



# Regulation Outlook

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# Executive summary

***In this quarter, the regulatory trend in Europe has been driven by the accomplishment of the Comprehensive Assessment of the ECB and, in particular, by the European banks stress test.***

## ***Global publications***

- The approval of the IFRS 9 by the IASB has resulted in key regulatory changes, especially on impairment methodology which financial institutions shall adopt before 2018.
- The BCBS has published the preliminary results about some of the effects arising from the proposed amendments on regulatory capital due to market risk, in the context of an assessment of the trading portfolios of entities.
- The FSB has conducted a study on the changes accomplished regarding the G-SII supervisory practices.

## ***European publications***

- The ECB issued a note on the Comprehensive Assessment and the templates which illustrate the format in which results will be published in October.
- Moreover, the ECB published the *Comprehensive Assessment Stress Test Manual*. This manual describes the way in which the results from the AQR are incorporated into the provisions for the stress tests and the quality control process.
- In addition, in September 2014 the ECB published the *Guide to banking supervision* in order to provide practical orientations before the ECB assumes its new banking supervision responsibilities on the 4<sup>th</sup> of November.

## ***European publications (continuation)***

- The EBA is conducting a consultation regarding the guidelines that should be applied on the supervision of European banks. These guidelines aim at implementing and promoting common methodologies on the Supervisory Review and Evaluation Process (SREP).
- Moreover, the EBA has published consultative documents with the objective of fulfilling the Bank Recovery and Resolution Directive.

## ***Local publications***

- The Council of Ministers adopted the Real Decreto-Ley 11/2014 on urgent insolvency reforms, aiming at facilitating agreements to enable the survival of companies within a insolvency proceeding.
- The Bank of Spain published a Draft Circular which amends Circulares 4/2004, 1/2010 and 1/2013, so as to incorporate additional requirements on disclosure information, financial statements templates, interest rate statistics and the Risk Information Unit.



## Upcoming publications

***After publishing the results of the Comprehensive Assessment , the ECB will assume new tasks on prudential supervision, becoming responsible on prudential supervision in the euro zone since 4 November 2014.***

### Regulatory projections

#### 1. Next quarter

- **(Europe) October 2014:** The ECB will announce the result of the comprehensive assessment before it fully assumes the responsibility of being the supervision's head of the euro zone on 4 November 2014.
- **(Europe) October 2014:** The EBA will publish the results on the EU-wide stress test 2014.
- **(Spain) 31 October 2014:** Financial institutions will have to comply with the requirements on remunerations and corporate governance set by Ley 10/2014.
- **(Europe) 30 November 2014:** Competent authorities will issue the information required by the EBA for its study in the context of determining the calculation of remuneration.
- **(Global) end of 2014:** The BCBS will announce the results of the second QIS which will be related to the Fundamental Review of the Trading Book.

#### 2. Next year

- **(Europe) 1 January 2015:** Financial institutions will have to have a minimum 60% of LCR and must publish their leverage ratio.
- **(Europe) 1 January 2015:** The guidelines which specify the type of tests that competent authorities may follow to assess if an institution needs extraordinary public financial support will be applied.
- **(Europe) 1 January 2015:** The Board of the Single Resolution Mechanism will be operational.
- **(Europe) January 2015:** The identification as global systematically important institutions (G-SIIs) through the EBA's criteria, will take place in 2015 .
- **(Europe) 1 July 2015:** Additional monitoring metrics (AMM) for liquidity ratio will be adjusted to template and corrections made by the EBA.
- **(Europe) June 2015:** The EBA will issue to the European Commission all BTS on MiFID.
- **(Global) 2015:** The FSB will review the implementation level on the shadow banking framework.
- **(Europe) 2015:** The EBA's guidelines on the implementation of resolution tools against constraints stemming in relation to state aids will be applied.
- **(Europe) 2015:** The resolution authorities may require from an institution under resolution the accomplishment of a minimum list of necessary critical services.
- **(Europe) 2015:** The guidelines on early resolution triggers will be applied.
- **(Global) end 2015:** The FSB Members will adopt the the guidance on key principles for recognition clauses on cross-border resolutions.

#### 3. More than a year

- **(Global) 1 January 2016:** G-SIB must comply with RDA's principles.
- **(Europe) 1 January 2016:** Financial entities should have a transparent corporate body according to the EBA guidelines on SREP.
- **(Europe) 3 June 2016:** Member States must have adapted their regulations for the effective entry into force of MiFID II.
- **(Global) 1 January 2018:** Financial entities should apply IFRS 9.

