing targeted amendments to the CRR with regards to securitisation, has entered into force with the aim to build and revive a sound and safe securitization market in the EU.

In this context, the EBA has published a **Consultation Paper (CP) on Draft Guidelines (GL) on simple, transparent and standardised (STS) criteria for non asset-backed commercial paper (ABCP) securitisation; and a CP GL on STS criteria for ABCP securitisation**, which will provide a harmonised interpretation of the criteria for the securitisation to be eligible as STS. In particular, these documents clarify and ensure common understanding of all the STS criteria, including those related to the expertise of the originator and servicer, the underwriting of standards, exposures in default and credit impaired debtors, and predominant reliance on the sale of assets.

These GL will be applied on a cross-sectoral basis throughout the EU (e.g. originators, investors) with the aim of facilitating the adoption of STS criteria, and applying a more risk-sensitive regulatory treatment under the new EU securitisation framework.

2. Main points

CP GL on the STS criteria for non-ABCP securitisation

- **Criteria related to simplicity**. This CP GL sets out criteria regarding: true sale, assignment or transfer with the same legal effect; representations and warranties; eligibility criteria for the underlying exposures/active portfolio management; homogeneity, obligations of the underlying exposures, periodic payment streams, no transferable securities; underwriting standards, originator's expertise; no exposures in default and to credit-impaired debtors/guarantors; at least one payment made; and no predominant dependence on the sale of assets.
- **Criteria related to standardisation**. This CP GL establishes criteria on: appropriate mitigation of interest-rate and currency risks; referenced interest payments, requirements in case of enforcement or delivery of an acceleration notice; non-sequential priority of payments; early amortisation provisions/triggers for termination of the revolving period; transaction documentation; expertise of the servicer; remedies and actions related to delinquency and default of debtor; and resolution of conflicts between different classes of investors.
- **Criteria related to transparency**. This CP GL includes criteria on: data historical default and loss performance; verification of a sample of the underlying exposures; liability cash flow model; environmental performance of assets; and compliance with transparency requirements.

CP GL on the STS criteria for ABCP securitisation

- **Transaction-level criteria.** This CP GL establishes the criteria regarding: true sale, assignment or transfer with same legal effects; representations and warranties; eligibility criteria for the underlying exposures/active portfolio management; no resecuritisation at ABCP transaction level; no exposures in default and to credit-impaired debtors/guarantors; at least one payment made; no predominant dependence on the sale of assets; appropriate mitigation of interest-rate and currency risks; remedies and actions related to delinquency and default of debtor; data on historical default and loss performance; homogeneity, obligations of the underlying exposures, periodic payment streams, no transferable securities; referenced interest payments; requirements in case of the seller's default or an acceleration event; underwriting standards, seller's expertise; triggers for termination of the revolving period in case of a revolving ABCP transaction; and transaction documentation.
- **Programme-level criteria.** This CP GL sets out criteria on: limited temporary non-compliance with certain STS transaction-level criteria; remaining weighted average life; no resecuritisation; no call options and other clauses; appropriate mitigation of interest-rate and currency risks at ABCP programme level; documentation of the ABCP programme; and expertise of the servicer.

3. Next steps

- Comments to both CPs shall be submitted by **20 July 2018**.

03/05/2018
Consultation Paper on Draft Guidelines on disclosure of non-performing and forborne exposures.

1. Context

In July 2017, the European Council defined an Action Plan to tackle non-performing loans (NPLs) in Europe in order to prevent the emergence and accumulation of new non-perfoming exposures (NPEs) on banks' balance sheets. The Council invited the EBA, among other authorities, to contribute to this Action Plan by providing supervisory actions to work with banks to improve strategies to reduce NPEs.

In this context, the EBA has now published a **Consultation Paper (CP) on Guidelines (GL) on disclosure of NPEs and forborne exposures (FBEs)** which specifies the information related to these exposures and foreclosed assets that banks should disclosure and provides uniform disclosure formats. In particular, this CP covers the definitions applied in this document and ten disclosure templates, of which four are applicable to all credit institutions and six apply only to significant institutions with a high level of NPEs.

2. Main points

- **Definitions**. This CP establishes the following definitions:
  - Significant credit institutions. These institutions are significant if they meet one or more of the following criteria:
    - The credit institution is one of the **three largest credit institutions** in its home Member State.
    - The credit institution's consolidated assets exceed **30 billion €**.
    - The credit institution's 4-year average of total assets **exceeds 20% of the 4-year average of its home Member State's GDP**.
    - The credit institution consolidated exposures exceed **200 billion €** or the equivalent in foreign currency using the reference exchange rate published by the ECB applicable at the financial year end.
    - The credit institution has been identified by competent authorities as a **G-SII** or as an **O-SII**.
  - Credit institutions with an elevated level of NPEs. Those that report a NPL ratio above 5%. The NPL ratio is the ratio between the gross carrying amount of NPLs and advances and the total gross carrying amount of loans and advances.
- **Disclosure templates applicable to all credit institutions**. These templates should be disclosed more frequently than annually by credit institutions, and on an annual basis by all other credit institutions.
  - Template 1. Credit quality of forborne exposures.
  - Template 3. Credit quality of non-performing exposures by past due days.
  - Template 4. Performing and non-performing exposures and related provisions.
  - Template 9. Collateral obtained by taking possession and execution processes.
- **Disclosure templates applicable to significant credit institutions with a high level of NPE**. These templates should be disclosed on an annual basis.
  - Template 2. Quality of forbearance.
  - Template 5. Quality of non-performing exposures by geography.
  - Template 6. Quality of loans and advances by industry.
  - Template 7. Collateral valuation - Loans and advances at cost or amortised cost.
  - Template 8. Changes in the stock of non-performing loans and advances.
  - Template10. Collateral obtained by taking possession and execution processes - vintage breakdown.

3. Next steps

- Comments to this CP shall be submitted by **27 July 2018**.
- The Final GL will be published **before the end of 2018**, and apply from **31 December 2019**.

23/05/2018

- **Consultation Paper on RTS on the specification of the nature, severity and duration of an economic downturn**.
- **Consultation Paper on Guidelines for the estimation of LGD appropriate for an economic downturn**.

1. Context

Under the CRR, institutions shall use LGD and conversion factor (CF) estimates that are appropriate for an economic downturn if those are more conservative than the respective long-run average. In March 2017, the EBA launched a first consultation on RTS specifying the nature, severity and duration of an economic downturn, according to which institutions shall estimate the downturn LGD and CF.

In this context, the EBA has now published a second **Consultation Paper (CP) on RTS specifying the nature, severity and duration of an economic downturn**, which requires institutions to consider relevant macroeconomic and credit factors when specifying the nature of an economic downturn, among other aspects; as well as a **CP Guidelines (GL) for the estimation of LGD appropriate for an economic downturn**, which supplements the RTS and focuses on the methods institutions should use to quantify downturn LGD estimates.

2. Main points

<u>CP RTS on the specification of the nature, severity and duration of an economic downturn</u>

- **Definition of an economic downturn. This CP RTS sets out that an economic downturn should be considered as a multidimensional object defined by three aspects:**
    - Its <u>nature</u> which is specified via the economic factors that are explanatory variables or indicators of the business cycle for the considered type of exposure.
    - Its <u>severity</u> which is specified via the most severe values observed on the relevant economic factors over a given historical period.
    - Its <u>duration</u> which is specified via the concept of the downturn periods (i.e. period of time where the peaks or troughs of one or several economic factors are observed).
- **Nature of an economic downturn**. This CP RTS establishes that institutions shall identify the nature of an economic downturn by considering several economic factors as relevant:
    - For <u>all exposures</u>, factors such as: GDP, unemployment rate, etc.
    - For <u>specific exposures</u>, factors such as: sector or industry-specific indices (for exposures to corporates and retail SMEs), house prices or house price indices (for residential real estate exposures to corporates and retail obligors), etc.
- **Severity of an economic downturn.** This CP RTS sets out that institutions shall identify the severity of an economic downturn which shall be the most severe value relating to a 12-month period observed on the historical values of this economic factor for a minimum period that shall be one of the following: i) the preceding 20 years, ii) a minimum period shorter than the precedent 20 years, if the considered relevant economic factor has been subject to a significant change and; iii) a longer period than the preceding 20 years, if the values observed are not sufficiently severe.
- **Duration of economic downturn.** This CP RTS establishes that institutions shall apply a 12-month duration for each downturn period which shall be the calendar year or the 12 month period where the severity is observed on the relevant economic factor selected and associated to the considered downturn period.

<u>CP GL para la estimación de la LGD downturn</u>

- **Incorporation of the impact of the identified economic downturn into the IRB modelling**. This CP GL specifically addresses the impact that an economic downturn might have on the realised losses and thus on the LGD estimation for a considered type of exposure, differentiating between two situations:
    - Where the impact of an economic downturn has been observed and is covered by loss data that the institution has collected for the considered type of exposures.
    - Where such impact has not been observed (e.g. because the downturn periods have occurred too far back in the past here the institution did not collect the relevant loss data).
- **Allowed approaches where no loss data is available for a considered downturn period**. This CP GL establishes that when LGD estimates cannot be quantified based on the institutions observed loss data, they are allowed to use the following approaches: i) extrapolation approach, ii) haircut approach, iii) combination of the two previous approaches and; iv) preferred modelling approach, but a floor of the downturn LGD estimates is set (in case there is no loss data available and institutions can justify the not application of the mentioned approaches).
- **Reference value**. This CP GL proposes a reference value which acts as a challenger to the final downturn LGD estimation and as a guide to the regulatory expectation as regards to the level of quantification.

