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2Q19
Regulation Outlook

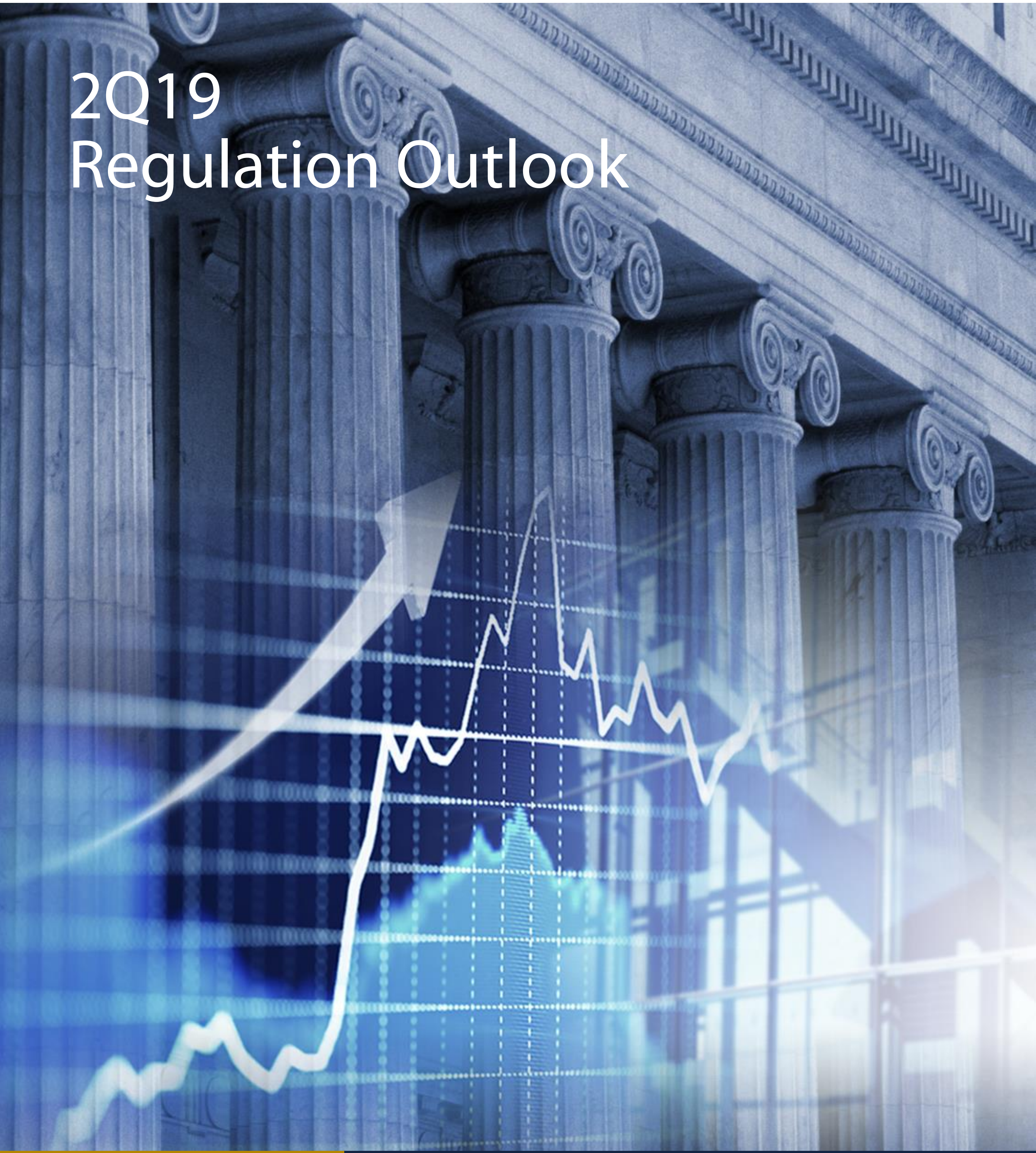

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Table of contents

Executive summary

In the second quarter of 2019, the publication of the Reform package of the banking system (CRR II, CRD V, BRRD II y SRMR II) and the Regulation (UE) 2019/834 amending EMIR published by the European Parliament (EP) and the Council stand out. In Spain, the Government published the Royal Decree 309/2019 that develops Law 5/2019 regulating real estate credit agreements. In USA the publications of results of the 2019 DFAST and 2019 CCAR stand out.

Global publications

- At international level, the FSB published a **Consultation Paper (CP) on Discussion Paper regarding disclosures on resolution planning and resolvability**, that explores how general and firm-specific disclosures on resolution planning and resolvability could be further enhanced. Moreover, it published the **CP on Discussion Paper regarding solvent wind-down of derivatives and trading portfolios**, which draws on the practices that are emerging in some jurisdictions and the measures to ensure the execution of the wind-down plan.

European publications

- At European level, the EP and the Council published the **reform package of the banking system** (CRR II, CRD V, BRRD II and SRMR II) which introduces amendments regarding the leverage ratio, the net stable funding ratio, the minimum requirements for own funds and eligible liabilities, and the review of some issues related to the framework for credit, market, counterparty credit risks, as well as for operational risk (reporting proportional to the size).
- Further, the EP and the Council published the **Regulation (EU) 2019/834, amending EMIR** which aims to address the shortcomings observed in the functioning of the OTC derivatives market, and the **Regulation (EU) 2019/630 on the minimum loss coverage for non-performing exposures (NPE)**.
- The EBA published the **2020 EU-wide stress test draft methodology**, describing how banks should calculate the stress impact of the common scenarios and establishing constraints for their bottom-up calculations.
- Moreover, the EBA published a **CP on GL on loan origination and monitoring** in order to improve institutions' practices as well as to ensure that institutions have robust and prudent approaches and that newly originated loans are of high credit quality.
- The EBA published a **CP on RTS on the SA-CCR**, which specifies key aspects of the SA-CCR and represents an important contribution to its smooth harmonised implementation.

European publications (continuation)

- The ESAs published a **CP on ITS on the reporting of intra-group transactions and risk concentration for financial conglomerates** in order to define a reporting framework in terms of its scope, frequency, format of reporting and transmission.
- Finally, the ECB launched a **Public consultation on the EONIA to €STR Legal Action Plan** which includes recommendations to address the legal implications of such transition.

Local publications

- In Spain, the Government approved the **Royal Decree 309/2019 that partially develops the Law 5/2019 regulating real estate credit agreements** with the aim to complete the transposition of the Directive 2014/17/UE on credit agreements for consumers relating to residential immovable property; as well as to develop several aspects needed to ensure the borrowers' rights set out in Law 5/2019.
- Moreover, the Government published the **Draft Royal Decree on the legal regime of the payments services and payment institutions**, which completes the transposition of the PSD2.
- Furthermore, the Bank of Spain (BdE) published three **Draft Circulars** related to **public and confidential financial information rules and formats**; on the **materiality threshold for credit obligations past due**; and on the **amendments to Circular 1/2013 on the Risk Information Centre (CIR)**.
- Regarding the supervisory stress test in USA, the Fed published the results of the **2019 Dodd-Frank Act Stress Test (DFAST)** and the assessment framework and results of the **2019 Comprehensive Capital Analysis and Review (CCAR)**, which assess whether firms have sufficient capital to continue operating and lending to households and businesses.

Regulatory projections

At European level, the GL on specification of types of exposures to be associated with high risk, the GL on outsourcing arrangements, and the Delegated Regulation (EU) 2019/758 on measures to mitigate the risk of ML/TF will be applicable, and the Delegated Regulation (EU) 2018/389 that completes the PSD2 is expected to entry into force. Furthermore, the ECB will publish the results of the 2019 sensitivity analysis of liquidity risk.

Regulatory projections

1. Next quarter

- **(Europe) July 2019**: the EBA GL on specification of types of exposures to be associated with high risk will be applicable.
- **(Europe) September 2019**: the Delegated Regulation (EU) 2019/758 of the EC on measures to mitigate the risk of money laundering and terrorist financing (ML/TF) in certain third countries will be applicable.
- **(Europe) September 2019**: the EBA GL on outsourcing arrangements will be applicable.
- **(Europe) September 2019**: the Delegated Regulation (EU) 2018/389, supplementing PSD2 on RTS for strong customer authentication (SCA) and common and secure open standards of communication will be applicable.
- **(Europe) September 2019**: the ECB will publish the results of the 2019 sensitivity analysis of liquidity risk.

2. Next year

- **(Europe) October 2019**: the ECB will start publishing the €STR.
- **(Global) November 2019**: the FSB will update the list of G-SIBs.
- **(Global) December 2019**: the BCBS will assess G-SIBs' progress in adopting the RDA&RR principles.
- **(Europe) December 2019**: the EBA GL on disclosure of NPE and FBE will be applicable.
- **(UK) December 2019**: the BoE will publish the 2019 ACS results.
- **(Europe) January 2020**: the EU new anti-money laundering directive will enter into force (AML V).
- **(Europe) January 2020**: it is expected that the Delegated Regulation of the EC on ITS on the reporting of intra-group transactions and risk concentration for financial conglomerates will be applicable.
- **(Spain) January 2020**: the Circular of the BdE addressed to SLIs on public and confidential information rules and formats will enter into force.
- **(Europe) January 2020**: the EBA 2020 EU-wide stress test will be launched.
- **(Europe) July 2020**: the results of the EBA 2020 EU-wide stress test results will be published.

3. More than a year

- **(Global) December 2020**: the BCBS GL on step-in risk will be applicable.
- **(Europe) December 2020**: the ECB Regulation (EU) 2018/1845 on the materiality threshold for credit obligations past due will be applicable.
- **(Spain) December 2020**: the BdE Circular on the materiality threshold for credit obligations past due will be applicable.
- **(Europe) January 2021**: the EBA GL on IRB parameters estimation will be applicable.
- **(Europe) January 2021**: the EBA GL on the new definition of default will be applicable.
- **(Europe) January 2021**: the EBA final RTS on an economic downturn as well as the GL for the estimation of LGD appropriate for an economic downturn will be applicable.
- **(Europe) January 2021**: the EBA GL on CRM for institutions applying the advanced internal rating-based (A-IRB) approach will be applicable.
- **(Europe) June 2021**: the CRR II of the EP and the Council will be applicable with certain exemptions.
- **(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, the revised operational and market risk framework published in Basel III and the standard on the minimum capital requirements for market risk 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**: 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.
- **(Global) January 2027**: an output floor of 72.5% of RWA in the SA approach will be applicable according to the Basel III reform.

Publications of this quarter

Summary of outstanding publications of this quarter

Topic	Title	Date	Page
	Financial Stability Board		
Resolution	• Consultation Paper on Discussion Paper regarding disclosures on resolution planning and resolvability • Consultation Paper on Discussion Paper regarding solvent wind-down of derivatives and trading portfolios	04/06/2019	8
	European Parliament / Council		
NPL	• Regulation (EU) 2019/630 amending the CRR as regards minimum loss coverage for NPE	08/05/2019	10
EMIR 2.2	• Regulation (EU) 2019/834, amending EMIR	29/05/2019	12
Banking package	• CRR II – Regulation (EU) 2019/876 • CRD V – Directive (EU) 2019/878 • BRRD II – Directive (EU) 2019/879 • SRMR II – Regulation (EU) 2019/877	10/06/2019	14
	European Commission		
AML/CFT	• Delegated Regulation (EU) 2019/758 on measures to mitigate ML/TF risk in certain third countries.	16/05/2019	17
	European Supervisory Authorities		
FICOD	• Consultation Paper on ITS on the reporting of intra-group transactions and risk concentration under Article 21a(2b) and (2c) of Directive 2002/87/EC • Annex I (template) and annex II (instructions)	23/05/2019	19
	European Banking Authority		
Counterparty credit risk (CCR)	• Consultation paper on RTS on the standardised approach for counterparty credit risk (SA-CCR)	03/05/2019	20
Credit granting	• Consultation Paper on Draft Guidelines on loan origination and monitoring	20/06/2019	21
Stress test 2020	• Draft Methodological Note of the EU-wide Stress Test 2020 • Draft 2020 EU-wide Stress Test – Template Guidance • Draft 2020 EU-wide Stress Test – Draft Templates	26/06/2019	22
	European Securities and Markets Authority		
Stress test	• Methodological framework for its third EU-wide CCPs stress test	04/04/2019	24
	European Insurance and Occupational Pensions Authority		
Insurance	• Report on supervisory activities in 2018	30/04/2019	25
	European Central Bank		
SREP	• SSM SREP Methodology Booklet - 2018 SREP decisions applicable in 2019	09/04/2019	26
EONIA / €STR	• Public consultation on the EONIA to €STR Legal Action Plan	17/05/2019	27

04/06/2019

- **Consultation Paper on Discussion Paper regarding disclosures on resolution planning and resolvability**
- **Consultation Paper on Discussion Paper regarding solvent wind-down of derivatives and trading portfolios**

1. Context

Following the adoption of the Key Attributes of Effective Resolution Regimes for Financial Institutions in 2011, FSB jurisdictions have made substantial progress towards ending "too-big-to-fail" through the introduction of legislative frameworks governing the resolution of systemically important banks, and through the development of resolution plans and actions to improve the resolvability of individual firms. Further, the disorderly unwind of large derivatives and trading portfolios in recovery or resolution could pose risks to financial stability.