## Publications of this quarter

### Summary of outstanding publications of this quarter

ORG.	DATE	DOCUMENT	ORG.	DATE	DOCUMENT
BCBS	11/09	BIS 3 monitoring	EBA	08/07	GL on SRT for securitisation transactions
	10/09	QIS results trading book		07/07	RTS on conditions extensions IMA
FSB	07/07	Peer review on supervisory frameworks and approaches to SIFIs		07/07	CP GL on common procedures and methodologies for the SREP
IASB	24/07	Latest amendments on IFRS 9		07/07	RTS margin periods for risk
EBA	29/09	Indicators GSII-s		04/07	CP BTS on colleges of supervisors and ITS on joint decision prudential requirements
	26/09	CP GL on qualitative and quantitative recovery plan indicators		04/07	List for the calculation of capital requirements for credit risk
	24/09	CP GL resolution tools		03/07	Opinion on DVA
	22/09	CP GL triggers early intervention and resolution		03/07	Report and Opinion on EU capital treatment and covered bonds
	09/09	Final templates for the 2014 EU-wide stress test		01/07	GL on definitions and templates for funding plans
	06/08	CP Technical advice on structured deposits		ESAs	25/07
	06/08	RTS equity exposures under IRB	ECB	09/09	Guide on banking supervision
	28/07	Revised ITS on reporting and liquidity		08/08	Comprehensive Assessment Stress Test Manual
	25/07	Peer review on the implementation of credit concentration risk guidelines		17/07	Comprehensive Assessment July 2014.
	21/07	RTS & GL on recovery plans	Govern-ment	10/09	Real Decreto-ley 11/2014 de medidas urgentes en materia concursal.
	21/07	CP GL on criteria to assess O-SIIs	BdE	31/07	Proyecto de Circular que modifica CBE 4/2004, 1/2010, 1/2013
	10/07	CP RTS & GL on banking resolution			
	09/07	XBRL taxonomy for remittance of supervisory reporting			

# Global publications



**11/09/2014**

**The BCBS and the EBA have published their reports of the Basel III monitoring exercise on the global and European banking systems respectively.**

## 1. Context

These exercises from the BCBS and the EBA allowed gathering aggregate results on capital, RWAs, liquidity and leverage ratios for banks. They both classify banks in Group 1 banks (with a Tier 1 capital exceeding €3bn and internationally active) and Group 2 banks (all other banks).

For the BCBS exercise a total of 227 banks participated in the exercise, of which 102 were from Group 1 and 125 of Group 2. For the EBA exercise a total of 151 EU banks were studied, of which 42 banks from Group 1 and 109 banks from Group 2.

## 2. Main points

The exercises were based on the assumption of a full implementation of the Basel III framework as of 31 December 2013. The main averaged results obtained were:

Organism	Group	CET1 ratio	Shortfall*	Deficit reduction**	LCR	NSFR	LR
BCBS	1	10.20%	0.1bn €	74%	119%	111%	4.40%
	2	10.50%	-	-	132%	112%	5.20%
EBA	1	10.10%	0.1bn €	68%	107.3%	102%	3.70%
	2	12.40%	.	-	144%	109%	-

\* Shortfall with respect to the minimum requirement of 4.5%

\*\* Results compared to those of last exercise (June 2013).



**10/09/2014**

**The BCBS has published an analysis of the trading book hypothetical portfolio exercise.**

### **1. Context**

To revise the trading book standards, the BCBS has planned two Quantitative Impact Studies (QIS) in 2014 that will help the Committee to better understand the effects of the proposed new framework on capital requirements.

The results of the first QIS are now published focusing on the revised internal model-based approach and is based on hypothetical portfolios. It provides preliminary findings on some of the potential effects of the proposed standards on regulatory capital for market risk and it covers evaluations on the basis of data available on 4 June 2014 for 41 banks from 13 countries.

### **2. Main points**

- The data show that variability in the liquidity-adjusted expected shortfall (ES) and incremental default risk (IDR) measures is similar to measures in the current regulatory capital framework.
- The level of variability in the liquidity-adjusted ES measures varies by asset class and by portfolio. On this regard, the data show that the equity and credit spread portfolios have the highest variability.
- The revised risk measures do not exhibit a significantly higher level of variability compared to the current VaR and sVaR measures.
- The data provided by banks have also shown that the choice of scaling the ES based on a 10-day measure would result in the same level of capital for the median bank as when it is scaled from a 1-day measure (liquidity horizons).
- The vast majority of banks indicated that they are expected to have less than 100 regulatory trading desks, although a lot of risk appears to be concentrated in the largest 10% of desks.
- Most banks currently use an IRC model with two or fewer factors.
- The participating banks chose broadly consistent stressed periods, with only 6 out of 43 choosing periods that did not include at least Q4 2008.

### **3. Next steps**

- The second QIS exercise focuses on banks' actual portfolios and is being conducted in parallel with the Basel III monitoring exercise that commenced in July 2014.