3. Next steps

- The Final RTS on economic downturn shall enter into force on the **31 December 2019**.
- The Final GL for downturn LGD estimation **will be included** into the Final GL on PD, LGD estimation and defaulted assets published by the EBA in November 2017.

24/05/2018

- **2017 List of O-SIIs in the EU notified to the EBA**.

1. Context

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

In this regard, the EBA has published the **2017 annual 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 following criteria provided in the EBA Guidelines: size, importance (substitutability or financial system infrastructure), complexity (or cross-border activities) and interconnectedness of such institutions.

2. Main points

- Relevant authorities identified a total of **201 institutions as O-SIIs** in the EU, based on 2017 data.
- This list also includes the **additional capital buffers** that the relevant authorities have set for each O-SII identified. The buffers applied range between 0% and 2%.

3. Next steps

- Updated list 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.
- Additional capital buffers will become applicable at least **1 year** after the publication of the O-SIIs list.

04/06/2018

- **Final Draft on ITS amending Commission Implementing Regulation (EU) 650/2014 on the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities**
- **Annex I / Annex II / Annex III / Annex IV / Annex V**

1. Context

In November 2014, the European Commission (EC) published the Implementing Regulation 650/2014 on supervisory disclosure, which specifies the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities (CAs). However, since the adoption of this Implementing Regulation the EU supervisory landscape has changed and new regulations and guidelines affecting also supervisory disclosure have been enacted.

In this context, after the consultation launched in September 2017, the EBA has now published the **Final ITS amending Commission Implementing Regulation (EU) 650/2014 on the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities** in order to take into account changes to the EU legal framework, namely the following: i) the Liquidity Coverage Ratio (LCR) Delegated Act; ii) the EBA Guidelines on the Supervisory Review and Evaluation Process (SREP); and iii) the establishment of the Single Supervisory Mechanism (SSM).

In particular, these Final ITS clarify the level of consolidation and the approach to be taken when aggregating the data, amend the relevant annexes, and add instructions to fill in the templates on supervisory disclosure. Despite these amendments, the structure and the legal basis of both the revised ITS and of its related annexes remain unchanged.

2. Main points

- A **consolidated approach** in line with the existing reporting framework is specified, with the aim of avoiding additional burdens and increasing the comparability of the data.
- The **scope and the division of supervisory responsibilities to disclose information** between the ECB and National Competent Authorities (NCAs) within the SSM is clarified. Thus, the NCAs shall publish aggregated statistical data for less significant supervised entities while the ECB shall publish aggregated statistical data in relation to significant supervised entities.
- The relevant **annexes of the amending ITS**, which shall continue to be filled in by CAs by the 31 July of each year with reference to data and information of the preceding year, are amended as follows:
    - Annex I on rules and guidance. This template and its structure will in substance stay in their current form. The proposed amendments aim primarily to correct references and the model approval section now also covers the respective information for market risk and counterparty credit risk.
    - Annex II on options and discretions (O&Ds). This template has been updated to:
        - Consider the new O&Ds stemming from the LCR Delegated Act.
        - Provide more clarity, specifying which O&Ds are permanent and which transitional.
        - Distinguish between the information for credit institutions and the information for investment firms, since it is possible to exercise O&Ds for credit institutions and investment firms in a specific jurisdiction in different ways. It also differentiates between O&Ds whose exercise has been entrusted to CAs and O&Ds whose exercise has been entrusted to Member States (e.g. on large exposures).
    - Annex III on SREP. This template has been updated to incorporate EBA's new Guidelines on SREP which introduce the Internal Liquidity Adequacy Assessment Process (ILAAP).
    - Annex IV on aggregate statistical data. This template has been amended to clarify the level of consolidation and approach to be taken when aggregating and computing the data. In addition, some other minor amendments have been made (e.g. two missing formulas have been added, wording related to IRB has been corrected, etc.).
    - New Annex V on instructions for the provision of information in accordance with Annexes I, II, III and IV. This annex has been added in order to enhance transparency, ensure consistency between the templates and the instructions, and reduce the occurrence of different interpretations between CAs.

3. Next steps

- This ITS will be submitted to the EC for endorsement, following which they will be published in the Official Journal of the European Union (OJEU).

26/06/2018

- **Consultation Paper on Guidelines on outsourcing arrangements**
- **Annex (register templates for GIs on outsourcing)**

1. Context

In December 2006, the Committee of European Banking Supervisors published Guidelines on outsourcing in order to promote greater consistency of supervisory approaches regarding outsourcing within the national legal frameworks. In a context of digitalisation and increasing importance of new financial technology (FinTech) providers, outsourcing is a way to get relatively easy access to these new technologies and to achieve economies of scale.

In this regard, the EBA has published a **Consultation Paper (CP) on Guidelines (GL) on outsourcing arrangements**, which reviews the existing CEBS GL, and aims at establishing a more harmonised framework for outsourcing arrangements of all financial institutions in the scope of the EBA's action. In particular, this CP covers the following aspects: i) governance of outsourcing arrangements; ii) IT outsourcing, including FinTech and outsourcing to cloud service providers; and iii) supervision and concentration of risks.

This CP GL applies to credit institutions and investment firms subject to CRD IV, but also payment institutions subject to the Payment Services Directive (PSD2) and electronic money institutions subject to the e-money Directive (EMD).

2. Main points

- **Governance of outsourcing arrangements**. This CP GL sets out that, among others:
  - Institutions and payment institutions should have sound internal governance arrangements, which include a clear organisational structure, that aim at ensuring that there is effective day to day management and oversight by the management body, or there are a sound outsourcing policy and outsourcing processes, among others.
  - Institutions and payment institutions must determine whether the function to be outsourced is considered critical or important. They should consider certain criteria (e.g. whether the proposed outsourcing arrangement is directly connected to the provision of banking or payment services for which they are authorised), to ensure a more harmonised assessment of the criticality or importance of functions.
  - When outsourcing processes, services or activities to service providers, institutions and payment institutions must not only consider the ongoing costs, but also the need to oversee and control outsourced processes, services or activities and the risks that result from outsourcing.
  - In order to manage all risks, institutions and payment institutions should assess the risks that result or may result from IT services' outsourcing arrangements to third parties, in particular their operational and reputational risk.
  - Institutions need to consider also the likelihood that they might be obliged to bail out service providers, if they depend heavily on their services (as reflected in the BCBS GL on step-in risk).
  - Regarding intragroup outsourcing, institutions and payment institutions need to take into account conflicts of interests that may be caused by outsourcing arrangements (e.g. between different entities within the scope of consolidation).
  - Institutions and payment institutions need to manage the contractual relationship; this includes evaluating and monitoring the ability of the service provider to fulfil the conditions included in the written outsourcing agreement.
  - Outsourcing arrangements also need to be considered in the context of institutions recovery and resolution planning. Business decision to outsource any functions should not in any way impede the resolvability of the institution.
- **IT outsourcing, including FinTech and outsourcing to cloud service providers**. This CP GL establishes that, among others:
  - Institutions and payment institutions must ensure that sensitive data, including personal data, are adequately protected and kept confidential. In this regard, when outsourcing IT or data it is imperative that business continuity and data protection aspects are appropriately considered.
  - As cloud service providers often operate a geographically dispersed computing infrastructure that entails the regional and/or global distribution of data storage and processing, specific requirements for data and data processing are required.
  - Regarding sub-outsourcing, it requires ex ante notification to institutions and payment institutions in case of outsourcing of critical or important functions.

2. Main points (continues)

- **Supervision and concentration risks**. This CP GL sets out that, among others:
    - Competent authorities (CAs) should have a comprehensive overview on outsourcing arrangements of institutions and payment institutions, to be able to exercise their supervisory powers. To this end, institutions and payment institutions should also document all their outsourcings.
    - CAs should identify concentrations of outsourcing arrangements at service providers, as the need to monitor and manage concentration risk is particularly relevant to certain forms of IT outsourcing, including cloud outsourcing, which are dominated by a small number of highly dominant service providers.

3. Next steps

- Comments to this CP GL shall be submitted by **24 September 2018**.
- The Final GL are expected to be applied from **30 June 2019** (indicative date) and will repeal the CEBS GL on outsourcing.

03/04/2018
Draft Guide to internal models – General topics chapter.

1. Context

In February 2017, the ECB issued a Guide to the Targeted Review of Internal Models (TRIM) addressed to the management of significant institutions, which sets out its view on the appropriate supervisory practices and spells out how the ECB intends to interpret the relevant EU law on internal models and on general model governance topics. The Guide to the TRIM covers four main chapters: general topics, credit risk, market risk, and counterparty credit risk.

In this context, the ECB has now published a **Draft Guide to internal models**, which covers the update of the first chapter of the Guide to the TRIM, for consultation. In particular, this first chapter is devoted to general topics and contains principles for the following non-model-specific topics: i) overarching principles for internal models, ii) roll-out and permanent partial use, iii) internal governance, iv) internal validation, v) internal audit, vi) model use, vii) management of changes to the IRB approach, and viii) third-party involvement.