In this context, the FSB has published a **Consultation Paper (CP) on Discussion Paper regarding disclosures on resolution planning and resolvability**, that explores how general and firm-specific disclosures on resolution planning and resolvability could be further enhanced, focusing mainly on disclosures of resolution planning for G-SIBs. Moreover, the FSB has also issued a **CP on Discussion Paper regarding solvent wind-down of derivatives and trading portfolios**, that sets out considerations related to the solvent wind-down of such portfolios of a G-SIB, draws on the practices that are emerging in some jurisdictions and describes capabilities and arrangements that may need to be put in place to ensure a solvent wind-down plan can be effectively executed.

2. Main points

<u>Consultation Paper on Discussion Paper regarding disclosures on resolution planning and resolvability</u>

- **General disclosures by authorities**. Many authorities disclose key features of their resolution planning frameworks and explain their policies and practices in applying them in an accessible manner. In particular, some authorities disclose the following elements of information:
  - <u>Resolution frameworks, powers and strategies</u> (e.g. purpose and objectives of resolution, roles and responsibilities of the resolution authority and of firms).
  - <u>Resolution planning</u> (e.g. explanation of the resolution planning process, or information on how resolution strategies are determined).
  - <u>Resolvability</u> (e.g. description of the processes and outcomes of resolvability assessments and of the capabilities firms, or description of the framework for reviewing, assessing and delivering feedback to firms on their resolution plans).
  - <u>Loss-absorbing capacity</u> (e.g. description of the framework for, and requirements on, loss-absorbing capacity, including information on the approach and process to determine the required amounts, nature and composition of loss absorbing capacity).
  - <u>Funding in resolution</u> (e.g. framework or principles by which a G-SIB in resolution is expected to fund its obligations).
  - <u>Cross-border cooperation</u> (e.g. existence of specific cooperation agreements for G-SIBs).
- **Firm-specific disclosures by authorities and by firms**. Disclosure about firm-specific resolution planning should consider the need to protect commercially sensitive information or information that is protected by statutory confidentiality provisions, which differ across jurisdictions. In particular, authorities and firms disclose the following firm-specific elements of information:
  - <u>Resolution strategies</u> (e.g. single point of entry vs. multiple point of entry).
  - <u>Resolution planning</u> (e.g. including funding or communication plans).
  - <u>Resolvability assessments</u> (e.g. including continuity of critical functions, access to financial market infrastructures).
  - <u>Loss-absorbing capacity and funding in resolution</u> (e.g. amount/calibration location, mechanisms for up-streaming losses).

2. Main points (continues)

Consultation Paper on Discussion Paper regarding solvent wind-down of derivatives and trading portfolios

- **Concept and definition**. A solvent wind-down of derivatives and trading book portfolios could be achieved through several approaches that may be used singularly or in combination:
  - The close-out or termination of positions prior to maturity.
  - Contractual run-off (allowing contracts to run to maturity without being replaced or renewed).
  - The auction or transfer of positions to a third party, or novation (the termination of a contract and its replacement with a new economically equivalent contract with a different party) of such positions.
  - Compression or consensual tear-up (replacing a portfolio of derivative contracts with an economically equivalent portfolio with a lower exposure expressed in terms such as gross notional outstanding).
- **Firm capabilities to support the preparation and execution of a solvent wind-down plan**. It requires the ability of the firm to perform the analysis necessary to support the preparation of a wind-down plan, and timely assessment and analysis to be undertaken to support decision-making by management and authorities. In particular, these capabilities are the following:
  - Operational capabilities (e.g. ability to produce management information in a timely manner, or ability to demonstrate a comprehensive understanding of how risk is managed and deployed across the group).
  - Analysis, valuation and modelling capabilities (e.g. methodologies and management information system capability, or ability to estimate financial resource impacts of a solvent wind-down on both liquidity and capital).
- **Evaluation/verification of firm capabilities**. Authorities may need to be able to obtain verification that G-SIBs have developed the appropriate capabilities. There are various ways to assess firm capabilities (e.g. scenarios to test firm capabilities or description of governance frameworks for a solvent wind-down).
- **Home-host cooperation**. A group-wide approach to solvent wind-down could be facilitated through existing cooperation and information sharing arrangements and may involve, among other, discussions between home authorities and relevant host authorities of firms' solvent wind-down plans and coordination to support their execution.

3. Next steps

- Comments to both CPs shall be submitted by **2 August 2019**.

08/05/2019
Regulation (EU) 2019/630 amending Regulation (EU) nº 575/2013 as regards minimum loss coverage for non-performing exposures.

1. Context

The establishment of a comprehensive strategy to reduce the current high stock of non-performing exposures (NPEs), to prevent any excessive build-up of NPEs in the future and to prevent the emergence of systemic risks in the non-banking sector, is an important goal for the EU in its attempt to make the financial system more resilient. In March 2018, the European Commission (EC) published a comprehensive package of measures to tackle non-perfoming loans (NPLs) in Europe in order to ensure sufficient loss coverage.

In this context, the EP and the Council have published the **Regulation (EU) 2019/630 amending the CRR** as regards minimum loss coverage for NPE, with the aim to complement the existing prudential rules in the CRR relating to own funds with provisions requiring a deduction from own funds where NPEs are not sufficiently covered by provisions or other adjustments. In particular, this Regulation introduces amendments to, among other aspects, the deductions from CET1, the concept of NPEs, the concept of forbearance measures, the deduction for NPEs, the treatment of expected loss amounts, and the derogation from deductions from CET1 items for NPEs.

In order to facilitate a smooth transition towards the new prudential backstop, the new rules should not be applied in relation to exposures originated prior to 26 April 2019.

2. Main points

- **Deductions from CET1**. This Regulation adds that institutions shall deduct from CET1 items the applicable amount of insufficient coverage for NPEs.
- **Concept of NPEs**. This Regulation establishes, among others aspects, that:
  - The following exposures shall be classified as NPEs: i) those exposures in respect of which a default is considered to have occurred; ii) an exposure which is considered to be impaired; iii) an exposure under probation where additional forbearance measures are granted or where the exposure becomes more than 30 days past due; iv) an exposure in the form of a commitment that would likely not be paid back in full without realisation of collateral; and v) an exposure in form of a financial guarantee that is likely to be called by the guaranteed party.
  - Exposures that have not been subject to a forbearance measure shall cease to be classified as NPE, where certain conditions are met (e.g. the obligor does not have any amount past due by more than 90 days).
  - The classification of a NPE as non-current asset held for sale in accordance with the applicable accounting framework shall not discontinue its classification as NPE.
- **Concept of forbearance measures**. This Regulation establishes:
  - The situations that shall be considered as forbearance measures (e.g. new contract terms are more favourable to the obligor than the previous contract terms, or the measure results in a total or partial cancellation of the debt obligation).
  - The circumstances indicating that forbearance measures may have been adopted (e.g. the initial contract was past due by more than 30 days at least once during the three months prior to its modification or would be more than 30 days past due without modification).
- **Deduction for NPEs**. This Regulation includes that:
  - Institutions shall determine the applicable amount of insufficient coverage separately for each NPE to be deducted from CET1 items by subtracting the amount determined in i) from the amount determined in ii), where the amount referred to in i) exceeds the amount referred to in ii):
    - i) the **sum of the unsecured part** of each NPE, if any, multiplied by the applicable factor; and the **secured part** of each NPE, if any, multiplied by the applicable factor.
    - ii) the **sum of the following items**, provided they relate to the same NPE: i) specific credit risk adjustments; ii) additional value adjustments; iii) other own funds reductions; iv) for institutions calculating risk-weighted exposure amounts using the IRB approach, the absolute value of the amounts deducted; v) where a NPE is purchased at a price lower than the amount owed by the debtor, the difference between the purchase price and the amount owed by the debtor; and vi) amounts written-off by the institution since the exposure was classified as NPE.
  - Institutions shall apply the factors provided in this Regulation for the unsecured part of a NPE (between 0.35 and 1), for the secured part of a NPE (between 0.25 and 1), and for the part of the NPE guaranteed or insured by an official export credit agency (between 0 and 1).

2. Main points (continues)

- **Treatment of expected loss amounts**. This Regulation establishes, among other aspects, that institutions shall subtract the expected loss amounts from the general and specific credit risk adjustments, additional value adjustments and other deductions made considering the applicable amount of insufficient coverage for NPE.
- **Derogation from deductions from CET1 items for NPEs**. This Regulation establishes that institutions shall not deduct from CET11 items the applicable amount of insufficient coverage for NPEs where the exposure was originated prior to 26 April 2019. Where the terms and conditions of an exposure which was originated prior to 26 April 2019 are modified by the institution in a way that increases the institution's exposure to the obligor, the exposure shall be considered as having been originated on the date when the modification applies and shall cease to be subject to the derogation previously provided.

29/05/2019

Regulation (EU) 2019/834 amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories.

1. Context

In July 2012, the EP and the Council approved the Regulation (EU) No 648/2012 on over-the-counter derivatives, central counterparties and trade repositories, in order to lay down clearing and bilateral risk management requirements for over-the-counter (OTC) derivative contracts, reporting requirements for derivative contracts and uniform requirements for the performance of activities of central counterparties (CCPs) and trade repositories. In May 2017, the European Commission (EC) published a Proposal for Regulation that introduces amendments to EMIR.

In this context, the EP and the Council have published in the OJEU the **Regulation (EU) 2019/834, amending EMIR** which aims to address the shortcomings observed in the functioning of the OTC derivatives market. In particular, this Regulation introduces amendments to EMIR regarding, among other aspects, relevant definitions, clearing obligation, suspension of the clearing obligation, reporting requirements, risk-mitigation techniques for OTC derivative contracts not cleared by a CCP, registration and supervision of trade repositories and requirements for trade repositories.

2. Main points

- **Definitions**. This Regulation amends the definition of financial counterparty, that means, an investment firm authorised in accordance with MiFID II, a credit institution authorised in accordance with the CRD IV, or an insurance undertaking or reinsurance undertaking authorised in accordance with Solvency II.
- **Financial counterparties that are subject to the clearing obligation**. This Regulation introduces the conditions that counterparties subject to such obligation should comply with (e.g. every 12 months, a financial counterparty taking positions in OTC derivative contracts may calculate its aggregate month-end average position for the previous 12 months).
- **Clearing obligation**. This Regulation sets out that counterparties shall clear all OTC derivative contracts pertaining to a class of OTC derivatives that has been declared subject to the clearing obligation if those contracts have concluded, for example, between two financial counterparties that meet the above-mentioned conditions.
- **Clearing obligation procedure**. This Regulation establishes that where a class of OTC derivatives which a CCP intends to start clearing is covered by an existing authorisation, the competent authority (CA) shall immediately notify ESMA of that authorisation or of the class of OTC derivatives which the CCP intends to start clearing.
- **Suspension of clearing obligation**. This Regulation introduces the conditions that the ESMA may consider in order to submit the EC a request for suspension of clearing obligation:
    - The specific classes of <u>OTC derivatives are no longer suitable</u> for central clearing.
    - A <u>CCP is likely to cease clearing</u> those specific classes of OTC derivatives and no other CCP is able to clear those specific classes of OTC derivatives without interruption.
    - The suspension of the clearing obligation for those specific classes of OTC derivatives or for a specific type of counterparty <u>is necessary</u> to avoid or address a serious threat to financial stability or to the orderly functioning of financial markets in the Union and that suspension <u>is proportionate</u> to those aims.
- **Reporting obligation**. This Regulation sets out, among other aspects, that this obligation shall apply to derivative contracts which were entered into before 12 February 2014 and remain outstanding on that date; or were entered into on or after 12 February 2014.
- **Non-financial counterparties**. This Regulation establishes that such counterparties taking positions in OTC derivative contracts may calculate every 12 months its aggregate month-end average position for the previous 12 months. Further, it also sets out a set of conditions that the non-financial counterparty shall consider when it does not calculate its positions, or where the result of that calculation in respect of one or more classes of OTC derivatives exceeds the clearing thresholds.
- **Risk-mitigation techniques for OTC derivative contracts not cleared by a CCP**. This Regulation establishes that financial counterparties and non-financial counterparties shall ensure that appropriate procedures and arrangements are in place to measure, monitor and mitigate operational risk and counterparty credit risk, including among others the risk-management procedures, including the levels and type of collateral and segregation arrangements; as well as the supervisory procedures to ensure initial and ongoing validation of those risk-management procedures.
- **Application for registration**. This Regulation sets out that a trade repository shall submit either of the following to ESMA, an application for registration, or an application for an extension of the registration where the trade repository is already registered.
- **Mutual direct access to data**. This Regulation introduces that, where necessary for the exercise of their duties, relevant authorities of third countries in which one or more trade repositories are established shall have direct access to information in trade repositories established in the EU, provided that the EC has adopted an implementing act.