Moreover, it should be highlighted that the section on overarching principles for internal models covers all Pillar 1 internal models regarding credit risk, market risk and CCR (unless stated otherwise), whereas all subsequent sections only cover credit risk Pillar 1 models. All other models, including operational risk models, Pillar 2 and managerial models are not included in the scope of this Draft Guide, unless otherwise mentioned.

2. Main points

- **Overarching principles for internal models**. Among others, this Draft Guide sets out that institutions should develop binding group-wide (i.e. consolidated) principles and guidelines relating to the life cycle of internal models; document all internal models; implement a model risk management framework; clearly define the roles and responsibilities of their management body and senior management with regard to internal models and in relation to each risk type; carry out an annual validation of all internal models; and regularly review internal models by an independent internal audit unit.
- **Roll-out and permanent partial use**. This Draft Guide covers the application of the IRB approach (i.e. quantitative and qualitative aspects), governance of the roll-out plan for the IRB approach, changes to the roll-out plan for the IRB approach, and monitoring of compliance with permanent partial use provisions.
- **Internal governance**. This Draft Guide provides principles regarding the materiality of rating systems, the management body and senior management (including decision-making responsibilities, internal reporting, and understanding of the rating systems), and responsibilities of the credit risk control unit (CRCU).
- **Internal validation**. This Draft Guide covers the validation level (consolidated, sub-consolidated or individual basis) at which internal validation should be performed; the content and frequency of tasks of the validation function; as well as the reporting and follow-up to the senior management and the management body.
- **Internal audit**. This Draft Guide establishes that the internal audit unit should carry out, annually and on the basis of up-to-date information, a general risk assessment of all aspects of the rating systems for the purpose of drawing up the appropriate internal audit work plan, and should execute this plan.
- **Model use**. This Draft Guide covers issues regarding the use test requirement; risk management, credit approval and decision-making process; internal capital assessment and allocation; corporate governance functions; and assignment of exposures to grades or pools (including non-rated exposures and outdated ratings, as well as analysis of overrides)
- **Management of changes to the IRB approach**. This Draft Guide sets out that institutions should have in place a policy related to changes to the IRB Approach, including detailed criteria to ensure that the classification of changes is consistent and that any arbitrage in that regard is avoided. Further, this document provides issues regarding the content of the change policy, notification process, classification of changes/extensions, impact assessment process, and re-rating process.
- **Third-party involvement**. This Draft Guide provides preliminary principles on outsourcing and contract requirements, and on third-party involvement in internal functions and tasks (e.g. internal validation and internal audit tasks, and use of external credit risk parameters or ratings).

3. Next steps

- Comments to this Draft Guide shall be submitted by **28 May 2018**.

EUROPEAN CENTRAL BANK
EUROSYSTEM

29/05/2018
Guide to fit and proper assessments - revised version.

1. Context

Since November 2014 the ECB has been responsible for taking decisions on the appointment of all members of the management bodies of the significant credit institutions under its direct supervision. In this regard, the ECB published a Guide to fit and proper assessment in May 2017, and the ESMA and the EBA jointly published a Guidelines (GL) on the assessment of the suitability of members of the management body and key function holders as well as a GL on internal governance in September 2017.

In this context, the ECB has issued a **revised Guide to fit and proper assessments of members of the management bodies** of significant credit institutions, which updates the previous version of this Guide published in May 2017. In particular, this Guide aims at explaining in greater detail the policies, practices and processes applied by the ECB when assessing the suitability.

This Guide is **not a legally binding document** and cannot in any way substitute the relevant legal requirements stemming either from applicable EU law or applicable national law. Further, it does not replace the guidance provided by the ESMA and EBA GL on suitability or by the EBA GL on internal governance.

2. Main points

- **Scope**. This Guide covers fit and proper assessments of members of the management body, both in their management function (executives) and supervisory function (nonexecutives) of all significant institutions; and in the case of licensing or qualifying holdings also of less significant institutions.
- **Principles**. The ECB follows 6 principles when performing fit and proper assessments: i) primary responsibility of supervised entities when selecting individuals for the management body; ii) role of the ECB as a gatekeeper; iii) consistency; iv) proportionality and case-by-case assessment; v) due process and fairness; and vi) interaction with ongoing supervision.
- **Assessment criteria**. The fitness and propriety of members of the management body is assessed against 5 criteria (in line with the above-mentioned EBA's Guidelines):
    - Experience. It is assessed against presumptions based on thresholds (e.g. for CEO, 10 years of recent practical experience). If the thresholds are not met, the appointee can still be considered suitable if the entity can justify, which is analysed by conducting a full detailed assessment.
    - Reputation. An appointee is considered to be of good repute if there is no evidence to suggest otherwise. Nonetheless, the fact that an individual is (or has been) subject to proceedings is relevant to propriety. In this regard, the competent authorities (CAs) must always be informed of legal proceedings.
    - Conflicts of interest and independence of mind. The supervised entity and the appointee should notify the CA of any conflicts of interest. Moreover, the supervised entity shall assess the materiality of the risk posed by the conflict of interest; and where a conflict of interest is considered to be material, it must adopt adequate measures. The CA will assess the materiality and the adequacy of the measures adopted.
    - Time commitment. The supervised entity should provide a minimum set of information (e.g. specification of the time commitment required for the role), and in certain cases additional information may be required. Regarding counting of directorships, the ECB takes into account the consolidated situation in its approach to counting.
    - Collective suitability. The supervised entity should provide certain information (e.g. a description of the composition of the management body, a statement on how the appointee will contribute to its collective suitability needs, etc.).
- **Interviews**. Interviews are one of the tools used in the information gathering phase. In this regard:
    - Interviews are mandatory in the case of new appointments for CEO and Chairman positions at stand-alone banks and the top banks of groups, and in all other cases interviews are optional.
    - An informative interview covers all elements of suitability and if there are still concerns after this interview, a second specific interview focusing on the facts that gave rise to the concerns may be conducted.
- **Assessment process**. A fit and proper assessment can be triggered by: i) a new appointment, a change of role or a renewal (e.g. when a non-executive member is appointed as executive director); ii) new facts (e.g. report of a breach, facts alleged in newspapers, etc.); iii) a licensing or qualifying holding procedure.
- **Decision**. After every assessment a formal ECB decision is taken, and an appointee is either considered fit and proper or not. The ECB has the power to include recommendations, conditions or obligations in positive decisions.
- **Removal of members from the management body**. The ECB has the power to remove at any time members of a significant supervised entity who do not fulfil the requirements.

EUROPEAN CENTRAL BANK
EUROSYSTEM

20/06/2018
Asset Quality Review - Phase 2 Manual.

1. Context

In March 2014, the ECB published its Manual for Asset Quality Review (AQR) in Phase 2 regarding on-site inspection which contains the methodology for assessing the valuations of assets of those supervised entities in the SSM. The AQR is a key component of the comprehensive assessment, which aims to enhance the transparency of the balance sheets of significant banks, trigger balance sheet repair where necessary, and rebuild investor confidence.

In this context, the ECB has updated its **Manual for the AQR** regarding the Phase 2, in order to reflect two major developments in the AQR methodology: i) the entry into force of the new accounting standard IFRS 9 on 1 January 2018; and ii) bank business models focused on investment services that have become increasingly important for ECB Banking Supervision, in particular in the context of Brexit.

2. Main points

- **Scope**. The AQR Manual is used by all parties involved in the execution of AQRs. Therefore, it is addressed to:
    - ECB Banking Supervision that leads the AQR exercises and conducts central quality assurance.
    - National supervisors form the national competent authorities (NCAs) that conduct quality assurance at the national level.
    - External consultants and auditors that support the execution of the exercises.
- **Updates of the AQR Manual**. The review focuses on the following aspects:
    - New accounting standard IFRS 9: the amendments ensure alignment in particular with the new approaches to determining impairments and classifying financial instruments. Moreover, the revised methodology focused on the assessment of provision levels on credit exposures (credit file review and collective provisioning) incorporates the IFRS 9 staging model, which introduces the concept of significant increase in credit risk since initial recognition, and forward-looking approach to provisioning based on expected credit losses.
    - Bank business models focused on investment services: the amendments broaden the scope of the fair value exposures review. Moreover, beyond the level 3 assets, the Manual includes complex and illiquid level 2 assets in the scope of the review and introduces some new methodological elements (e.g. additional valuation adjustment and fair value categorization of the sampled assets).

3. Next steps

- The updated methodology of this Manual will be applied in **AQR exercises going forward**.

GOBIERNO DE ESPAÑA

14/05/2018
Proyecto de Ley de Distribución de Seguros y Reaseguros privados

1. Context

In January 2016, the European Parliament and the Council published the Directive 2016/97 on insurance distribution, aimed at harmonizing national provisions on this matter.

In this context, after the publication of the Anteproyecto de Ley in May 2017, the Spanish Government has approved the **Proyecto de Ley (PL) de distribución de seguros y reaseguros privados**, which transposes the European Directive 2016/97 with the aim of adapting it to the Spanish legal system. In particular, the PL pursues two main objectives: i) increase consumer protection by enhancing transparency; and ii) establish a level playing field and competition on equal terms for all operators in the insurance sector.

2. Main points

- **Conduct and transparency rules** are enhanced. This PL establishes additional requirements for Insurance-Based Investment Products (IBIPs) distribution, in order to avoid conflicts of interests that could undermine clients. Thus, the costumers should be informed of all costs and related charges; warned of the risks associated with the IBIPs or with certain proposed investment strategies; and where advice is given, provided with a regular assessment of the suitability of the investment product.
- **Cross-selling's definition** is introduced. This PL defines these sales as those that offer insurance-based products together with an ancillary product or service which is not insurance, and establishes that the insurance distributor shall inform the customer whether it is possible to buy the different components separately, and shall provide separate evidence of the costs and charges of each component.
- **Requirements on product's governance** (design, approval and control) are established. This PL determines that insurance distributors designing its own products for selling shall elaborate, maintain and review an approval process for each insurance product, or any potential amendments; and shall identify the target market.
- **Insurance and reinsurance distribution's market structure** is modified. This PL sets out the typology of distributors, considering as insurance and reinsurance distributors, beyond the traditional intermediaries (agents and brokers), the insurance and reinsurance undertakings, ancillary insurance intermediaries and insurance comparators. Moreover, in case of bank-insurance operators, the credit institution shall make its own distribution network available to more than one bank-insurance operator.
- **Insurance intermediaries may use websites or other marketing techniques**. This PL established that insurance intermediaries may use those techniques to provide information to the costumers by comparing prices and insurance covers of a limited number of insurance products from different undertakings.
- **Some requirements on the taking-up of the insurance business** are reinforced. This PL strengthens the professional knowledge and competence requirements for the insurance intermediaries, as well as for those employees of insurance undertakings who are involved in the distribution of insurance products.
- **Sanctions and penalties regime** is strengthened. This PL sets out specific procedures to register public complaints regarding breaches on this matter.

3. Next steps

- This PL will be submitted to the Congreso de los Diputados to launch the parliamentary procedure.

21/05/2018
Anteproyecto de Ley de Servicios de Pago.

1. Context

In November 2015, the European Parliament and the Council published the Directive 2015/2366 (PSD2), on payment services in the internal market, with the aim of creating an integrated framework for this type of services in the EU, addressing new challenges and proposed changes to the card-based transactions through internet or mobile payments, and reinforcing security in electronic payments.

In this context, the Spanish Government has approved in a first round the **Anteproyecto de Ley (APL) de Servicios de Pago**, which transposes the PSD2 in order to adapt this Directive to the Spanish legal system. In particular, this APL regulates the payment services provided in Spain, the form of provision of these services, the legal system of payment institutions, the information and transparency regime applicable to payment services, and the relevant rights and obligations for both the payment services and their providers.

2. Main points

- **Two new payment services** are introduced:
  - Payment initiation services: they are intermediaries, generally between merchants and consumers, that ensure a direct payment from the consumer to the merchant, and are considered as an alternative to card-based payments.
  - Account information services (account aggregators): they are institutions that consolidate all the information on one or more payment accounts held with one or more institutions by the relevant user and classify them by categories (e.g. income or expense categories).
- **Third parties access to banks' infrastructure** is provided. Thus, it is granted third parties access to the banks customers' accounts, either to aggregate the information or to initiate the payment process, on behalf and with customer's prior authorisation.
- **Strong customer authentication** requirement is introduced to access to an online account in order to improve security.
- The **amount of maximum losses** that the customer should bear relating to any unauthorised payment transaction resulting from the use of a lost or stolen card or from the misappropriation of another payment instrument is reduced, from 150€ to 50€.
- The **reply's timeframe for the resolution** by the institution of the payment services users' complaints is reduced to 15 days, instead of the two months previously established.
- An obligation for every entrepreneur or professional is introduced. In this regard, they should offer to consumers the possibility of using an applicable **payment instrument** under the future law, as an **alternative to cash**, where the transactions exceed the amount of 30€. The available payment instrument should be located in a visible place of the premises, institutions or installation of the professional entrepreneur.

3. Next steps

- This APL shall obtain the relevant opinions and will be submitted to the Consejo de Ministros in order to be approved as a Proyecto de Ley and therefore, launch the parliamentary procedure.

24/05/2018

Consulta Pública previa sobre el Proyecto de Ley de medidas para la transformación digital del sistema financiero.

1. Context

The digital transformation of the economy and in particular of the financial system entails a structural challenge that allows a deep transformation of manufacturing, commercialising and distributing processes of goods and services in the economy. In this regard, the possibility of establishing a regulatory sandbox, i.e. a set of provisions that entail the realization of controlled and defined tests within a project which could provide a technology-based financial innovation, has been analysed in Spain, in accordance with other similar systems established in other jurisdictions.

In this context, the Spanish Government has launched a **Consulta Pública previa sobre el Proyecto de Ley (PL) de medidas para la transformacion digital del sistema financiero**, with the aim of maintaining the effectiveness of the financial policy through an organised digital transformation, among other aspects. In particular, this PL covers proposals on the structural elements, functioning and other measures regarding the regulatory sandboxes.

2. Main points

- **Structural elements**. This PL establishes three structural elements which could act as key aspects within the regulatory sandbox, in particular:
    - It should be a controlled and a completely safe framework, under the monitoring of the supervisors and with maximum guarantees for the participants in those cases where the tests require the participation of real customers.
    - It should serve as a tool for improving supervision and synchronizing financial legislation with digital transformation.
    - It should be guided by a legal framework that ensures security on legal provisions, and at the same time, flexibility when determining in an ad hoc instrument, the scope, duration and other specific circumstances in which a test or set of tests will be performed.
- **Functioning**. This PL recommends to take into account three phases regarding the functioning of a regulatory sandbox, in particular: i) the taking-up regime, ii) the regime of guarantees and customers' protection during tests, and iii) the exit regime and subsequent effects. Regarding these three phases, it should be highlighted:
    - The principle of equal treatment, which requires to open the submission of projects to any type of institutions, provided that those projects provide real added value.
    - The correspondence principle between the allocation of responsibilities and the process of decision-making within the current legal framework.
- **Other measures**. This PL sets out other measures beyond the regulatory sandbox, that promote digital transformation, such as the establishment of channels for an agile, transparent and direct communication with public authorities, or the exploitation of synergies between the acquired knowledge of the regulatory sandbox and its subsequent practical implementation by competent authorities and institutions.

3. Next steps

- Comments to this Consulta Pública previa sobre el Proyecto de Ley shall be submitted by **7 July 2018**.

BANCO DE ESPAÑA
Eurosistema

16/04/2018
Consulta Pública previa a la elaboración del Proyecto de Circular por la que se modifica la Circular 4/2017 a entidades de crédito, sobre normas de información financiera pública y reservada, y modelos de estados financieros.

1. Context

In January 2016, the IASB published IFRS 16 which set out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. Moreover, in December 2017, the BdE published the Circular 4/2017 on public and confidential financial information standards and formats, that supersedes Circular 4/2004, aimed to adapt the current accounting framework of the Spanish credit institutions to the International Financial Reporting Standards (IFRS).

In this context, the BdE has launched a **Public consultation prior to the preparation of the Draft Circular amending Circular 4/2017**, aiming at establishing certain amendments on provisions set out regarding IFRS 16. Furthermore, the Draft Circular will enable the introduction of enhancements that will facilitate the reporting of financial statements.

2. Main points

- **Objective of the Draft Circular.** The Draft Circular aims at achieving compatibility between the national accounting framework for credit institutions and the IFRS accounting framework.
- **Issues identified.** The Circular 4/2017, whose application is mandatory for all credit institutions when developing individual annual accounts, includes criteria on leasing transactions that are different from those established by IFRS16.
- **Regulatory measures.** The approval of a new Circular amending Circular 4/2017 regarding current criteria applicable to certain leasing operations is required.

3. Next steps

- Comments to this consultation shall be submitted by **28 April 2018**.
- This Circular is expected to be finalised in **2018**, and its application date is expected by **1 January 2019**, i.e. the same application date as IFRS 16.

25/06/2018

- **Proyecto de Circular, por el que se modifican la Circular 4/2017, sobre normas de información financiera pública y reservada, y modelos de estados financieros, y la Circular 1/2013, sobre la Central de Información de Riesgos (CIR)**
- **Anejo 1 del Proyecto de Circular**

1. Context

In January 2016, the IASB published IFRS 16 which set out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. Moreover, in December 2017, the BdE published the Circular 4/2017 on public and confidential financial information standards and formats, that supersedes Circular 4/2004, aimed to adapt the current accounting framework of the Spanish credit institutions to the International Financial Reporting Standards (IFRS).

In this context, the BdE has published a **Draft Circular amending Circular 4/2017 on public and confidential financial information rules and formats, and the Circular 1/2013 on the Risk Information Centre (CIR)**, aiming at establishing certain amendments on provisions set out regarding IFRS 16. In particular, this Draft is structured in two standards that update the Circular 4/0217 and the Circular 1/2013.

Along with this Draft Circular, the annex 1 introduces a new statement FI 142.1-1, and the new statement FI 151 in the new annex 4 of the Circular 4/2017.