2. Main points (continues)

- **Requirements for trade repositories**. This Regulation introduces, among other aspects, that a trade repository shall establish the following procedures and policies: i) procedures for the effective reconciliation of data between trade repositories; ii) procedures to verify the completeness and correctness of the data reported; and iii) policies for the orderly transfer of data to other trade repositories where requested by the counterparties or CCPs, or where otherwise necessary.
- **Other aspects**. This Regulation also introduces amendments to EMIR as regard the transparency, segregation and portability, general investigations, on-site inspections, procedural rules for taking supervisory measures and imposing fines, setting fines, hearing of the persons concerned, supervisory fees, safeguarding and recording, transparency and data availability, exercise of the delegation, as well as transitional and final provisions.

3. Next steps

- This Regulation shall enter into force on the **twentieth day following that of its publication** in the OJEU.
- The provisions set out in this Regulation regarding transparency, segregation and portability shall apply from **18 December 2019**.
- The provisions set out in this Regulation regarding the reporting obligation shall apply from **18 June 2020**.
- The provisions set out in this Regulation regarding the clearing obligation and the requirements for trade repositories shall apply from **18 June 2021**.

10/01/2019

- **CRR II – Regulation (EU) 2019/876, amending the CRR as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (EMIR)**
- **CRD V – Directive (EU) 2019/878, amending the CRD IV as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures**
- **BRRD II – Directive (EU) 2019/879, amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC**
- **SRMR II – Regulation (EU) 2019/877, amending the SRMR as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms**

1. Context

In November 2016, the European Commission (EC) published a package of proposals for the reform of the banking system in order to complete the European post-crisis regulatory reforms. This package covered risk-reduction measures that allow further progress in completing the Banking Union and the Capital Markets Union, and implemented some outstanding elements that are essential to make the financial system more resilient and stable.

In this context, the EP and the Council have published in the OJEU a **reform package of the banking system**, which introduces amendments included to the Capital Requirement Directive (CRD IV), the Capital Requirement Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD), the Single Resolution Mechanism Regulation (SRMR), and the Regulation on EMIR. In particular, some of the key elements of this reform are the leverage ratio (LR), the net stable funding ratio (NSFR), the minimum requirements for own funds and eligible liabilities (MREL), and the review of some issues regarding the framework for credit, market and counterparty credit risks.

This banking package does not include the more recent changes to the Basel III framework, most notably those on credit and operational risk agreed by the BCBS in December 2017. The only exceptions are the revised rules on the LR and the new rules on the LR buffer.

2. Main points

- **Exempted entities**. This reform contains a list of entities and type of entities that have been exempted from the CRD and CRR scope. Further, an anti-circumvention clause that expressly prohibits Member States to exempt from the CRD through national law credit institutions which are not on the list has been added.
- **Leverage ratio**. This reform introduces:
    - A minimum binding LR requirement for all institutions subject to the CRR, set at 3% of Tier 1 as a percentage of the total exposure measure. This requirement complements the current requirements of the CRD and the CRR to calculate the LR, to report it to supervisors and, since January 2015, to disclose it publicly.
    - An additional LR buffer for global systemically important institutions (G-SIIs), which is equal to the G-SIIs total exposures measure multiplied by 50% of the G-SII systemic buffer rate.
- **Net Stable Funding Ratio**. This reform implements the BCBS standard on NSFR, although introducing some adjustments previously recommended by the EBA, that are mainly related to specific treatments such as pass-through models in general and covered bonds issuance in particular. If the NSFR falls below the 100% level, the institution shall take a set of measures for a timely restoration.
- **Capital base**. This reform specifies that institutions should not deduct from the CET1 those intangible assets that are prudently valued software assets the value of which is not negatively affected by resolution, insolvency or liquidation of the institution.

2. Main points (continues)

- **Credit risk**. This reform introduces some targeted amendments to the existing credit risk framework regarding two areas:
    - Massive disposals. In order to make easier for banks to clean up their balance sheets from non-perfoming loans and hence improving their lending capacity, an institution may adjust its LGD estimates by partly or fully offsetting the effect of massive disposals of defaulted exposures on realised LGDs up to the difference between the average estimated LGDs for comparable exposures in default that have not been finally liquidated and the average realised LGDs including on the basis of the losses realised due to massive disposals, as soon as certain criteria is met (e.g. the institution has notified the competent authority (CA) of a plan providing the scale, composition and the dates of the disposals of defaulted exposures; or the dates of the disposals of defaulted exposures are after 23 November 2016).
    - Pension and salary-backed loans. In order to establish lower capital requirements for these specific loans to natural persons, those exposures due to loans granted by a credit institution to pensioners or employees with a permanent contract against the unconditional transfer of part of the borrower's pension or salary to that credit institutions shall be assigned a risk weight of 35%, provided that certain conditions are met (e.g. the borrower unconditionally authorises the pension fund or employer to make direct payments to the credit institution by deducting the monthly payments on the loan from the borrower's monthly pension or salary, or the maximum original maturity of the loan is equal to or less than ten years).
    - SMEs factor. In order to ensure an optimal bank financing of SMEs, this reform amends the threshold applied to current exposures from 1.5 to 2.5 M€ for the current factor, and sets out a new factor which is equal to 0.85 for the rest of SMEs.
- **Standardised Approach for Counterparty Credit Risk (SA-CCR)**. In line with the BCBS standards, this reform incorporates, among others, the replacement of the Mark-to-Market Method (MtMM) and the existing standardised approach with the SA-CCR for calculating the exposure value of derivative positions. Moreover, a simplified standardised approach is included for those institutions with a small derivative business.
- **Market risk (FRTB)**. This reform does not include the amendments regarding the implementation of the FRTB rules as initially proposed by the EC in 2016 because it would oblige institutions to meet requirements subject to change in the short term, due to the review of the FRTB framework published by the BCBS in January 2019. Instead, it includes a reporting requirement that requires institutions shall report, for all their trading book positions and all their non-trading book positions that are subject to foreign exchange or commodity risks, the results of the calculations based on using the alternative standardised approach.
- **Large exposures**. In line with the BCBS standards, this reform aims to: i) require a higher quality of capital that should be used as a capital base for the calculation of the large exposures limit (only Tier 1 capital); ii) introduce a lower limit of 15% for G-SIIs exposures to other G-SIIs and; iii) impose the use of the SA-CCR for determining exposures to OTC derivative transactions (even for banks using internal models).
- **Revision of MREL and implementation of TLAC**.
    - The TLAC standard published by the FSB is implemented by introducing a minimum Pillar 1 MREL requirement in the CRR.
        - This minimum requirement is applicable only to G-SIIs (on either an individual basis or a consolidated basis, and in certain cases it applies to non-EU G-SIIs), comprising an external MREL requirement applicable to resolution entities and an internal MREL requirement applicable to subsidiaries which are not resolution entities.
        - External MREL shall be of at least 18% of RWAs and 6.75% of the LR exposure (although transitional provisions are included).
    - The existing MREL requirement in the BRRD (Pillar 2 MREL requirement) is modified to be aligned with the TLAC standard (e.g. it should be expressed as a percentage of the RWAs and of the LR exposure measure).
        - All institutions have to comply with the Pillar 2 MREL requirement, which is set on a case-by-case basis.
        - Resolution authorities (RAs) should be able to require that G-SIIs comply with a supplementary Pillar 2 MREL requirement. In addition, RAs should be able to require for higher MREL in the form of MREL guidance (measures less severe than discretionary payments will be applied in case of a breach of the guidance).

2. Main points (continues)

- **Pillar 2**. This reform clarifies the conditions for the application of Pillar 2 capital add-ons, distinguishing between capital requirements, mandatory and imposed to address risks not covered by Pillar 1 and buffer capital requirements; and capital guidance, which refers to the possibility for CAs to communicate their expectations for an institution to hold capital in excess of capital requirements.
- **Intermediate parent undertaking (IPU) in the EU**. This reform introduces a new requirement for establishing an IPU in the EU, which is applied to groups with significant EU activities of at least 40.000 M€, regardless of whether they are G-SIIs or not.
- **Other aspects**. This reform also includes other amendments in relation to financial and mixed holding companies (they are included in the scope of the prudential framework); reporting (e.g. amendments to enhance proportionality); disclosure (e.g. alignment with revised standards on Pillar 3 published by the BCBS in January 2015); exposures to central counterparties (following the BCBS standard); exposure to collective investment undertaking (CIUs); etc.

3. Next steps

- These Regulations and Directives shall enter into force on the **twentieth day following that of its publication** in the OJEU. Nonetheless, different application dates are provided (e.g. the CRR II shall apply from 28 June 2021 with certain exceptions).

16/05/2019
Delegated Regulation (EU) 2019/758, supplementing Directive (EU) 2015/849 with regard to regulatory technical standards for the minimum action and the type of additional measures credit and financial institutions must take to mitigate money laundering and terrorist financing risk in certain third countries.

1. Context

According to the Directive (EU) 2015/849 on anti-money laundering and countering the financing of terrorism (4th AML/CFT Directive), credit and financial institutions have to put in place anti-money laundering and countering the financing of terrorism (AML/CFT) policies and procedures to mitigate and manage effectively the risks related to such activities (ML/TF). Where an obliged entity is part of a group, these policies and procedures have to be applied at group-level.

In this context, following the publication of the Final RTS on the measures to mitigate the risk of money laundering and terrorist financing (ML/TF) by the ESAs in December 2017, the EC has issued the **Delegated Regulation (EU) 2019/758 with regard to the minimum action and the type of additional measures credit and financial institutions must take to mitigate money laundering and terrorist financing risk in certain third countries**, in order to establish a procedure and policies that allow a robust and effective management of ML/TF risk within the group.

In particular, this Delegated Regulation covers the following aspects: i) scope, ii) general obligations for each third country, iii) minimum measures, and iv) additional measures.

2. Main points

- **Scope**. This Delegated Regulation lays down a set of additional measures, including minimum action, that credit institutions and financial institutions must take to effectively handle the ML/TF risk where a third country's law does not permit the implementation of group-wide policies and procedures as referred to the 4th AML/CFT Directive at the level of branches or majority-owned subsidiaries that are part of the group and established in the third country.
- **General obligations for each third country**. This Delegated Regulation establishes that for each third country where they have established a branch or they are a majority owner of a subsidiary, credit institutions and financial institutions shall at least:
  - Assess the ML/TF risk to their group, record that assessment, keep it up to date and retain it in order to be able to share it with their competent authority (CA).
  - Ensure that the ML/TF risk is reflected appropriately in their group-wide AML/CFT policies and procedures.
  - Obtain senior management approval at group-level for the ML/TF risk assessment and for the group-wide AML/CFT policies and procedures.
  - Provide targeted training to relevant staff members in the third country to enable them to identify ML/TF risk indicators, and ensure that the training is effective.
- **Minimum measures**. This Delegated Regulation provides those measure that should be taken where the third country's law prohibits or restricts the application of policies and procedures that are necessary to identify and assess adequately the ML/FT risk associated with a business relationship or occasional transaction. In this regard, it is established that:
  - Credit institutions and financial institutions shall at least: i) inform the CA of the home Member State no later than 28 calendar days the name of the third country concerned and how the third country's law restricts the application of these policies; ii) ensure that their branches or majority-owned subsidiaries that are established in the third country determine whether consent from their customers and, where applicable, their customers' beneficial owners, can be used to legally overcome restrictions or prohibitions; and iii) ensure that their branches or majority-owned subsidiaries that are established in the third country require their customers and, where applicable, their customers' beneficial owners, to give consent to overcome restrictions or prohibitions.
  - These minimum measures shall be applied regarding third country's law prohibitions or restrictions on:
    - **Individual risk assessments on ML/TF** due to restrictions on access to relevant customer and beneficial ownership information.
    - **Customer data sharing and processing** for AML/CFT purposes.
    - **Disclosure of information related to suspicious transactions**.
    - **Transfer of customer data** to Member States for the purpose of supervision for ML/TF risk.
    - **Record-keeping**.

2. Main points (continues)

- **Additional measures**. This Delegated Regulation establishes that credit institutions and financial institutions shall take additional measures that ensure that their branches or majority-owned subsidiaries established in the third country restrict the nature and type of financial products and services to those that present a low ML/TF risk have a low impact on the group's risk exposure, and carry out enhanced reviews, onsite checks or independent audits that satisfy that the branch or majority-owned subsidiary effectively identifies, assesses and manages the ML/TF risk.

3. Next steps

This Delegated Regulation shall enter into force on the **twentieth day after their publication** in the Official Journal of the European Union (OJEU), although it shall apply from **3 September 2019**.

23/05/2019

- **Consultation Paper on ITS on the reporting of intra-group transactions and risk concentration under Article 21a(2b) and (2c) of Directive 2002/87/EC**
- **Annex I (template) and annex II (instructions)**

1. Context

In December 2002, the European Parliament (EP) and the Council approved the Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate (FICOD) in order to provide a framework regarding the solvency position and risk concentration, the intra-group transactions, the internal risk management processes, and the fit and proper character of the management at conglomerate level.