2. Main points

- **Update of Circular 4/2017.** This Draft Circular introduces the following amendments:
  - The standard 33 on leases is replaced in order to adapt the criteria set out in IFRS 16. Thus, the lessee should not already classified all contracts as operating or financial lease, although it will record all these contracts on the balance, recognising a liability for lease by the amount of the committed payments, and an asset for the right of use of the asset leased, that will be presented along with the other assets of the same nature, by an amount equal to the liability plus certain costs.
    - The lease contracts with an initial period equal or lower to 12 months, as well as those where the leased asset is of low value may be treated as **expenditure charged to results** in line or other systemic pattern, if the latter is more representative.
    - The **sale and leaseback transactions** are also amended for mainly adapting their accounting record to the new treatment of the lessee.
    - The new criteria set out for standard 33 on leases also introduce changes into **individual and consolidated public balance models**, the drafting standard on the **profits and losses public account**, and the breakdowns required in the **annual report**.
  - The standard 1 on the scope of the confidential financial information as set out in FINREP, is clarified.
  - The frequency of reporting on the individual public balance set out in the standard 4 is amended, as it changes from monthly to quarterly.
  - The provisions 97, 99 and 166 set out in the Annex 9 are amended in order to establish that those transactions included in a special agreement on debt sustainability, that will continue without being classified as non-performing exposures, may be identified as forbearance or forborne transactions.
  - The individual and consolidated profits and losses account models are amended for enhancing their alignment with the income statement of FINREP.
  - Certain balance and profits and losses account's requirements are simplified, and the frequency of reporting of connected parties' information regarding individual confidential statements are reduced. Regarding consolidated and confidential information, for the purposes of monetary and statistical policy, the statement F 40 of FINREP will be reported on a quarterly basis.
- **Update of Circular 1/2013.** This Draft Circular introduces amendments in the second, third, fourth, sixth, eleventh, and fifteenth standards in order to correct those errors detected in the first months of implementing the amendments introduced in this Circular by the Circular 1/2017 (which amends Circular 1/2013). Furthermore, minor amendments are introduced in annexes 1 and 2.

3. Next steps

- Comments to this Draft Circular shall be submitted by **13 July 2018**.
- The final Circular will entry into force by **1 January 2019**, i.e. the same application date as IFRS 16.

12/04/2018

Proposal for a Rulemaking on amendments to the Regulatory Capital, Capital Plan and Stress Test Rules.

1. Context

The resiliency of large financial institutions is critical to the stability of the financial sector. In this regard, the Fed's stress testing and the Comprehensive Capital Analysis Review (CCAR) programs have significantly increased the resiliency of the banking sector and led to stronger capital planning practices at large bank holding companies.

In this context, the Fed has now published a Pr**oposal for a Rulemaking on amendments to the Regulatory Capital, Capital Plan and Stress Test Rules**, in order to simplify its capital rules for large banks while preserving strong capital levels that would maintain their ability to lend under stressful conditions; reduce burden for smaller, less complex firms; and align certain elements of the stress test with expected actions by banking firms in a stress scenario. In particular, the Proposal covers the integration of certain elements of the Fed's capital regime (e.g. new stress buffer requirements), changes to CCAR, and changes to capital plan rule procedures.

This Proposal would apply to bank holding companies with $50 billion or more in total consolidated assets and US intermediate holding companies of foreign banking organizations.

2. Main points

- **Integration of certain elements of the Fed's capital regime**. The Proposal would simplify the Fed's overall capital regime by integrating the capital rule and CCAR. Further, it introduces the following amendments:
  - A risk-based stress capital buffer requirement, which would be calculated as the difference between the firm's starting and lowest projected CET1 ratio under the severely adverse scenario of the supervisory stress test (calculated using the standardized approach), plus the firm's planned common stock dividends for each of the fourth through seventh quarters of the planning horizon. This buffer would be no less than 2.5% of RWAs (replacing the static 2.5% buffer requirement under the standardized approach).
  - A stress leverage buffer requirement, which would be calculated as the difference between firm's starting and minimum projected tier 1 leverage ratio under the severely adverse scenario of the supervisory stress test, plus the firm's planned common stock dividends for each of the fourth through seventh quarters of the planning horizon (expressed as a percentage of the leverage ratio denominator). This buffer would not have a floor, as there is no applicable leverage buffer requirement today, and would apply to all firms subjected to the supervisory stress test.
  - Limitations on capital distributions and discretionary bonus payments, as firms would be required to maintain capital ratios above its minimum plus its buffer requirements in order to avoid the application of such restrictions (e.g. dividend payments, or discretionary bonus payments made to executive officers).
  - Assumptions related to planned capital distributions, such as that the Fed would no longer assume that a firm makes any repurchases or redemptions of any capital instruments; or that the Fed would eliminate the 30% dividend payout ratio.
  - Adjusting assumptions about balance sheet behavior, as the Fed would modify the approach to balance sheet projections in its supervisory test and the Stress Testing Policy Statement in order to include an assumption that the firm takes actions to maintain a constant level of assets, including loans, trading assets, and securities over the planning horizon, among others.
- **Changes to CCAR**. The Proposal would modify certain elements of CCAR to reflect the introduction of the stress buffer requirements. Specifically, the Fed would no longer object to a firm's capital plan based on a quantitative assessment of the firm's capital adequacy because the firm's distributions would be subject to ongoing limitations under the capital rule based on its stress buffer requirements. For the largest and most complex firms, the qualitative review of a firm's capital plan and planned capital actions would continue to take place through the CCAR program.
- **Changes to capital plan rule procedures**. The Proposal would revise the procedures for a firm to request reconsideration of a qualitative objection to its capital plan and would apply the same procedures to allow a firm to request reconsideration of its stress buffer requirements.

3. Next steps

- Comments on this Proposal shall be submitted for **60 days after date of publication** in the Federal Register.
- The Proposal would be effective on **December 31, 2018**. However, a firm's first stress buffer requirements would generally be effective on **October 1, 2019**.

18/06/2018

Final rule on Single-Counterparty Credit Limits for Bank Holding Companies and Foreign Banking.

1. Context

According to section 165(e) of the Dodd-Frank Act, the Fed is required to impose limits on the amount of credit exposure that a bank holding company (BHC) or foreign banking organization (FBO) can have to an unaffiliated company in order to reduce the risks arising from the company's failure.

In this context, following the proposal issued in March 2016, the Fed has now published a **Final rule on Single-Counterparty Credit Limits (SCCL) for bank holding companies and foreign banking**, in order to prevent concentrations of risk between large banking organizations and their counterparties from undermining financial stability. In particular, this Final rule applies credit limits that increase in stringency as the systemic footprint of a firm increases.

The SCCL in the final rule apply to the credit exposures of a covered company on a consolidated basis, including any subsidiaries, to any unaffiliated counterparty.

2. Main points

- **Scope of the SCCL**. This Final rule applies to:
  - U.S. G-SIB (major covered companies) and any BHC with total consolidated assets of $250 billion or more (collectively, covered companies).
  - FBOs with $250 billion or more in total global consolidated assets, and their subsidiary U.S. intermediate holding companies (IHCs) with total assets of $50 billion or more (covered foreign entities).
- **SCCL applicable to covered companies**. This Final rule applies the following limits to:
  - <u>Covered companies that are not major covered companies</u>: their aggregate net credit exposure to a counterparty cannot exceed 25% of a covered company's Tier 1 capital.
  - <u>Major covered companies (U.S. G-SIBs)</u>:
    - Their aggregate net credit exposure to a **major counterparty** cannot exceed 15% of a major covered company's Tier 1 capital.
    - Their aggregate net credit exposure to **any other counterparty** cannot exceed 25% of a major covered company's Tier 1 capital.
- **SCCL applicable to U.S. IHCs**. This Final rule applies the following limits to:
  - <u>U.S. IHCs that have total consolidated assets of at least $50 billion but less than $250 billion</u>: their aggregate net credit exposure to a counterparty cannot exceed 25% of the IHC's total regulatory capital plus the balance of its allowance for loan and leases losses (ALLL) not included in Tier 2 capital.
  - <u>U.S. IHCs that have $250 billion or more in total consolidated assets but are not major U.S. IHCs</u>: their aggregate net credit exposure to a counterparty cannot exceed 25% of the IHC's Tier 1 capital.
  - <u>U.S. IHCs that have $500 billion or more in total consolidated assets (major U.S. IHCs)</u>:
    - Aggregate net credit exposure of a major U.S. IHC to a **major counterparty** cannot exceed 15% of the IHC's Tier 1 capital.
    - Aggregate net credit exposure of a major U.S. IHC to **any other counterparty** cannot exceed 25% of the IHC's Tier 1 capital.

3. Next steps

- This final rule is effective **60 days after its publication** in the Federal Register.
- GSIBs and major U.S. IHCs will be required to comply with these limits by **January 1, 2020**, and all other firms and covered foreign entities that are not FBOs or major U.S. IHCs are required to comply by **July 1, 2020**.

25/06/2018
Dodd-Frank Act Stress Test 2018: 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) and US Intermediate Holding Companies (IHCs) with $100 billion or more in total consolidated assets and any nonbank financial company that the Financial Stability Oversight Council (FSOC) 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 2018** (DFAST 2018), in which 35 firms have participated. In conducting its supervisory stress tests, the Fed calculated its projections of each firm's balance sheet, risk-weighted assets (RWAs), net income, and resulting regulatory capital ratios under the adverse and severely adverse scenarios. For DFAST 2018, the Fed updated the calculation of projected capital to reflect changes in the tax code associated with the passage of the Tax Cuts and Jobs Act (TCJA) in December 2017.

The results of the DFAST 2018 projections suggest that, in the aggregate, the 35 firms would experience substantial losses under both the adverse and the severely adverse scenarios but could continue lending to businesses and households, due to the substantial accretion of capital since the financial crisis.