In this context, the ESAs have published a **Consultation Paper (CP) on ITS on the reporting of intra-group transactions and risk concentration for financial conglomerates** which aims at offering a single framework of requirements for the reporting of intra-group transactions and risk concentration by financial conglomerates subject to supplementary supervision in the EU. In particular, this CP sets out the following aspects: i) scope and frequency, ii) format of reporting on significant risk concentration, iii) format of reporting on significant intra-group transactions, and iv) transmission.

Along with this CP, the ESAs also issued annex I (templates on reporting on intragroup transactions) and annex II (instructions) to align the reporting under FICOD.

2. Main points

- **Scope and frequency**. This CP establishes that:
  - Regulated entities or mixed financial holding companies may be requested by the coordinator (i.e. appointed from among the competent authorities involved) to submit information regarding significant risk concentration and significant intra group transactions more frequently than on an annual basis or to submit information on an ad hoc basis. Further, they shall ensure that the data reported are consistent with the data submitted under the requirements of the relevant sectoral legislation.
  - Corrections to the data shall be submitted to the coordinator without undue delay.
  - The coordinator, after consultation with the relevant competent authorities, shall specify the type of transactions regulated entities or mixed financial holding companies shall report.
- **Format of reporting on significant risk concentration**. This CP sets out that regulated entities or mixed financial holding companies shall submit information as specified in templates 6 to 8 of annex I (i.e. exposures by counterparties; exposure by currency, sector and country; and exposure by asset class and rating) according to the instructions of annex II. However, in order to report information on how conflicts of interests and risks of contagion at the level of the financial conglomerate regarding significant intra-group transactions are managed regulated entities or mixed financial holding companies shall submit information in a free format.
- **Format of reporting on significant intra-group transactions**. This CP establishes that regulated entities or mixed financial holding companies shall submit information as specified in templates 0 to 5 of annex I (i.e. summary; equity-type transactions, debt and asset transfer; derivatives; off-balance sheet and contingent liabilities; insurance-reinsurance; and P&L) according to the instructions of annex II.
- **Transmission**. This CP sets out that regulated entities or mixed financial holding companies shall submit the above-mentioned information in the data exchange formats specified by the coordinator (e.g. it should be applied the reporting currency used for the preparation of the consolidated financial statements).

3. Next steps

- Comments to this CP shall be submitted by **15 August 2019**.
- The final Delegated Regulation should be approved by the European Commission and is expected to apply from **1 January 2020**.

03/05/2019

Consultation paper on RTS on the standardised approach for counterparty credit risk (SA-CCR).

1. Context

In December 2017, the EBA published a Discussion Paper on the implementation in the EU of the revised market risk and counterparty credit risk frameworks, which specified the methods for the mapping of derivative transactions to risk categories, a formula for the calculation of the supervisory delta of options mapped to the interest rate risk category and a method for determining whether derivative transactions are long or short in their risk drivers. Further, the proposed legislative text for the CRR2, which was launched in 2016 and amends the CRR, also introduces changes to the Standardised Approach for Counterparty credit risk (SA-CCR).

In this context, the EBA has published a **Consultation Paper (CP) on RTS on the SA-CCR**, based on the proposals included in the Discussion Paper, which specifies key aspects of the SA-CCR and represents an important contribution to its smooth harmonised implementation in the EU. In particular, this CP covers three-pronged methodology for the mapping of derivative transactions to risk categories: i) a qualitative approach; ii) a qualitative and quantitative approach; and iii) a fallback approach. The EBA also proposes to use, in line with Basel standards, a supervisory delta formula based on a shifted Black-Scholes model.

Moreover, to the extent that the proposed CRR2 changes in the run-up to its final adoption, the EBA acknowledges that it may need to adapt these RTS accordingly.

2. Main points

- **Methodology for the mapping of derivative transactions to risk categories**. This CP includes three approaches:
    - A qualitative approach, which identifies derivative transactions that have clearly only one material risk driver, thus easily being mapped to the corresponding risk category. This approach is based on a simple criterion to be satisfied and is meant to provide proportionality in the assessment, in the sense of rendering the mapping of ‘simple’ derivative transactions straightforward and without requiring the computation and comparison of sensitivities. This first approach is expected to provide the mapping for the majority of transactions.
    - A qualitative and quantitative approach, which requires a more detailed assessment of, and applicable to, those derivative transactions for which the mapping cannot immediately be done on the basis of the first approach. Under this approach, after the qualitative identification of all the risk drivers of the derivative transaction and an assessment of their materiality to identify material risk drivers, institutions have to use quantitative inputs, typically sensitivities. This assessment leads to the mapping of the transaction to one or more than one risk category, reflecting the material risk drivers.
    - A fallback approach, which requires institutions to simply allocate the derivative transaction to all the risk categories corresponding to all the risk drivers (material or not) of the transaction, in case the assessment performed in accordance with the second approach does not allow to determine which of the risk drivers are material.
- **Supervisory delta formula**. For reflecting the dependence of transactions on risk drivers, institutions need to compute a supervisory delta, which is determined according to the direction (long or short) and type (option, CDO tranche or neither of the two) of the position. To this end, the CP includes a proposal to use a supervisory delta formula based on a shifted Black-Scholes model that allows dealing with situations of negative interest rates.

3. Next steps

- Comments to this CP shall be submitted by **2 August 2019**.

20/06/2019
Consultation Paper on Draft Guidelines on loan origination and monitoring.

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. Within the framework of this Action Plan the EBA published Guidelines on management of NPEs and forborne exposures in October 2018 and developed NPL transaction templates in December 2018. Further, the Council invited the EBA to issue rules on banks' loan origination, monitoring and internal governance which could in particular address issues such as transparency and borrower affordability assessment.

In this context, the EBA has now published a **Consultation Paper (CP) on Guidelines (GL) on loan origination and monitoring** in order to improve institutions' practices and associated governance arrangements, processes and mechanisms in relation to credit granting for ensuring that institutions have robust and prudent approaches to credit risk taking, management and monitoring, and newly originated loans are of high credit quality, whilst respecting and protecting the interests of consumers.

2. Main points

- **Governance requirements for credit granting and monitoring**. This CP provides the details for the application of general internal governance framework as set out in the EBA GL on internal governance in relation to credit granting process; and sets out supervisory expectations for the institutions when their lending activities involve leveraged transactions, technology-enabled innovations, environmental factors and green lending. Further, it focuses on:
    - Credit risk governance and culture, by explaining the specific roles of the management body.
    - Credit risk appetite, strategy and credit risk limits, by explaining how these concepts fit into the institutions' overall risk appetite framework and strategy.
    - Credit risk policies and procedures, by setting out general and specific criteria to be considered in such policies (e.g. rules for the approval of credit granting and decision-making; or the requirements for the collection, verification and analysis of information and data needed for the creditworthiness assessment).
    - Credit decision-making process, by highlighting the principle of independence between different functions in decision-making (e.g. business and risk).
    - Credit risk management and internal control framework, by setting out the requirements for robust and effective frameworks (e.g. accountability, or segregation and independence of functions and responsibilities).
    - Resources, skills and IT and data infrastructures, by detailing the requirements needed for prudent and robust credit decision-making process.
    - Remuneration, by specifying the general remuneration requirements to credit risk granting with a view to mitigate excessive risk taking in lending activities.
- **Loan origination procedures**. This CP sets out requirements for the collection and documentation of information and data from borrowers for the creditworthiness assessment; the assessment of borrowers' creditworthiness; and for credit decision and loan agreements. Further, it also sets out general requirements for lending to consumers (including specific requirements on lending to consumers secured by immovable property, lending to consumers secured by other property, and unsecured lending to consumer) and lending to professional (including commercial real estate, real estate development, shipping finance, project and infrastructure finance).
- **Pricing**. This CP sets out supervisory expectations for the risk-based pricing of loans listing a minimum set of risk-based elements (e.g. cost of capital, cost of funding, or operating and administrative costs) that institutions should consider and reflect when pricing newly originated loans.
- **Valuation of immovable and movable property**. This CP provides guidance on the approaches to the valuation of immovable and movable property collateral (excluding financial collateral) at the point of credit granting, and monitoring and review of the value of such collateral based on the outcomes of the monitoring. Moreover, it also spells out supervisory expectations for independent valuers to be used by the institutions for valuation and revaluation (i.e. their independence and for the use of statistical models for valuation, monitoring and revaluation purposes).
- **Monitoring framework**. This CP specifies the ongoing monitoring of credit risk and credit exposures, including regular credit reviews of professional borrowers. It also sets out supervisory expectations for the management information systems (MIS) to be used for monitoring and the framework of early warning indicators.

3. Next steps

- Comments to this CP shall be submitted by **30 September 2019**.
- The Final GL will apply from **30 June 2020**.

26/06/2019

- **Draft Methodological Note of the EU-wide Stress Test 2020**
- **Draft 2020 EU-wide Stress Test – Template Guidance**
- **Draft 2020 EU-wide Stress Test – Draft Templates**

1. Context

The objective of the 2020 EU-wide stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks and the EU banking system to shocks, and to challenge the capital position of EU banks. In this regard, the EBA launched its first stress test in 2011 in order to inform the Supervisory Review and Evaluation Process (SREP) that competent authorities (CAs) carry out.

In this context, the EBA has published the **2020 EU-wide stress test draft methodology** for discussion, describing how banks should calculate the stress impact of the common scenarios and establishing constraints for their bottom-up calculations. In particular, this draft aims to provide banks with adequate guidance and support for performing the EU-wide stress test and builds on the methodology prepared for the 2018 exercise. Further, it includes the preliminary list of institutions participating in the 2020 exercise.

Along with this document, the EBA has also issued the templates and the template guidance that banks might consider in the 2020 EU-wide stress test.

2. Main points

- **Sample of banks and scope of consolidation**.
    - 50 EU banks will participate in the exercise (49 EU banks participated in 2018), covering broadly 70% of the banking sector in the euro area, each non-euro area EU Member State and Norway. However, UK banks have tentatively been excluded from the sample under the assumption that the UK will leave the EU by 31 October 2019 and, therefore, UK banks will not participate in the 2020 EU-wide stress test.
    - To be included in the sample, banks have to hold a minimum of €30 billion in assets. Nonetheless, CAs could request to include additional institutions in their jurisdiction provided that they have a minimum of €100 billion in assets.
    - The scope of consolidation is the perimeter of the banking group as defined by the CRD IV / CRR.
- **Reference date**. The exercise is carried out on the basis of year-end 2019 figures.
- **Macroeconomic scenarios**. The stress test includes a baseline scenario and an adverse scenario, applied over a period of 3 years from end 2020 to end 2022.
    - The exercise is conducted on the assumption of static balance sheet as in previous exercises, which applies on a solo, sub-consolidated and consolidated basis for both the baseline and the adverse scenario.
- **Risk coverage**.
    - Banks are required to stress test the following common set of risks:
        - Credit risk, including securitisation.
        - Market risk, counterparty credit risk (CCR) and credit valuation adjustment (CVA).
        - Operational risk, including conduct risk.
    - Banks are also requested to project the effect of the scenarios on net interest income (NII) and to stress P&L and capital items not covered by other risk types.
    - The risks arising from sovereign exposures are covered in credit risk and in market risk, depending on their accounting treatment.
- **Results**.
    - The impact of the EU-wide stress test will be reported in terms of CET1. In addition, the Tier 1 capital ratio and total capital ratio, as well as a leverage ratio, will be reported for every year of the exercise.
    - Like in the 2016 and 2018 stress test, no hurdle rates or capital thresholds are defined for the purpose of the exercise. CAs will apply the results as an input to the SREP.

2. Main points (continues)

- **Process**. It involves close cooperation between the EBA, the CAs and the ECB, as well as the European Systemic Risk Board (ESRB) and the European Commission.
  - The ESRB and the ECB develop the macroeconomic adverse scenario and any risk type specific shocks linked to it.
  - The ECB supplies the macroeconomic baseline scenario.
  - The EBA coordinates the exercise, defines the common methodology as well as the minimum quality assurance guidance for competent authorities,
  - The CAs are responsible for the quality assurance process.

3. Next steps

- The final methodology will be published by the **end of 2019**.
- The 2020 EU-wide stress test will be launched in **January 2020**, whereas the results of the exercise will be published by the **end of July 2020**.

04/04/2019
Methodological framework for its third EU-wide CCPs stress test.

1. Context

One of the objectives of Regulation (EU) No 648/2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (EMIR) is to promote central clearing and ensure safe and resilient CCPs. Therefore, ESMA shall at least annually, in cooperation with the European Systemic Risk Board (ESRB), initiate and coordinate Union-wide assessments of the resilience of CCPs to adverse market developments.

In this context, the ESMA has published the **Methodological framework for its third EU-wide CCPs stress test** with the aim to assess the resilience of CCPs, identify any potential shortcomings in the CCPs resilience, and issue recommendations as appropriate. In particular, this CCP stress test includes a new component to the exercise on concentration risk, in addition to assessments on credit and liquidity risks.

The overall design of the stress test framework was also guided by a number of overarching principles, and the ESMA will assess the resilience of all scoped CCPs, individually and as a system.