2. Main points

- **Severely adverse scenario.**
  - Losses are projected to be $578 billion for the 35 firms in the aggregate over the nine quarters of the planning horizon (the biggest sources of loss are accrual loan portfolios, and trading and counterparty losses).
  - The aggregate CET1 would fall from an actual 12.3% in the fourth quarter of 2017 to its minimum of 7.9% over the planning horizon (the individual projected capital ratios are detailed in the tables below).
- **Adverse scenario.**
  - Losses are projected to equal $333 billion for the 35 firms over the nine-quarter planning horizon (the accrual loan portfolio is the largest source of losses).
  - The aggregate CET1 would fall to its minimum of 10.9% over the planning horizon.

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 28, 2018**.

Table 4.A. Capital ratios, actual 2017:Q4 and projected 2018:Q1–2020:Q1 under the severely adverse scenario: Advanced approaches firms

Percent

Firm	Common equity tier 1 capital ratio			Tier 1 capital ratio			Total capital ratio			Tier 1 leverage ratio			Supplementary leverage ratio[1]		
	Actual 2017:Q4	Ending	Minimum	Actual 2017:Q4	Ending	Minimum	Actual 2017:Q4	Ending	Minimum	Actual 2017:Q4	Ending	Minimum	Actual 2017:Q4	Ending	Minimum
American Express Company	9.0	8.7	7.8	10.1	9.7	8.8	11.8	11.3	10.5	8.6	8.3	7.6	n/a	7.1	6.6
Bank of America Corporation	11.9	8.3	7.9	13.4	9.9	9.5	15.9	12.4	12.3	8.6	6.3	6.1	n/a	5.0	4.9
The Bank of New York Mellon Corporation	11.9	12.5	9.0	14.2	14.6	11.2	15.1	15.8	12.3	6.6	6.7	5.3	n/a	6.2	4.8
Barclays US LLC	13.1	11.3	9.6	15.7	13.8	12.1	18.8	16.7	14.8	8.2	7.1	6.5	n/a	5.7	5.3
Capital One Financial Corporation	10.3	5.8	5.7	11.8	7.1	7.1	14.4	9.6	9.6	9.9	6.0	6.0	n/a	5.1	5.1
Citigroup Inc.	13.0	9.2	7.2	14.5	10.8	8.8	17.8	14.0	12.1	8.8	6.5	5.4	n/a	5.0	4.2
Credit Suisse Holdings (USA), Inc.[2]	24.7	20.4	17.6	24.7	21.0	18.2	24.8	21.1	18.3	7.3	7.6	6.7	n/a	7.4	6.6
DB USA Corporation	16.5	12.7	12.2	25.9	22.2	21.7	25.9	22.5	22.0	7.2	5.7	5.7	n/a	5.2	5.2
The Goldman Sachs Group, Inc.	12.1	6.9	5.6	14.1	8.7	7.3	16.8	11.4	10.2	8.4	5.1	4.4	n/a	3.5	3.1
HSBC North America Holdings Inc.	15.5	8.1	8.1	18.3	10.9	10.9	22.8	15.3	15.3	8.9	5.2	5.2	n/a	4.0	4.0
JPMorgan Chase & Co.	12.2	7.9	7.2	13.9	9.5	8.8	15.9	11.9	11.0	8.3	5.6	5.3	n/a	4.4	4.2
Morgan Stanley	16.5	8.9	7.3	18.9	11.1	9.4	21.7	13.6	12.2	8.3	4.7	4.3	n/a	3.7	3.3
Northern Trust Corporation	12.6	12.5	11.7	13.8	13.7	12.9	15.8	16.1	15.4	7.8	7.6	7.3	n/a	6.7	6.4
The PNC Financial Services Group, Inc.	10.4	7.1	6.4	11.6	8.2	7.6	13.7	10.6	10.1	9.9	7.0	6.5	n/a	5.9	5.5
State Street Corporation	11.9	8.4	5.3	15.0	11.9	9.0	16.0	12.7	10.0	7.3	5.5	4.2	n/a	4.9	3.7
TD Group US Holdings LLC	16.0	13.3	11.2	16.0	13.3	11.2	17.0	14.5	12.4	8.8	7.4	6.4	n/a	6.6	5.6
U.S. Bancorp	9.3	7.7	7.5	10.8	9.1	8.9	12.9	11.0	10.8	8.9	7.5	7.4	n/a	6.0	5.9
Wells Fargo & Company	12.3	9.9	8.6	14.1	11.6	10.4	17.5	14.9	13.8	9.4	7.6	6.9	n/a	6.5	5.9

Table 4.B. Capital ratios, actual 2017:Q4 and projected 2018:Q1–2020:Q1 under the severely adverse scenario: Non-advanced approaches firms

Percent

Firm	Common equity tier 1 capital ratio			Tier 1 capital ratio			Total capital ratio			Tier 1 leverage ratio		
	Actual 2017:Q4	Ending	Minimum	Actual 2017:Q4	Ending	Minimum	Actual 2017:Q4	Ending	Minimum	Actual 2017:Q4	Ending	Minimum
Ally Financial Inc.	9.5	6.8	6.8	11.2	8.5	8.5	12.9	10.4	10.4	9.5	7.0	7.0
BB&T Corporation	10.2	8.0	7.9	11.9	9.6	9.5	13.9	12.0	11.9	9.9	7.8	7.8
BBVA Compass Bancshares, Inc.	11.8	7.6	7.6	12.1	8.0	8.0	14.4	10.3	10.3	10.0	6.4	6.4
BMO Financial Corp.	12.1	8.3	8.3	12.6	8.9	8.9	15.3	12.0	12.0	9.8	6.8	6.8
BNP Paribas USA, Inc.	12.4	7.9	7.9	12.8	8.4	8.4	15.0	10.9	10.9	9.3	5.9	5.9
Citizens Financial Group, Inc.	11.2	6.8	6.8	11.4	6.9	6.9	13.9	9.4	9.4	10.0	5.9	5.9
Discover Financial Services	11.6	9.5	8.9	12.3	10.1	9.5	13.8	11.8	11.3	10.8	8.8	8.5
Fifth Third Bancorp	10.6	7.5	7.5	11.7	8.5	8.5	15.2	11.8	11.8	10.0	7.1	7.1
Huntington Bancshares Incorporated	10.0	8.1	8.1	11.3	9.6	9.6	13.4	11.5	11.5	9.1	7.5	7.5
KeyCorp	10.2	6.8	6.8	11.0	7.6	7.6	12.9	9.8	9.8	9.7	6.6	6.6
M&T Bank Corporation	11.0	7.6	7.5	12.3	8.8	8.8	14.8	11.1	11.0	10.3	7.2	7.2
MUFG Americas Holdings Corporation	16.3	12.2	12.2	16.3	12.2	12.2	17.8	14.0	14.0	10.1	7.3	7.3
RBC USA Holdco Corporation	15.6	11.6	11.2	15.6	11.6	11.2	16.8	12.9	12.6	7.9	6.2	6.0
Regions Financial Corporation	11.1	8.1	8.1	11.9	8.9	8.9	13.8	11.0	11.0	10.0	7.3	7.3
Santander Holdings USA, Inc.	16.4	15.9	15.2	17.8	17.0	16.5	19.5	18.6	18.2	14.2	13.2	13.0
SunTrust Banks, Inc.	9.7	6.6	6.6	11.2	7.7	7.7	13.1	9.8	9.8	9.8	6.7	6.7
UBS Americas Holding LLC	21.9	17.4	16.4	24.3	21.6	20.6	25.8	24.0	22.9	8.9	7.8	7.5

29/06/2018

Comprehensive Capital Analysis and Review 2018: assessment framework and results.

1. Context

In November 2011, the Fed began requiring firms with consolidated assets of $50 billion or more to submit annual capital plans for review. In this regard, within the Comprehensive Capital Analysis and Review (CCAR), each firm must include in its annual capital plan its capital adequacy, capital planning process, and planned capital distributions. When the Fed objects to a firm's capital plan, the firm may not make any capital distribution unless expressly permitted by the Fed.

The CCAR includes both a quantitative assessment that evaluates a firm's capital adequacy and planned capital distributions, and a qualitative assessment of capital planning practices. Earlier 2017, the Fed amended the capital plan rule to remove large and noncomplex firms from the qualitative assessment of CCAR. Thus, for the 2018 exercise, the Fed will not disclose the current CCAR results for Bank Holding Companies with greater than or equal to $50 billion but less than $100 billion in total consolidated assets.

In this context, and following the publication of the Dodd Frank Act Stress Test 2018 results, the Fed has now published the assessment framework and results of the CCAR 2018, in which 35 firms have participated. Nonetheless, only 18 firms were subject to the qualitative assessment.