2. Main points

- **Scope**. The exercise will cover 16 authorised EU CCPs, including the three UK CCPs, unless a no-deal Brexit takes place.
- **Main characteristics**:
    - The compliance of CCPs with EMIR is not part of the exercise and it is actually assumed and taken as one of the starting points of this exercise, as it is expected to be ensured through the supervisory process involving the National Competent Authorities (NCAs).
    - The stress test will not review, and will not be able to conclude on, whether individual CCPs meet the minimum regulatory requirements.
    - The exercise does not target all possible market movements, in particular the relative movements between each pair of assets.
- **Methodology**. The new stress test exercise has the following components:
    - Credit stress: assess the sufficiency of CCPs' resources to absorb losses under a combination of market price shocks and member default scenarios.
    - Liquidity stress: assess the sufficiency of CCPs' liquid resources under a combination of market price shocks, member/liquidity provider default scenarios and additional liquidity stress assumptions.
    - Concentration risk: assess the impact of liquidation costs derived from concentrated positions.
    - Reverse credit stress: increase the number of defaulting entities and level of shocks to identify at which point resources are exhausted.
    - Other additional analysis. The first and second EU-wide stress test exercises included also the following three additional components and ESMA will repeat this analysis: Clearing Member (CM) knock-on analysis; Herfindahl - Hirschmann Index (HHI) concentration analysis; and inter-connectedness analysis.

3. Next steps

- The ESMA expects to publish the final results in **Q2 2020**.

30/04/2019
Report on supervisory activities in 2018.

1. Context

In November 2017, the EIOPA issued the key characteristics of the Common Supervisory Culture whereas it also published in April 2018 the Supervisory Convergence Plan 2018-2019. Both documents set out EIOPA's approach to supervisory convergence, i.e. through building common benchmarks for supervisory practices, reviewing the practices and EIOPA's own independent assessment.

In this context, the EIOPA has published its **Report on supervisory activities in 2018** which outlines main achievements in the area of supervisory convergence by providing an overview of EIOPA's supervisory activities in 2018, providing information on the progress made and challenges faced in achieving supervisory convergence across Member States.

Further, this Report also sets out the **EIOPA's priorities for 2019** focusing on the following areas: i) practical implementation of the key characteristics of the common supervisory culture and further development of supervisory tools; ii) risks to the internal market and to the level playing field which may lead to supervisory arbitrage; and iii) supervision of emerging risks.

2. Main points

- **Supervisory activities in 2018**. The EIOPA's supervisory activities have contributed to high-quality supervision, to enhanced convergence of supervisory practices and to stability in the European insurance sector. In this regard, the following milestones should be highlighted in 2018:
    - The issuance of the Opinion on technical provisions on cross-border context.
    - The development of a common framework for assessing conduct risk through the product's lifecycle.
    - The use of cooperation platforms to ensure timely identification of preventive measures and successful implementation of recovery measures.
    - The issuance of Opinions related to Brexit to ensure service continuity and consistent supervisory approaches.
- **Priorities for 2019**. These priorities remain the same as in 2018 while new areas have been identified in each priority area. For 2019, the EIOPA has identified the following priorities:
    - Practical implementation of the key characteristics of the common supervisory culture and further development of supervisory tools, focusing on:
        - The risk assessment framework and application of proportionality.
        - Common benchmarks for the supervision of internal models.
        - Supervisory assessment of conduct risks.
        - Group supervision.
        - Remuneration policies.
        - Supervisory assessment of captives.
        - Follow-up on recommendation to EIOPA from the peer review on propriety.
    - Risks to the internal market and to the level playing field which may lead to supervisory arbitrage, focusing on:
        - Calculation of provisions.
        - Cross-border business.
        - Assessment of internal model outcomes.
        - Authorisation, fitness and propriety.
        - Consistent implementation of the European Union – United States Covered Agreement by national competent authorities (NCAs).
        - Use of risk-mitigation techniques and new financial engineering products for capital relief.
    - Supervision of emerging risks, focusing on:
        - Supervision of data and IT-related risks, including cyber risk.
        - InsurTech.
        - Brexit.
        - Run off undertaking.
        - Interbank offer rate (IBOR) transition.

EUROPEAN CENTRAL BANK

EUROSYSTEM

09/04/2019
SSM SREP Methodology Booklet - 2018 SREP decisions applicable in 2019.

1. Context

Under the CRD IV, competent authorities (CAs) shall review the arrangements, strategies, processes and mechanisms implemented by the institutions and evaluate the risk to which the institutions are or might be exposed; the risks that an institution poses to the financial system; and the risks revealed by stress testing taking into account the nature, scale and complexity of an institution's activities. To this end, the ECB has conducted an Supervisory Review and Evaluation Process (SREP) since 2014 in order to assess and show where a bank stands in terms of capital requirements and the way it deals with risks.

In this context, the ECB has published its **SSM SREP Methodology Booklet**, which covers the results of the 2018 SREP. In particular, this document provides results regarding capital (CET1), liquidity measures and other qualitative measures, as well as the evolution of SREP scores in 2018. Further, it also identifies the key risks for SSM banks for 2019.

2. Main points

- **Scope**. The SREP 2018 values are based on 107 banks.
- **Results of the 2018 SREP**.
  - Capital. The overall SREP demand for CET1 capital (excluding systemic buffers and countercyclical capital buffer) increased to 10.6% in 2018 from 10.1% in 2017, which was driven by the last step of the phase-in of the capital conservation buffer.
  - Liquidity measures. From the sample, 45 banks have been identified with liquidity related measures:
    - There are **42 banks with only qualitative liquidity SREP requirements**. These requirements are diverse and relating to a broad area of topics within liquidity risk management (e.g. improvement of the ILAAP, including the stress test framework, the funding plan, intraday liquidity).
    - There is **1 bank with both qualitative and quantitative liquidity SREP requirements** (e.g. FX-denominated liquidity buffers).
    - There are **2 banks with only quantitative liquidity SREP requirements**.
  - Other qualitative measures. From the sample, 83 banks have been identified with qualitative measures:
    - These type of measures are applied for **most banks scored 4 (high risk) in SREP 2018**, while other supervisory actions have been implemented for the remaining banks.
    - They cover a wide range of weaknesses regarding internal governance and risk management (including ICAAP and ILAAP), NPL, IT and data quality.
  - Evolution of SREP scores in 2018. The 2018 SREP has showed that: i) profitability remains an issue; ii) many institutions face with challenges in risk management (especially in risk infrastructure, data aggregation and reporting capabilities, and internal audit); iii) high level of NPL is still a point of attention; and iv) the risk management framework regarding risks to liquidity and funding of a number of banks should continue to improve.
- **Key risks for SSM banks for 2019**.
  - Geopolitical uncertainties. The political uncertainty around Brexit, including business and contract continuity risks; as well as the risks of repricing in financial markets should be a point of attention.
  - NPL. Euro area banks made significant progress with NPL reduction over the past years, however aggregate level of NPLs remains elevated by international standards.
  - Cybercrime and IT disruptions. Progressing digitalisation requires banks to continue efforts to modernise their infrastructure to shield against these risks.

EUROPEAN CENTRAL BANK
EUROSYSTEM

17/05/2019
Public consultation on the EONIA to €STR Legal Action Plan.

1. Context

In September 2017 the ECB announced that it had decided to replace the current euro overnight index average (EONIA) by the new euro short-term rate (€STR) that will complement existing benchmark rates produced by the private sector and will serve as a backstop reference rate. Further, in June 2018 the ECB issued the final methodology for calculating the €STR whereas in March 2019, it also published recommendations on the transition path from EONIA to the €STR and on a €STR based forward-looking term structure methodology to market participants.

In this context, the ECB has launched a **Public consultation on the EONIA to €STR Legal Action Plan** which includes recommendations to address the legal implications for new and legacy contracts referencing the EIONIA as a result of the proposed transition from EONIA. In particular, this document requires feedback by market participants regarding the following aspects: i) the EONIA fallback; ii) the use of EONIA in new contracts and legacy contracts maturing before December 2021; iii) the legacy contracts maturing after December 2021; and iv) the legal Action Plan for the transition from EONIA to €STR.

Furthermore, the ECB highlights that the application of the recommendations contained in the EONIA to €STR Legal Action Plan by market participants will be on a voluntary basis. Each market participant will need to make its own independent decision about whether and, if so, to what extent, any suggested recommendations are adopted and used in their respective contracts.

2. Main points

- **The EONIA fallback**. The ECB recommends that:
  - Market participants consider replacing EONIA with €STR as a reference rate for all products and contracts and make all operational adjustments necessary for using €STR as their standard benchmark as soon as possible.
  - The EONIA fallback rate will be defined as the €STR plus a spread. The ECB will provide the computation of the spread as a one-off spread between €STR and EONIA (i.e. based on a simple average with an observation period of at least 12 months, combined with a 15% trimming mechanism) in accordance with the methodology publicly recommended.
- **The use of EONIA in new contracts and legacy contracts maturing before December 2021**. The ECB recommends that:
  - New contracts referencing EONIA include robust fallback provisions and an acknowledgement that references to EONIA will be understood to be references to EONIA as modified after the change to its methodology on 2 October 2019.
  - After 2 October 2019, whenever operationally feasible, market participants should consider no longer entering into new contracts referencing EONIA, in particular new contracts maturing after 31 December 2021.
- **Legacy contracts maturing after December 2021**. The ECB recommends that market participants should consider replacing EONIA as a primary rate as soon as possible or embedding robust fallback clauses with reference to the recommended fallback rate for EONIA, for legacy contracts referencing EONIA and maturing after December 2021.
- **Legal Action Plan for the transition from EONIA to €STR**. The ECB recommends that market participants should take into account several aspects when considering this transition such as using existing master agreements and standard documentation to embed robust fallbacks in new contracts; or using existing multilateral protocols in order to amend legacy contracts so as to either embed an EONIA fallback provision or to switch from EONIA to €STR plus the Spread as the reference rate in legacy contracts.

3. Next steps

- Comments to this public consultation shall be submitted by **12 June 2019**.

05/04/2019
Proyecto de Real Decreto, de régimen jurídico de los servicios de pago y de las entidades 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. Additionally, in November 2018, the Spanish Government approved the Royal Decree-law 19/2018, on payments services and other financial measures, which transposes the PSD2 in order to adapt this Directive to the Spanish legal system.

In this context, the Spanish Government has published the **Draft Royal Decree on the legal regime of the payments services and payment institutions**, which completes the transposition of the PSD2 through the several provisions regarding: i) the legal regime of the payment institutions; ii) the cross-border activity of payment institutions; iii) the agents' regime and the delegation of functions; iv) guarantee and own funds' requirements, and operational limits of payment accounts; v) hybrid payment institutions and creation of a separate payment institution; vi) other provisions regarding the legal regime of the payment services; and vii) penalty and supervisory regime of the payment services providers.

2. Main points

- **Legal regime of the payment institutions**. This Draft Royal Decree mainly regulates the creation of such type of institutions (e.g. authorisation by the BdE, requirements to carry out the activity or requirements on the application request), as well as the main aspects regarding its performance, such as the register, the amendments of its statutes and the increase of its activities, as well as the merger operations where a payment institution intervenes.
- **Cross-border activity of payment institutions**. This Draft Royal Decree regulates the following aspects:
    - The <u>performance in Spain of payment institutions authorised in other Member State</u>, by establishing a communication procedure between supervisory authorities of each country.
    - The <u>characteristics of the authorisation procedure</u>, when a Spanish institution aims to open a branch or to access to the freedom to provide services in a non-EU Member State.
    - The <u>procedure to create or acquire shares of Spanish institutions of non-EU Member State</u>, by a Spanish institution.
- **Agents' regime and the delegation of functions**. This Draft Royal Decree defines the concept of agent, according to the Royal Decree-law 19/2018, and establishes a set of requirements to use them (e.g. previous registration obligations in the agents' Special Register). Moreover, it defines the essential operating functions (i.e. those that significantly concerns the compliance of authorisation conditions), and the delegation conditions.
- **Guarantee and own funds' requirements, and operational limits of payment accounts**. This Draft Royal Decree develops those aspects of the Royal Decree-law 19/2018 regarding the users' funds protection (i.e. the procedures to ensure consumer protection), and the maintenance of a certain volume of own funds (i.e. selection of the method to ensure the payment institution's solvency).
- **Hybrid payment institutions and creation of a separate payment institution**. This Draft Royal Decree covers the definition of a hybrid payment institution, which are those that offer regulated payment services and other types of services, and develops the characteristics of the specific legal regime applied to these institutions.
- **Other provisions regarding the legal regime of the payment services**. This Draft Royal Decree which develops the exclusion's terms regarding the rules' application according to the Royal Decree-law 19/2018 when the payment services are based in limited tools, that are mainly used to acquire a range of goods and services.
- **Penalty and supervisory regime of the payment services providers**. This Draft Royal Decree covers certain relevant details of the penalty regime covered in the Royal Decree-law 19/2018, and several aspects regarding supervision, such as the acquisition of significant shares of capital, which are applied to payment institutions.

3. Next steps

- Comments to this Draft Royal Decree shall be submitted by **25 April 2019**.
- The final Royal Decree will enter into force the **day following that of its publication** in the Official Journal (BOE).

30/04/2019

Real Decreto 309/2019, por el que se desarrolla la Ley 5/2019 reguladora de los contratos de crédito inmobiliario.

1. Context

The Directive 2014/17/UE on credit agreements for consumers relating to residential immovable property, lays down a common framework of the Member States concerning agreements covering credit for consumers secured by a mortgage or otherwise relating to residential immovable property. This Directive has recently been partially transposed by Law 5/2019 regulating real estate credit agreements, which covers, among other aspects, the rules for protecting the borrower regarding the trading of real estate loans, and the rules on conduct to be observed by real estate credit intermediaries, their representatives and real estate creditors.

In this context, following the publication of the Draft Royal Decree in March 2019, the Spanish Government has published the **Royal Decree 309/2019 that partially develops the Law 5/2019 regulating real estate credit agreements**, with the aim to complete the transposition of the Directive 2014/17/UE, as well as to develop several aspects needed to ensure the borrowers' rights in Law 5/2019. In particular, this Draft Royal Decree covers the following aspects: i) general provisions; ii) advisory service; iii) creditor's obligations; and iv) telematic resources for the documentation submission to the notary by creditors, credit intermediary or its relevant representative.

2. Main points

- **General provisions**. This Royal Decree will apply to activities carried out in relation to real estate loan agreements that are included in the scope of the Law 5/2019, i.e. those granted by natural or legal persons who performs such activity in a professional manner (including intermediation) when the borrower or the guarantor is a natural person, and the purpose of such contract is to grant:
  - Loans with mortgage collateral or other security right in a <u>property for residential use</u>.
  - Loans whose objective is to <u>acquire or preserve property rights in land or in an existing or projected building</u>, provided that the borrower or the guarantor is a consumer.
- **Advisory service**. This Royal Decree establishes that the advisory service will constitute a separate and different activity from granting and intermediation of real estate loans, which will be subject of a specific agreement. Moreover, regarding independent advisory services, it is determined that those providing these types of services must meet the following requirements: i) consider a sufficiently large number of loan agreements available on the market, provide at least three binding offers from lending institutions to the potential borrower and advise it about the legal and economic conditions of such offers; and ii) not receive remuneration for those services from one or more creditors if the number of creditors they take into account does not represent a majority of the market.
- **Creditor's obligations**. This Royal Decree covers:
  - The <u>requirements for the registration in the corresponding register of real estate creditors</u>, that implies: i) to consider written procedures, as well as technical and operative capacity to adequately assess the borrower's solvency; ii) to have in place appropriate internal technical resources to solve those claims and complaints submitted by potential borrowers; iii) to appoint a representative to the Executive Service of the Commission for Anti-Money laundering and Monetary Offences; and iv) to have in place a training programme that covers the knowledge and skills required under Law 5/2019.
  - The <u>information that must be provided to the borrower during the contract term</u>, regulating both formal aspects (i.e. clarity and accuracy) and material aspects, such as:
    - **Regular information** (e.g. the nominal interest rate applied in the period already accrued, or the fees charged).
    - **Information on changes in the interest rate applied** (e.g. change in the total cost of the amendment, or details regarding the amount and frequency of the payments). This information will be provided with at least fifteen natural days in advance.
    - **Information to successors mortis causa** (e.g. the status of the mortgage loan).
- **Telematic resources for the documentation submission to the notary**. This Royal Decree establishes the technical principles and requirements that are required to telematics resources (e.g. they must enable permanent access and allow download or extraction of documentation, and must have authentication mechanisms to ensure the exclusivity of its use and the identity of the user), and the procedure for the submission to the notary the needed documentation to comply with the principle of material transparency (i.e. general, precontractual and personalised information) by the creditor, the credit intermediary or its relevant representative.

3. Next steps

- This Royal Decree will enter into force by **16 June 2019**.

05/04/2019
Proyecto de Circular sobre el umbral de significatividad de las obligaciones crediticias en situación de mora.

1. Context

The CRR specifies the circumstances under which the default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place, that is, when the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security; or when the obligor is past due more than 90 days on any material credit obligation to the institution. Related to the above, in November 2018, the ECB published the Regulation (EU) 2018/1845 on the materiality threshold for credit obligations past due, which defines the absolute and relative components of this threshold.

In this context, the BdE has published a **Draft Circular on the materiality threshold for credit obligations past due** that defines such threshold applicable to less significant institutions. In particular, this Draft Circular covers the definition of the materiality threshold referred in the CRR with the aim to ensure a consistent application of the prudential requirements regarding the calculation of credit risk and to improve the comparability of the own funds' requirements.

2. Main points

- **Scope**. This Draft Circular will apply to:
    - The following institutions and groups, as long as they are considered less significant institutions:
        - **Consolidable groups and subgroups** of credit institutions, financial holding companies, or mixed financial holding companies whose subsidiary is established in Spain.
        - **Individual credit institutions** established in Spain, whether or not they are part of a consolidable group of credit institutions.
    - The subsidiaries in Spain of credit institutions established in non-EU Member States, as long as they have not been exempted from fulfilling the capital, large exposures and leverage requirements established in the CRR.
- **Definition of the materiality threshold**. Credit institutions shall assess the materiality of a credit obligation past due against a threshold, which comprises two components, and considering that the default takes place when these components are exceed simultaneously during 90 consecutive days:
    - A limit in terms of the sum of all amounts past due owed by the obligor to the credit institution, the parent undertaking of that credit institution or any of its subsidiaries, equal:
        - For retail exposures, to **100€** or equivalent in local currency.
        - For exposures other than retail exposures, to **500€** or equivalent in local currency.
    - A limit in terms of the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor for the credit institution, the parent undertaking or any of its subsidiaries, excluding equity exposures, equal to 1%.

3. Next steps

- Comments to this Draft Circular shall be submitted by **26 April 2019**.
- Institutions must notify the BdE when they will start applying the threshold by **31 December 2019**.
- Institutions must apply this materiality threshold once this Draft Circular enters into force, which should take place before **31 December 2020**.

BANCO DE ESPAÑA
Eurosistema

24/04/2019

Consulta pública previa del Proyecto de Circular por el que se modifica la Circular 1/2013, sobre la Central de Información de Riesgos.

1. Context

Under the Law 44/2002, on measures to reform the financial system, the BdE is responsible for the administration and management of the Risk Information Centre (CIR), and has the power to determine the information that institutions should report in the CIR, as well as the information to be provided regarding the reported data. In May 2013, the BdE published the Circular 1/2013 on the CIR, that covers provisions regarding its functioning. Furthermore, in March 2019, the Law 5/2019 on the regulation of the real estate credit contracts was published, in order to introduce amendments to Law 44/2002 regarding the reporting entities and the content of submissions; as well as the information on the reported data.

In this context, the BdE has launched a **Public consultation prior to the preparation of the Draft Circular amending Circular 1/2013 on the CIR**, with the aim to adapt the CIR to the changes introduced by the Law 5/2019. In particular, the Draft Circular pretends to adapt these changes to the new regulatory developments and to include the adjustments identified in the reported information according to the AnaCredit Regulation and in order to improve the reporting to the CIR of certain operations and additional clarifications in relation to the requirements for reporting claims to the CIR.

2. Main points

- The Draft Circular aims to include the following **amendments to the Circular 1/2013**:
  - It will determine the information to be submitted as well as the technical requirements for the reporting to the CIR by the two new types of reporting entities: credit institutions operating under the freedom to provide services and real estate creditors.
  - It will establish the procedure to provide access to risk reports to real estate credit intermediaries.
  - It will include the possibility of temporarily deny an institution's access to CIR data if it has breached their reporting obligations according to the required quality and accuracy.
  - It will simplify the information required to branches of credit institutions of other reporting countries.
  - It will include certain amendments to attributes and to data models in order to appropriately reflect certain operations carried out by institutions and to improve the reporting and technical management of information.
  - It will introduce additional reporting requirements regarding those related to the submission of complaints into the CIR.

3. Next steps

- Comments to this prior consultation shall be submitted by **3 May 2019**.

BANCO DE ESPAÑA
Eurosistema

17/06/2019

Proyecto de Circular, a establecimientos financieros de crédito, sobre normas de información financiera pública y reservada, y modelos de estados financieros.

1. Context

Since the 1 January 2014, the specialised lending institutions (SLIs) applies a transitional regime on financial information as set out under the second transitional provision of the Royal Decree-Law 14/2013 on urgent measures for the adaptation of Spanish law to EU legislation on the supervision and solvency of financial institutions. Further, in December 2017 the BdE published the Circular 4/2017 on public and confidential financial information rules and formats, which included consistent criteria with the European IFRS accounting framework.

In this context, following the prior consultation launched in March 2019, the BdE has published a **Draft Circular, addressed to SLIs, on public and confidential financial information rules and formats**, with the aim to keep the convergence of the Spanish accounting standards of supervised institutions to the IFRS framework. In particular, the new Circular will be the accounting regime for SLIs and will cover the documents that these institutions and their groups must publish, as well as the rules on recognition, valuation, submission and disclosure of information to be included in the financial report and the rules on the breakdown that shall be applied in its preparation, including models on public and confidential financial statements.

2. Main points

- **Scope**. This Draft Circular will apply to the regulated SLIs under the Law 5/2015 on promoting business finance (including hybrid SLIs), groups of SLIs and consolidable groups of SLIs.
- **Public financial information**. This Draft Circular establishes:
    - The content of public financial information, detailing the documents that the SLIs and the groups of SLIs shall publish (i.e. annual accounts and individual or consolidated management reports, and audit report) and general requirements regarding the content of the individual and consolidated annual accounts which will include the balance sheet, the profit and loss account, the statement of changes in equity, the statement of cash flows and the financial report. Further, the SLIs shall regularly discloure, through the BdE, the models of individual and consolidated public financial statements.
    - The recognition, valuation, submission and disclosure criteria that shall be included in the financial report, specifying that the annual accounts and other public financial statements should provide information according with the characteristics and definitions set in the Circular 4/2017, on public and confidential financial information rules and formats, and models of financial statements.
- **Confidential financial information**. This Draft Circular establishes:
    - The elaboration criteria, specifying that the SLIs shall provide the confidential, individual and consolidated financial statements applying the recognition, valuation, submission and disclosure criteria, regardless if institutions applied the accounting criteria set out in this document or the EU-IFRS (as foreseen in Regulation (EC) nº 1606/2002, on the application of international accounting standards). Furthermore, the SLIs should include in their data bases, as least, all the attributes of persons and transactions with debit or credit balances necessary to develop public and confidential statements.
    - The specific characteristics of the confidential statements (individual, consolidated and those related to the statistical requirements of the Economic and Monetary Union), detailing the breakdown model, the frequency and the submission period.
- **Internal accounting development and control management**. This Draft Circular establishes that the SLIs shall comply with the requirements of internal accounting development, control management and record-keeping established in the Circular 4/2017.
- **Submission of financial information to the BdE**. This Draft Circular establishes that the SLIs shall submit to the BdE the annual accounts and the public and confidential statements as provided, as well as the documents set out in the Circular 4/2017 (e.g. the budget or business plan and the allocation of any business combination that involves the recognition of goodwill or intangible assets by cash generating units at the date of acquisition).

3. Next steps

- Comments to this Draft Circular shall be submitted by **4 July 2019**.
- The final Circular will entry into force by **1 January 2020**.

BANCO DE ESPAÑA
Eurosistema

27/06/2019

- **Proyecto de Circular por el que se modifica la Circular 1/2013, sobre la Central de Información de Riesgos**
- **Anejo 1. Módulos de datos**
- **Anejo 2. Instrucciones para elaborar los módulos de datos**
- **Anejo 3. Información de los riesgos que se facilitará a las entidades declarantes y a los intermediarios de crédito inmobiliario**

1. Contexto

Under the Law 44/2002, on measures to reform the financial system, the BdE is responsible for the administration and management of the Risk Information Centre (CIR), and has the power to determine the information that institutions should report in the CIR, as well as the information to be provided regarding the reported data. In May 2013, the BdE published the Circular 1/2013 on the CIR, that covers provisions regarding its functioning. Furthermore, in March 2019, the Law 5/2019 on the regulation of the real estate credit contracts was published, in order to introduce amendments to Law 44/2002 regarding the reporting entities and the content of submissions; as well as the information on the reported data.

In this context, the BdE has published a **Draft Circular amending Circular 1/2013 on the CIR**, to adapt the CIR to the changes introduced by the Law 5/2019. In particular, this Draft Circular aims to adapt these changes to the new regulatory developments and to include the adjustments identified in the reported information according to the AnaCredit Regulation for the purpose of improving the reporting to the CIR of certain operations and additional clarifications in relation to the requirements for reporting claims to the CIR.

Along with this Draft Circular, the BdE has issued three annexes on the data modules, the instructions for developing the data modules, and on the risk information that will be provided to the reporting institutions and to real estate intermediaries.