2. Main points

- **Quantitative assessment results**:
  - As in the 2017 CCAR, no firms were objected to on quantitative grounds (i.e. breaches of certain ratios) in CCAR 2018. However, the Fed has issued conditional non-objections to the capital plans of Goldman Sachs, Morgan Stanley, and therefore both firms have agreed to limit their capital distributions at the levels they paid in recent years. Further, the Fed also issued a conditional non-objection to State Street Corporation, and the firm will be required to take certain steps regarding the management and analysis of its counterparty exposures under stress.
  - The aggregate Common Equity Tier 1 ratio (CET1) for the firms participating in the CCAR 2018 would decline in the severely adverse scenario from 12.3% in 4Q17 to 6.3% at its minimum point over the planning horizon (from 1Q18 to 1Q20); whereas in the adverse scenario it would decline to 9.0%.
  - Firms have significantly increased their capital positions since 2009. In this regard, the CET1 ratio has more than doubled from 5.2% in 1Q09 to 12.3% in 4Q17. This reflects an increase of more than $800 billion in common equity capital.
  - 24 of the 35 firms participating in CCAR 2018 have estimated that their common equity will increase between 3Q18 and 2Q19 based on their planned capital actions and net income projections under their baseline scenario.
- **Qualitative assessment results**:
  - Most of the 18 firms have continued to strengthen their capital planning practices since last year, with a majority of those firms being close to meeting or meeting supervisory expectations for capital planning practices. However, specific weaknesses in data and IT infrastructure, internal audit, and model risk management have been identified.
  - The Fed only objected the capital plan of DB USA Corporation on qualitative grounds based on material weaknesses. In particular, these weaknesses are related to the firm's data capabilities and controls supporting its capital planning process, as well as weaknesses in its approaches and assumptions used to forecast revenues and losses under stress.

3. Next steps

- The Fed's decisions with regard to planned capital distributions in CCAR 2018 regarding Goldman Sachs, Morgan Stanley, State Street Corporation and DB USA Corporation will apply from the **beginning of 3Q18 through the end of 2Q19**.

13/04/2018

Proposed Rulemaking on amendments to the regulatory capital, enhanced Supplementary Leverage Ratio Standards for US G-SIBs and certain of their subsidiary IDIs, and to the TLAC requirements for US G-SIBs.

1. Context

In 2013, the Fed, the OCC, and the FDIC adopted a revised regulatory capital rules to address weaknesses that became apparent during the financial crisis of 2007-08, which required banking organizations to maintain a minimum leverage ratio (LR) of 4%. In 2014, these agencies published a final rule on the enhanced supplementary leverage ratio (eSLR), which requires US top-tier bank holding companies to maintain a supplementary LR (SLR) greater than 3% plus a leverage buffer of 2%, and to their Insured Depository Institution (IDI) subsidiaries a 6% SLR.

In this context, the Fed and the OCC have now published a **Proposed Rulemaking on amendments to the Regulatory Capital, the eSLR standards for US G-SIBs and certain of their subsidiary IDIs, and TLAC requirements for US G-SIBs**, that would further tailor LR requirements to the business activities and risk profiles of the largest domestic firms. In particular, this Proposal would tailor the current calibration of the eSLR standards applicable to G-SIBs and their Fed or OCC regulated IDI subsidiaries, and introduce relevant changes to the TLAC rule.

2. Main points

- **Scope of application.** The proposed changes to the eSLR rule would apply to G-SIBs (as identified by the G-SIB surcharge rule), and any IDI subsidiary of a G-SIB that is regulated by the Fed; whereas the amendments to the TLAC rule would apply only to US Bank Holding Companies (BHCs) with $50 billion or more in total consolidated assets and that has been identified as G-SIBs, and to covered Intermediate Holding Companies (IHCs).
- **Main amendments.**
    - Revision to the eSLR standards for G-SIBs. The Proposal would replace the current 2% leverage buffer that applies uniformly to all G-SIBs with a leverage buffer tailored to each G-SIB, set at 50% of each firm's G-SIB risk-based capital surcharge.
    - Revision to the eSLR standards for IDIs. The Proposal would modify the Prompt Corrective Action (PCA) framework for IDIs by replacing the current 6% threshold at which IDIs are considered 'well capitalized' with a threshold set at 3% plus 50% of the G-SIB surcharge applicable to the IDI subsidiary's G-SIB holding company.
    - Revision to the TLAC rule. The Proposal would amend the TLAC rule to replace G-SIB's 2% TLAC leverage buffer with a buffer set to 50% of the firm's G-SIB surcharge; and revise the leverage component of the long-term debt (LTD) requirement to equal total leverage exposure multiplied by 2.5 percent plus 50% of the G-SIB's applicable G-SIB surcharge. Moreover, it would make minor changes to the TLAC rule (e.g. regarding the calculation of LTD).

3. Next steps

- Comments on this Proposal will be accepted for **30 days after date of publication** in the Federal Register.

17/04/2018

Proposed Rulemaking on Regulatory Capital Rules: implementation and transition of the CECL methodology.

1. Context

In 2016, the Financial Accounting Standards Board (FASB) issued an update of the Accounting Standard on Financial Instruments - Credit Losses, which revised the accounting for credit losses under the U.S. Generally Accepted Accounting Principles (U.S. GAAP), introducing the current expected credit losses (CECL) methodology and the term purchased credit-deteriorated (PCD) assets, and modifying the treatment of credit losses on available-for-sale (AFS) debt securities.

In this context, the Fed, the OCC and the FDIC (the agencies) have now published a **Proposed Rulemaking on Regulatory Capital Rules: implementation and transition of the CECL methodology for allowances and related adjustments to the regulatory capital rules**, in order to improve consistency between the capital rules and U.S. GAAP. In particular, the proposed rule includes revisions to the capital rules to reflect the change in U.S. GAAP; the CECL transition provision; additional requirements for advanced approaches banking organizations; and disclosure and regulatory reporting.

This Proposal will apply to all banking organizations that are subject to the regulatory capital rules of the Fed, the OCC and the FDIC, and that file regulatory reports for which the reporting requirements are required to conform to U.S. GAAP.

2. Main points

- **Proposed revisions to the capital rules to reflect the change in U.S. GAAP**.
  - Introduction of allowance for credit losses (ACL), rather than allowance for loan and lease losses (ALLL), as a newly defined term. The Proposal sets out, among others aspects, that amounts of ACL would be eligible for inclusion in banking organization's tier 2 capital up to 1.25% of the banking organization's standardized total RWA; and that ACL would include allowances for ECL on held-to-maturity (HTM) debt securities and lessors' net investments in leases that have been established to reduce these assets to amounts expected to be collected.
  - Definition of carrying value. The Proposal revises this definition to provide that, for all assets other than AFS debt securities and PCD assets, the carrying value is not reduced by any associated credit loss allowance.
  - Additional considerations. The Proposal does not change the limit of 1.25% of RWAs governing the amount of ACL eligible for inclusion in tier 2 capital. However, an ongoing monitoring of the effects of this limit on regulatory capital and bank lending practices is considered.
- **CECL transition provision**.
  - Election of the optional CECL transition provision. The Proposal establishes, among others, that a banking organization that experiences a reduction in retained earnings as of the CECL adoption date may elect to phase in the regulatory capital impact of adopting CECL over a three-year transition period.
  - Mechanics of the CECL transition provision. The Proposal sets out that to calculate its transitional amounts under the CECL transition provision, an electing banking organization would compare its closing balance sheet amount for the fiscal year-end immediately prior to its adoption of CECL with its balance sheet amount as of the beginning of the fiscal year in which the electing banking organization adopts CECL for the following items: retained earnings, temporary difference deferred tax assets (DTAs), and credit loss allowances eligible for inclusion in regulatory capital. The differences would constitute the transitional amounts that the banking organization would phase in to its regulatory capital calculations over the proposed transition period (three years).
  - Business combinations. The Proposal sets out, among others, that an electing banking organization that acquires another banking organization during the period in which the electing banking organization is using its CECL transition provision would continue to make use of its transitional amounts based on its calculation as of the date of its adoption of CECL.
  - Supervisory oversight. The Proposal establishes that the agencies would use the electing banking organization's regulatory capital ratios as adjusted by the CECL transition provision in order to determine whether it is in compliance with its regulatory capital requirements.
- **Additional requirements for advanced approaches banking organizations**. The Proposal revises the definition of eligible credit reserves (ECR) and of total leverage exposures, and limits the CECL transitional amount for advanced approaches banking organizations that have an ECR shortfall.
- **Disclosure and regulatory reporting**. The Proposal revises the tables for electing advanced approaches banking organizations to disclose two sets of regulatory capital ratios, and anticipates proposing revisions to the regulatory reporting forms in the future.

3. Next steps

- Comments on this Proposal shall be submitted for **60 days after date of publication** in the Federal Register.

01/06/2018

Proposed Rulemaking on revisions to Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds.

1. Context

On 21 July 2010, the Dodd-Frank Act was enacted and in 2014 the Section 619 of the Dodd-Frank Act added a new section 13 to the Bank Holding Company Act of 1956 (BHC Act), also known as the Volcker Rule, that generally prohibits any banking entity from engaging in proprietary trading or from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund (covered fund), subject to certain exemptions.

In this context, after the recently enacted Economic Growth, Regulatory Reform, and Consumer Protection Act made several changes to the statutory Volcker rule provisions, the Fed, the OCC, the FDIC, the SEC and the CFT (the agencies) have published a **Proposed Rulemaking on revisions to Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds**, which is intended to streamline the Volcker rule by eliminating or modifying requirements that are not necessary to effectively implement its statute, without diminishing the safety and soundness of banking entities.