2. Main points

- **Reporting institutions**. It determines the information to be submitted (i.e. only the information regarding the activity with residents in Spain) as well as the technical requirements for the reporting to the CIR by the two new types of reporting entities: i) credit institutions operating under the freedom to provide services, and ii) real estate creditors.
- **Holders and other reporting individuals**. It sets out that the indirect risk declaration in the name of a holder may exclude the effects in which his signature has been committed, provided that their amount is less than 6,000€ and they form part of a commercial credit operation with recourse, among other aspects.
- **Data modules and general provisions**.
    - It introduces certain <u>amendments to attributes and to data modules</u> (e.g. in the data module regarding the dynamic data on transactions, it is required to report dynamic financial data of loans granted to legal institutions, and data of loans granted to legal institutions on common responsibilities) in order to appropriately reflect certain operations carried out by institutions and to improve the reporting and technical management of information.
    - It <u>eases the information required</u> to branches of credit institutions of other reporting countries (i.e. they will not report D, H and I modules).
- **Data regarding the activity of credit institutions operating under the freedom to provide services and real estate creditors**. It details the new modules and attributes that shall be provided to report those direct and indirect risks related to reportable transactions by these institutions.
- **Use of the CIR by reporting institutions and real estate intermediaries**.
    - It establishes the <u>procedure to provide access to risk reports</u> to real estate credit intermediaries.
    - It introduces that the BdE could <u>temporarily deny the access to CIR reports to a reporting institution</u> if it has breached their reporting obligations according to the required quality and accuracy.
- **Right to rectification or cancellation**. It includes additional specifications (e.g. it is required to state which data is affected and to address the correction that should be introduced) regarding those requirements related to the <u>submission of complaints</u> into the CIR.

3. Next steps

- Comments to this Draft Circular shall be submitted by **31 July 2019**.

10/04/2019

- **Proposed rule on Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies**
- **Proposed rule on changes to applicability thresholds for regulatory capital requirements for certain U.S. subsidiaries of foreign banking organizations and application of liquidity requirements to foreign banking organizations, certain U.S. depository institution holding companies, and certain depository institution subsidiaries**

1. Context

Section 165 of the Dodd-Frank Act was enacted in response to the financial crisis and directed the Fed to establish enhanced prudential standards on, among others, risk-based capital and leverage, liquidity, risk-management, and stress test requirements for foreign banking organizations with total consolidated assets of $50 billion or more. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) was enacted in order to introduce amendments to the Dodd-Frank Act.

In this context, the Fed, the FDIC and the OCC have published a **Proposed rule that would revise the framework for applying the enhanced prudential standards applicable to foreign banking organizations under the Dodd-Frank Act** as well as a **Proposed rule that would apply regulatory capital and standardized liquidity requirements with respect to the U.S. operations of foreign banking organizations**. In particular, both documents aims to review the regulatory framework that would more closely match the rules for foreign banks with the risks they pose to the U.S. financial system.

2. Main points

<u>Proposed rule on Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies</u>

- This Proposed rule would establish **three categories** that would be used to tailor the stringency of **enhanced prudential standards** based on the risk profile of a foreign banking organization's operations in USA with combined U.S. assets of $100 billion or more. In particular, the following categories are established:
  - <u>Category II standards</u>, including risk-management standards, liquidity requirements, and single-counterparty credit limit requirements, would apply to foreign banking organizations with $700 billion or more in combined U.S. assets, or $75 billion or more in cross-jurisdictional activity.
  - <u>Category III standards</u>, including risk-management standards, liquidity requirements, and single-counterparty credit limit requirements, would apply to foreign banking organizations that are not subject to Category II standards and that have $250 billion or more in combined U.S. assets or $75 billion or more in any of the following indicators: i) nonbank assets, ii) weighted short-term wholesale funding, or iii) off-balance sheet exposure.
  - <u>Category IV standards</u>, including risk-management standards and liquidity requirements, would apply to foreign banking organizations with at least $100 billion in combined U.S. assets that do not meet any of the thresholds proposed for Categories II and III.
- This Proposed rule would make **clarifying revisions and technical changes** to the Fed's Proposal on **internal liquidity stress testing requirements** and **G-SIB surcharge rule** for large U.S. bank holding companies and certain savings and loan holding companies.
- Further, this Proposed rule would revise the **applicability of the capital and liquidity requirements** for foreign banking organizations based on the same categories; whether it should impose standardized liquidity requirements on the U.S. branch and agency network of a foreign banking organization, as well as possible approaches for doing so.
- This Proposed rule would also revise the applicability of the **resolution planning requirements** applicable to large U.S. banking organizations and foreign banking organizations, using a category approach that is broadly consistent with the above-mentioned.

2. Main points (continues)

Proposed rule on changes to applicability thresholds for regulatory capital requirements for certain U.S. subsidiaries of foreign banking organizations and application of liquidity requirements to foreign banking organizations, certain U.S. depository institution holding companies, and certain depository institution subsidiaries

- This Proposed rule would modify the **capital requirements** applicable to large U.S. intermediate holding companies of foreign banking organizations (specifically, those with at least $100 billion in total consolidated assets), as well as the capital requirements applicable to depository institution subsidiaries of these U.S. intermediate holding companies according to the proposed risk-based categories.
- Moreover, this Proposed rule would apply **standardized liquidity requirements** to foreign banking organizations with respect to their combined U.S. operations. In particular, it requires a foreign banking organization that meets certain criteria (e.g. having combined U.S. assets of $100 billion or more) to comply with liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements with respect to any U.S. intermediate holding company. It also would review whether it should impose standardized liquidity requirements on foreign banking organizations with respect to their U.S. branch and agency networks, as well as possible approaches for doing so.
- This Proposed rule would tailor the **capital and liquidity requirements for foreign banking organizations** and their **U.S. subsidiaries**.
- In addition, this Proposed rule would apply standardized liquidity requirements to a **U.S. depository institution holding company** that would be subject to Category IV standards under the domestic interagency proposal if the depository institution holding company significantly relies on short-term wholesale funding relative to its total consolidated assets.

3. Next steps

- Comments to both Proposed rules should be submitted by **21 June 2019**.

24/04/2019

- **Proposed rule on modifications to resolution plan requirements**
- **Proposed rule on revisions to the Supplementary Leverage Ratio to exclude certain central bank deposits of banking organizations predominantly engaged in custody, safekeeping and asset servicing activities**

1. Context

Section 165 of the Dodd-Frank Act require certain financial companies to report periodically their plans for rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure. Further, the Section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) mandates the Fed, the FDIC and the OCC to amend the supplementary leverage ratio (SLR) of the regulatory capital rule to exclude certain funds of banking organizations deposited with central banks.

In this context, the Fed, and the FDIC have issued a **Proposed rule on modifications to resolution plan requirements** in order to address the amendments to the Dodd-Frank Act made by the EGRRCPA. In particular, this document includes a proposal to establish risk-based categories for determining the application of the resolution planning requirement to certain U.S. and foreign banking organizations, and a proposal to extend the default resolution plan filing cycle, allow for more focused resolution plan submissions, and improve certain aspects of the rule.

Moreover, the Fed, the FDIC and the OCC have published a **Proposed rule on revisions to the SRL** in order to exclude from the SRL certain funds of banking organizations deposited with central banks if the banking organization is predominantly engaged in custody, safekeeping, and asset servicing activities.

1. Main points

<u>Proposed rule on modifications to resolution plan requirements</u>

- **Scope of the proposal**. This Proposed rule would affect domestic and foreign banks with $100 billion or more and less than $250 billion in total consolidated assets as the Fed has the authority to apply the resolution planning requirement to such firms.
- **Overview of the resolution plan proposal**. This Proposed rule aims to streamline, clarify, and improve the resolution plan submission and review processes and timelines. Among other aspects, it aims to:
  - <u>Divide the firms that have resolution planning requirements</u>, including those identified pursuant to EGRRCPA, into groups of filers for plan content tailoring purposes. To this end, the Fed proposes to use risk-based indicators (categories I, II, III and IV standards) to identify the following resolution plan filing groups:
    - **Biennial filers**, which are those firms of category I (G-SIBs) that are required to submit a resolution plan every two years, alternating between a full resolution plan, and a targeted resolution plan.
    - **Triennial full filers**, which are those firms of category II and III that are required to submit a resolution plan every three years, alternating between a full resolution plan, and a targeted resolution plan.
    - **Triennial full filers**, which are those foreign banking organizations (FBOs) with $250 billion or more in total global assets that are not subject to Category II or III standards, that are required to submit as its initial submission a full resolution plan, and thereafter, every three years, a reduced resolution plan.
- **Overview of the resolution plan proposal (continues)**
  - <u>Enhance transparency</u> and provide greater predictability by formalizing the <u>current reduced resolution plan</u>, which would include a description of material changes experienced by the covered company since the filing of the covered company's previously submitted resolution plan and changes made to the strategic analysis that was presented in the firm's previously submitted resolution plan in response to these changes and changes made in response to feedback provided by the agencies, guidance issued by the agencies, or legal or regulatory changes.
  - <u>Establish multi-year submission cycles</u> for each group of filers (i.e. two-year cycle and three-year cycle).
  - <u>Introduce a new category of plans</u> distinguished by informational content, denominated <u>targeted resolution plan</u> in order to refresh or update the information submitted rather than resubmitted in full. The targeted resolution plan would be a subset of a full resolution plan.
  - <u>Supersede the existing tailored plan category</u>. The Proposed rule would eliminate this plan category that requests to submit resolution plans focusing on nonbank activities that may pose challenges to executing the firm's resolution strategy.
  - <u>Update certain procedural elements</u> of the current rule (e.g. changes to definitions, or identification of critical operations).

2. Main points (continues)

Proposed rule on revisions to the Supplementary Leverage Ratio to exclude certain central bank deposits of banking organizations predominantly engaged in custody, safekeeping and asset servicing activities

- This Proposed rule would define a depository institution holding company as **predominantly engaged in custody, safekeeping, and asset servicing activities** if the U.S. top-tier depository institution holding company in the organization has a **ratio of assets under custody (AUC)-to-total assets of at least 30:1**.
- This Proposed rule also sets out that a custodial banking organization (i.e. a depository institution holding company, together with any subsidiary depository institution) **would exclude deposits** placed at a **qualifying central bank** from the denominator of the SLR. For purposes of this proposal, a qualifying central bank would mean:
    - Federal Reserve Bank.
    - European Central Bank (ECB).
    - A central bank of a member country of the Organisation for Economic Co-operation and Development (OECD) if the country's sovereign exposures qualify for a 0% risk weight under the capital rule and the sovereign debt of such member country is not in default or has not been in default during the previous five years.
- Moreover, this Proposed rule establishes that the **amount of central bank deposits that could be excluded** from the denominator of the SLR would be limited by the amount of deposit liabilities on the consolidated balance sheet of the custodial banking organization that are linked to fiduciary or custody and safekeeping accounts.

3. Next steps

- Comments to the Proposed rule on modifications to resolution plan requirements should be submitted by **21 June 2019**.
- Comments on the Proposed rule on revisions to the SRL will be accepted for **60 days after publication** in the Federal Register.

30/05/2019

Proposed rule on changes to applicability thresholds for regulatory capital requirements for certain U.S. subsidiaries of Foreign Banking Organizations and application of liquidity requirements to Foreign Banking Organizations, certain U.S. Depository Institution Holding Companies, and certain depository institution subsidiaries.

1. Context

In 2013, the Fed, the FDIC and the OCC (the agencies) adopted a revised regulatory capital rule that addressed weaknesses in the regulatory framework and strengthened the capital requirements applicable to banking organizations by improving both the quality and quantity of regulatory capital and increasing the risk-sensitivity of capital requirements. Further, in 2014 the agencies adopted the liquidity coverage ratio rule (LCR rule) in order to monitor and manage liquidity risk; whereas in 2016 the agencies issued a proposed rule to implement a net stable funding requirement for large and internationally active banking organizations (NSFR proposed rule).

In this context, the Fed, the FDIC and the OCC have published a **Proposed rule on tailoring of capital and liquidity standards for Foreign Banking Organizations (FBOs)** that would establish a revised framework for determining requirements under the regulatory capital rule, the LCR rule, and the proposed NSFR rule for large FBOs with respect to certain U.S. operations based on their risk profile.

This proposed framework would be consistent with the proposed framework for large U.S. banking organizations published by the agencies in April 2019, using consistent indicators of risk.

2. Main points

- **General provisions**. This Proposed rule would amend the risk factors used to determine the application of regulatory capital requirements to certain U.S. Intermediate Holding Companies (IHCs) of FBOs and their depository institution subsidiaries and the application of standardized liquidity requirements with respect to certain U.S. operations of large FBOs and depository institution subsidiaries controlled by such FBOs, each according to risk-based categories.
- **Capital requirements**. This Proposed rule would assign IHCs with total consolidated assets of $100 billion or more and their depository institution subsidiaries to one of three categories based on risk characteristics (i.e. size, cross-jurisdictional activity, weighted short-term wholesale funding, off-balance sheet exposure, and nonbank assets) of the IHC:
    - <u>Category II institutions</u> (i.e. U.S IHC that has $700 billion or more in total consolidated assets or $75 billion or more in cross-jurisdictional activity) would be subject to the generally applicable capital requirements, the enhanced supplementary leverage ratio (eSLR), and the countercyclical capital buffer (if activated). These institutions also would include most accumulated other comprehensive income (AOCI) in the measure of regulatory capital.
    - <u>Category III institutions</u> (i.e. U.S. IHC that is not subject to Category II standards and that has $250 billion or more in total consolidated assets or $75 billion or more in any of the above-mentioned indicators) would be subject to the generally applicable capital requirements, the eSLR, and the countercyclical capital buffer, if applicable. However, these institutions would not include most AOCI in the measure of regulatory capital.
    - <u>Category IV institutions</u> (i.e. U.S. IHC that has at least $100 billion in total consolidated assets and does not meet any of the thresholds specified for Category II or III) would be subject to the generally applicable capital requirements.
- **Liquidity requirements**. This Proposed rule would assign IHCs and their subsidiary depository institutions with consolidated assets of $10 billion or more to categories based on risk characteristics (i.e. size, cross-jurisdictional activity, weighted short-term wholesale funding, off-balance sheet exposure, and nonbank assets) of the combined U.S. operations of the parent FBO:
    - <u>Category II institutions</u> (i.e. FBO with $700 billion or more in combined U.S. assets or $75 billion or more in cross-jurisdictional activity) would be subject to a 100% LCR requirement and proposed 100% NSFR requirement.
    - <u>Category III institutions</u> (i.e. FBO that is not subject to Category II standards and that has $250 billion or more in combined U.S. assets or $75 billion or more in any of the above-mentioned indicators) would be subject to a 100% LCR requirement and proposed 100% NSFR requirement. However, those institutions with less than $75 billion in weighted short-term wholesale funding would be subject to a reduced LCR requirement and NSFR requirement.
    - <u>Category III institutions</u> (i.e. FBO that has combined U.S. assets of $100 billion or more and is not subject to Category II or III) would be subject to a reduced LCR and NSFR requirements only if the institution has $50 billion or more in weighted short-term wholesale funding. The LCR and NSFR requirements would not apply to any depository institution subsidiaries of institutions subject to Category IV standards.

3. Next steps

- Comments to this Proposed rule shall be submitted by **21 June 2019**.

24/06/2019
Dodd-Frank Act Stress Test 2019: Supervisory Stress Test Results.

1. Context

The Fed conducts supervisory stress tests to effectively assess whether firms have sufficient capital to continue operating and lending to households and businesses, even during times of economic and financial market stress. In particular, the Fed's stress testing program examines large Bank Holding Companies (BHCs) and US Intermediate Holding Companies (IHCs) of foreign banks (together, the firms).

In this regard, the Fed has published the **results for the Dodd-Frank Act Stress Test 2019** (DFAST 2019), in which 18 firms have participated. In conducting its supervisory stress test, the Fed calculates 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 2019, the Fed enhanced the supervisory stress test models to reflect advances in modeling techniques (e.g. refinements in the LGD and PD components of the auto loan model); enhancements in response to model validation findings; incorporation of richer and more detailed data; and identification of more stable models or models with improved performance, particularly under stressful economic conditions.

The results of the DFAST 2019 projections suggest that, in the aggregate, the 18 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 build of capital since the financial crisis.

2. Main points

- **Severely adverse scenario**.
  - Losses are projected to be $410 billion for the 18 firms in the aggregate over the nine quarters of the planning horizon (the largest 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 2018 to its minimum of 9.2% over the planning horizon (the individual projected capital ratios are detailed in the tables below).
- **Adverse scenario**.
  - Losses are projected to equal $255 billion for the 18 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 11.4% over the planning horizon.

3. Next steps

- The DFAST results are one component of the Fed'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 27, 2019**.

Table 4. Capital ratios, actual 2018:Q4 and projected 2019:Q1–2021:Q1 under the severely adverse scenario: 18 Participating 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 2018:Q4	Ending	Minimum	Actual 2018:Q4	Ending	Minimum	Actual 2018:Q4	Ending	Minimum	Actual 2018:Q4	Ending	Minimum	Actual 2018:Q4	Ending	Minimum
Bank of America Corporation	11.6	9.7	9.7	13.2	11.2	11.2	15.4	13.5	13.5	8.4	7.1	7.1	6.8	5.8	5.8
The Bank of New York Mellon Corporation	11.7	13.1	11.3	14.1	15.4	13.6	15.1	16.6	14.7	6.6	7.2	6.4	6.0	6.6	5.9
Barclays US LLC	14.5	12.4	11.6	17.6	15.4	14.5	21.0	18.5	17.8	8.9	7.8	7.5	7.3	6.3	6.1
Capital One Financial Corporation	11.2	6.0	6.0	12.7	7.4	7.4	15.1	9.6	9.6	10.7	6.5	6.5	9.0	5.5	5.5
Citigroup Inc.	11.9	9.5	8.2	13.5	11.1	9.7	16.6	14.1	12.9	8.3	6.8	6.1	6.4	5.3	4.7
Credit Suisse Holdings (USA), Inc.	25.8	22.3	18.4	26.5	23.2	19.3	26.6	23.2	19.4	12.9	10.1	8.5	11.3	8.8	7.4
DB USA Corporation	22.9	15.0	14.8	34.4	26.4	26.2	34.4	26.7	26.6	9.2	6.9	6.9	8.4	6.4	6.3
The Goldman Sachs Group, Inc.	13.3	9.9	7.6	15.3	11.9	9.5	18.0	14.6	12.4	8.9	6.7	5.7	6.2	4.7	4.0
HSBC North America Holdings Inc.	12.6	8.5	8.5	14.2	10.1	10.1	18.0	14.2	14.2	7.5	5.1	5.1	5.6	3.8	3.8
JPMorgan Chase & Co.	12.0	8.2	8.1	13.7	9.9	9.8	15.5	11.9	11.8	8.1	5.9	5.8	6.4	4.7	4.6
Morgan Stanley	16.9	11.1	8.9	19.2	13.4	11.1	21.8	15.7	13.6	8.4	5.7	5.1	6.5	4.4	3.9
Northern Trust Corporation	12.9	13.2	10.7	14.1	14.5	12.0	16.1	16.5	14.0	8.0	8.2	6.8	7.0	7.2	6.0
The PNC Financial Services Group, Inc.	9.6	8.5	8.5	10.8	9.7	9.6	13.0	12.0	12.0	9.4	8.4	8.4	7.8	7.1	7.1
State Street Corporation	11.7	11.8	10.9	15.5	15.5	14.6	16.3	16.2	15.4	7.2	7.2	6.8	6.3	6.3	6.0
TD Group US Holdings LLC	16.3	13.7	12.9	16.3	13.7	12.9	17.3	15.0	14.2	9.2	7.8	7.5	8.3	7.0	6.7
UBS Americas Holding LLC	21.7	16.8	16.0	25.7	20.7	19.9	27.0	22.8	21.9	11.3	9.0	8.8	n/a	n/a	n/a
U.S. Bancorp	9.1	8.1	8.1	10.7	9.7	9.7	12.6	11.4	11.4	9.0	8.2	8.2	7.2	6.6	6.6
Wells Fargo & Company	11.7	10.1	9.5	13.5	11.8	11.2	16.6	14.8	14.5	9.1	8.0	7.6	7.7	6.8	6.5
18 participating firms	12.3	9.7	9.2	14.0	11.3	10.9	16.4	13.7	13.5	8.6	6.9	6.8	6.9	5.6	5.4

Table 10. Capital ratios, actual 2018:Q4 and projected 2019:Q1–2021:Q1 under the adverse scenario: 18 Participating 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 2018:Q4	Ending	Minimum	Actual 2018:Q4	Ending	Minimum	Actual 2018:Q4	Ending	Minimum	Actual 2018:Q4	Ending	Minimum	Actual 2018:Q4	Ending	Minimum
Bank of America Corporation	11.6	11.9	11.5	13.2	13.4	12.9	15.4	15.3	15.3	8.4	8.5	8.3	6.8	6.9	6.7
The Bank of New York Mellon Corporation	11.7	13.9	12.2	14.1	16.1	14.5	15.1	17.2	15.5	6.6	7.5	6.8	6.0	6.9	6.3
Barclays US LLC	14.5	14.9	13.5	17.6	17.8	16.4	21.0	20.8	20.0	8.9	9.0	8.4	7.3	7.3	6.8
Capital One Financial Corporation	11.2	10.3	9.9	12.7	11.7	11.3	15.1	13.8	13.6	10.7	10.3	10.1	9.0	8.7	8.5
Citigroup Inc.	11.9	12.2	10.8	13.5	13.7	12.3	16.6	16.3	15.4	8.3	8.5	7.7	6.4	6.5	5.9
Credit Suisse Holdings (USA), Inc.	25.8	24.7	20.9	26.5	25.5	21.7	26.6	25.5	21.8	12.9	11.4	10.0	11.3	10.0	8.7
DB USA Corporation	22.9	17.8	17.6	34.4	28.7	28.6	34.4	28.9	28.8	9.2	7.8	7.7	8.4	7.1	7.1
The Goldman Sachs Group, Inc.	13.3	13.3	11.4	15.3	15.2	13.2	18.0	17.7	16.0	8.9	8.8	7.8	6.2	6.2	5.5
HSBC North America Holdings Inc.	12.6	10.9	10.9	14.2	12.5	12.5	18.0	16.2	16.2	7.5	6.4	6.4	5.6	4.7	4.7
JPMorgan Chase & Co.	12.0	10.9	10.6	13.7	12.6	12.3	15.5	14.2	14.1	8.1	7.5	7.4	6.4	5.9	5.9
Morgan Stanley	16.9	14.5	13.1	19.2	16.8	15.4	21.8	18.8	17.7	8.4	7.2	6.8	6.5	5.6	5.3
Northern Trust Corporation	12.9	13.7	11.3	14.1	14.9	12.6	16.1	16.7	14.5	8.0	8.4	7.1	7.0	7.4	6.3
The PNC Financial Services Group, Inc.	9.6	10.3	9.9	10.8	11.4	11.0	13.0	13.3	13.1	9.4	9.9	9.7	7.8	8.3	8.1
State Street Corporation	11.7	12.5	12.1	15.5	16.1	15.8	16.3	16.7	16.6	7.2	7.5	7.4	6.3	6.5	6.5
TD Group US Holdings LLC	16.3	15.5	14.9	16.3	15.5	14.9	17.3	16.4	16.1	9.2	8.8	8.6	8.3	7.9	7.7
UBS Americas Holding LLC	21.7	19.9	18.6	25.7	23.8	22.6	27.0	25.5	24.1	11.3	10.4	9.9	n/a	n/a	n/a
U.S. Bancorp	9.1	10.0	9.6	10.7	11.5	11.2	12.6	12.9	12.9	9.0	9.8	9.6	7.2	7.8	7.6
Wells Fargo & Company	11.7	12.3	11.4	13.5	14.0	13.1	16.6	16.6	16.2	9.1	9.4	8.9	7.7	8.0	7.6
18 participating firms	12.3	12.1	11.4	14.0	13.8	13.0	16.4	15.9	15.5	8.6	8.5	8.1	6.9	6.8	6.5

28/06/2019
Comprehensive Capital Analysis and Review 2019: 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.

In this context, and following the publication of the Dodd Frank Act Stress Test (DFAST) 2019 results, the Fed has now published the **assessment framework and results of the CCAR 2019**, which includes both a quantitative assessment that evaluates a firm's capital adequacy and planned capital distributions, and a qualitative assessment of capital planning practices. In the CCAR 2019, 18 firms have participated, although only 17 firms were subject to the qualitative assessment.

2. Main points

- **Quantitative assessment results**:
  - As in the 2018 CCAR, no firms were objected to on quantitative grounds (i.e. breaches of certain ratios) in CCAR 2019.
  - The aggregate CET1 for the 18 firms participating in the CCAR 2019 would decline in the severely adverse scenario from 12.3% in 4Q18 to 6.6% at its minimum point over the planning horizon (from 1Q19 to 1Q21); whereas in the adverse scenario it would decline to 9.1%.
  - Firms have significantly increased their capital positions since 2009. In this regard, the CET1 ratio has more than doubled from 4.9% in 1Q09 to 12.3% in 4Q18. This reflects a total increase of approximately $660 billion in common equity capital.
  - In the aggregate, the 18 firms participating in CCAR 2019 have estimated that their common equity will remain near current levels between 3Q19 and 2Q20 based on their planned capital actions and net income projections under their baseline scenario.
- **Qualitative assessment results**:
  - Most of the 17 firms have continued to strengthen their capital planning practices since last year, with many of those firms meeting supervisory expectations. However, certain firms that are newer to CCAR have additional work to undertake to have sound, established capital planning practices, and a limited number of firms that have been subject to the qualitative assessment for a number of years have certain weaknesses (e.g. IT infrastructure, internal audit).
  - The Fed did not object to any firm's capital plan on qualitative ground. However, it has issued a conditional non-objection to the capital plan of Credit Suisse Holdings (USA), and therefore it is required to address those weaknesses identified in its capital adequacy process (e.g. the assumptions used by the firm to project stressed trading losses) by October 27, 2019.

3. Next steps

- The Fed's decisions with regard to planned capital distributions in CCAR 2019 will apply from the **beginning of 3Q19 through the end of 2Q20**.

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