2. Main points

- **Proposal for tailoring the compliance requirements based on the size of a firm's trading assets and liabilities**. The agencies aim to further reduce compliance obligations for small and mid-sized firms that do not have large trading operations and therefore reduce costs and uncertainty faced by smaller and mid-size firms in complying with the final rule, relative to their amount of trading activity, subject to certain requirements. In this regard, the proposal distinguishes between:
    - Entities with <u>significant</u> trading assets and liabilities: equal to or exceeding $10 billion.
    - Entities with <u>moderate</u> trading assets and liabilities: less than $10 billion.
    - Entities with <u>limited</u> trading assets and liabilities: less than $10 billion.
- **Proposal for providing more clarity by revising the definition of trading account in the rule**. The agencies aim to rely on commonly used accounting definitions and therefore, they seek to streamline and clarify for all banking entities certain definitions and requirements related to the proprietary trading prohibition and limitations on covered fund activities and investments (e.g. trading desk, proprietary trading).
- **Proposal for clarifying that firms that trade within appropriately developed internal risk limits are engaged in permissible market making or underwriting activity**. The agencies are proposing to establish the articulation and use of internal risk limits as a key mechanism for conducting trading activity in accordance with the rule's underwriting exemption.
- **Proposal for simplifying the criteria that apply when a banking entity seeks to rely on the hedging exemption from the proprietary trading prohibition**. The agencies aim to reduce restrictions on the eligibility of an activity to qualify as a permitted risk-mitigating hedging activity (e.g. for banking entities with moderate or limited trading assets and liabilities the proposal would remove all current requirements except the requirement that hedging activity be designed to reduce or otherwise mitigate one or more specific, identifiable risks arising in connection with and related to one or more identified positions, contracts, or other holdings).
- **Proposal for limiting the impact of the Volcker rule on the foreign activity of foreign banks**. The agencies are proposing to: i) remove the requirement that no financing for the banking entity's purchase or sale be provided, directly or indirectly, by any branch or affiliate that is located in the United States or organized under the laws of the United States or of any state, and ii) eliminate certain limitations on a foreign banking entity's ability to enter into transactions with U.S. counterparty
- **Proposal for simplifying the trading activity information that banking entities are required to provide to the agencies**. The agencies aim to reduce metrics reporting, recordkeeping, and compliance program requirements for all banking entities and expand tailoring to make the scale of compliance activity required by the rule commensurate with a banking entity's size and level of trading activity.

3. Next steps

- Comments on this Proposal shall be submitted for **60 days after date of publication** in the Federal Register.

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

17/05/2018
Supervisory Statement (SS) 4/18 on financial management and planning by insurers.

1. Context

In November 2009, the European Parliament and the Council published Solvency II, which lays down rules concerning the taking-up and pursuit of self-employed activities of direct insurance and reinsurance, the supervision of insurance and reinsurance groups, and the reorganisation and winding-up of direct insurance undertakings. Regarding this Directive, the PRA has issued several documents on insurance supervision, corporate governance or the own risk and solvency assessment (ORSA), among others.

In this context, the PRA has published the **Supervisory Statement (SS) 4/18 on financial management and planning by insurers**, which sets out the PRA's expectations concerning: i) the development and maintenance of a risk appetite statement by insurers; ii) how insurers apply their risk appetite when developing and monitoring their medium term business and financial plans; and iii) the assessment of the suitability and sustainability of capital distribution plans in the context of the risk appetite.

This SS is addressed to all UK firms and groups that fall within the scope of the Solvency II Directive, and to the Society of Lloyd's and its managing agents (collectively referred to as insurers).

2. Main points

- **Risk appetite statement**. The PRA expects, among others, that:
  - The insurer's risk appetite is approved by the Board and documented in terms that are clearly understandable in a risk appetite statement, along with the rationale for the terms in which the risk appetite is expressed, among others.
  - The insurer's risk appetite statement includes the risk appetite for the levels of capital that are to be maintained in reasonably foreseeable market conditions. Further, this appetite is expected to take into account factors such as quality of capital resources, level of uncertainty in forecast earnings, or the results of stress and scenario testing, among others.
  - The risk appetite statement includes, in a proportionate manner, the insurer's appetite for the level of volatility of future dividend payments that it would be willing to make.
  - The risk appetite statement encompasses all the material risks that are relevant to the insurer, including market, underwriting, operational and liquidity management risks.
  - The communications to external stakeholders (e.g. shareholders, customers, and rating agencies) are consistent with the risk appetite statement.
- **Business and financial plans**. The PRA expects, among others, that:
  - The insurers have business plans consistent with their risk appetite and risk tolerance limits, and which show how they intend to generate revenue and earnings each year.
  - The insurers maintain regular management information (MI), and provide this MI to both relevant senior managers and the board, to show how they are performing against their plans. This MI should include information about whether any deviation from the plans is over the insurer's risk appetite or risk tolerance limits.
  - The insurers consider how they will address the risks and vulnerabilities to their business plans consistently with their risk appetite, including through an appropriate allocation of capital and through their risk management framework and controls.
  - The insurers' ORSA helps to ensure there are effective links between an insurer's business plan, risk appetite, and capital management plans.
  - The insurers and groups identify and analyse potential management actions, in response to stress scenarios, that are realistic, credible, and consistent with regulatory expectations.
- **Dividend suitability and sustainability**. The PRA expects, among others, that:
  - The insurers are able to demonstrate that any planned dividend payments are appropriate in relation to actual and projected business performance, and the current and future capital position of the insurer, taking account of its documented risk appetite.
  - The insurers have a dividend policy that takes account of its earning and their sustainability, and consider how dividend may be adjusted in the event of adverse financial performance that could result either from adverse market conditions, or from insurer-specific issues.
  - The insurers inform the PRA in advance where they are close to risk appetite, or where a proposed dividend would take an insurer close to risk appetite.

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

14/06/2018
Supervisory Statement (SS) 19/13 on Resolution planning.

1. Context

In July 2013, the FSB published the Guidance on Developing Effective Resolution Strategies, and in 2016 the Financial Services Authority (FSA) published the Consultation Paper (CP) 11/16 on Recovery and Resolution plans. According to these documents and to the PRA's experience on resolution planning, the PRA's revised approach is based on targeted information requests which are designed to be proportionate to the size and complexity of the firm.

In this context, the PRA has published the **Supervisory Statement (SS) 19/13 on resolution planning**, which sets out details on information that firms should submit to the PRA to facilitate resolution planning. In particular, information on resolution planning will be requested from firms in two phases: i) Phase 1, including a Phase 1A on corporate structure and significant legal entity information, and Phase 1B on economic functions; and ii) Phase 2, including Phase 2A on strategy-specific information requests, Phase 2B on critical function information requests, and Phase 2C on additional information requests. Moreover, the PRA could require firms ad hoc contingent information in certain specific circumstances.

This SS is aimed at UK banks, building societies, PRA designated investment firms and qualifying parent undertakings ('firms') to which the Resolution Pack Part of the PRA Rulebook applies.

2. Main points

- **Phase 1**. It outlines baseline information needed to establish a resolution strategy. It is structured in:
  - Phase 1A: corporate structure and significant legal entity information. This section aims at providing the authorities with sufficient information to assess the preferred resolution strategy for the firm. In this regard, all firms are expected to provide an overview of their business model, internal dependencies and external interconnectedness. In particular, this information should include:
    - **Group structure and key information on legal entities** (e.g. overview diagram of the significant legal entities of the group and ownership structure, or list of branches and subsidiaries).
    - **Business model** (e.g. overview of the firm's business model, core business lines, or an explication of how the business line is organised within the group).
    - **Capital and funding** (e.g. capital allocation and mobility, treasury function, funding, and intra-group guarantees).
    - **Activities and operations** (e.g. deposits analysis, access to financial market infrastructures, risk management practices, or counterparty risk management).
  - Phase 1B: economic functions. This section aims at identifying which of a firm's economic functions may be critical to the financial system, either domestically or internationally. In particular, this information should include:
    - **Deposit-taking and savings** (e.g. retail current accounts, SME current accounts, or corporate deposits).
    - **Lending and loan services** (e.g. retail mortgages, retail credit cards, SME lending, corporate lending, or trade finance).
    - **Capital markets and investment** (e.g. trading, derivatives, or asset management).
    - **Wholesale funding markets** (securities financing and securities lending).
    - **Payments, clearing, custody and settlement** (e.g. payment services, cash services, or third-party operational services).
- **Phase 2**. It outlines the detailed information needed to support the authorities' preferred resolution strategy while ensuring that critical economic functions are maintained. It is structured into:
  - Phase 2A: strategy-specific information requests. This information covers: i) bail-in, including loss absorbing capacity, intra-group exposures, contract documentation and operational shared services; ii) partial transfer and bridge bank; iii) bank insolvency procedure; and iv) MREL reporting.
  - Phase 2B: critical function information requests. This information and analysis may be requested from firms in order to further assess the feasibility of a particular resolution strategy, identify barriers to this, and make a detailed resolution plan which ensures that any critical economic functions are protected. This information may include: i) payments, ii) clearing and settlement, trading book analysis, iii) cash services, and iv) custody services.
  - Phase 2C: additional information requests. To facilitate resolution planning the authorities may require additional information on: i) business reorganisation plan, ii) operational continuity, iii) liquidity, and iv) valuation in resolution.
- **Contingent information requests**. The PRA may request additional information if a firm is experiencing stress and approaching possible resolution. Firms are expected to be able to provide this information at short notice, regarding deposit-taking information, bail-in loss-absorbing capacity, liquidity, among others.

3. Next steps

- This SS takes effect from **1 January 2019**.

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