**07/07/2014**

**The FSB has published a peer review on supervisory frameworks and approaches to Systemically Important Financial Institutions (SIFIs).**

### **1. Context**

The 2013 *Report to the G20 on Progress and Next Steps Towards Ending Too-Big-to-Fail* recommended the FSB to launch by end-2014 a peer review of supervisory frameworks and approaches to identify improvements and remaining challenges in supervisory practices for SIFIs.

Following the advice, the FSB has launched the peer review focusing on on global systemically important banks (G-SIBs). The peer review aims to take stock of changes since the global financial crisis in supervisory frameworks that are being implemented, or are planned, to enhance supervisory effectiveness for G-SIBs.

### **2. Main points**

The final outcome will draw from responses to **two questionnaires**:

- **Questionnaire for national authorities:** the peer review focuses on: supervisory mandate, strategy and culture; organizational structure; supervisory approach, methods and tools; cooperation, operational independence and resources; lessons learned and the next measures that competent authorities plan to take.
- **Questionnaire for G-SIBs**
  - The questionnaire is designed to collect information via free-form responses to several open-ended questions from a representative number of G-SIBs.
  - G-SIBs should provide a response for the consolidated group, covering operations across all branches and majority-owned subsidiaries worldwide and, where possible, they should provide concrete examples of the impact of changes in supervisory practices and approaches.

### **3. Next steps**

- Firms are asked to send the completed questionnaire to their national supervisor by **15 August 2014**.
- Financial institutions, industry associations and other stakeholders are invited to comment on the topics covered in the questionnaires before **12 September 2014**.
- The peer review report publication is expected in **early 2015**.

24/07/2014

## The IASB has published the latest amendments on IFRS 9.

### 1. Context

In July 2014, the IASB published the latest amendments on IFRS 9, giving rise to the final standard that financial entities should take into consideration when accounting for the financial instruments. In response to the financial crisis and the entities true-and-fair-view problem, the regulatory project on the IFRS 9 aims at establishing the principles relating to the information of assets and liabilities, so as to diminish and simplify information regarding financial instruments.

### 2. Main points

The regulatory project on IFRS 9 has been developed in three stages. Each of these stages has focused on a single aspect of the financial standard:

- **Classification and measurement:** IFRS 9 considers only three measures when accounting for financial instruments: amortized cost, fair value with changes in the results and fair value with changes in other results. Therefore, greater reliance will be placed on the cash-flows criteria.
- **Impairment methodology:** for provisioning, IFRS 9 has changed the incurred-loss model for an expected-loss model. In this regard, a key element of the regulatory project consists on the process of adaptation that entities should accomplish towards internal expected-loss models.
- **Hedge accounting:** the regulatory amendment objectives are the convergence between accounting and risk information and the simplification of hedge accounting.

### 3. Next steps

- After the latest amendments on IFRS 9 in July 2014, the standard is seen as complete.
- IFRS 9 will enter into force in January 2018, even though entities can apply it in advance.

# European publications



**29/09/2014**

**The EBA has published the indicators from global systemically important institutions (G-SIIs).**

## 1. Context

The ITS and Guidelines on disclosure rules applicable to institutions whose leverage ratio exposure measure exceeds 200billion euros define uniform requirements for disclosing the values used during the identification and scoring process of global systemically important institutions (G-SIIs), in line with the international standards developed by the FSB and the BCBS.

In accordance with the ITS and Guidelines, the EBA has published the indicators from global systemically important institutions (G-SIIs) as it acts as a central data hub in this disclosure process.

## 2. Main points

- The EBA has determined that the current level of disclosure goes beyond the minimum standards required by the BCBS in terms of granularity and applicable scope. Categories:
  - **Size:** total exposures
  - **Interconnectedness:** intra-financial system assets and liabilities, securities outstanding
  - **Substitutability / Financial Institution Infrastructure:** payments activity, assets under custody, underwriting activity
  - **Complexity:** OTC derivatives, trading and AFS securities and level 3 assets
  - **Cross-jurisdictional activity:** claims and liabilities
- The identification as G-SII leads to a higher capital requirement that will be applied about one year after the publication by NCAs of bank's scoring results.

## 3. Next steps

- In November 2014 the BCBS and the FSB will publish global denominators and G-SIB exercise results. They will be published each year.
- In January 2015 NCAs will identify G-SII for the first time.
- The EBA, acting as a data hub, will disclosure such data with yearly frequency, by end-July.

26/09/2014

**The EBA has published a consultation paper on Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators.**

### 1. Context

In accordance with the EBA's RTS on the assessment of recovery plans, NCAs should assess if institutions include in their recovery plans to restore its financial position a set of indicators and a range of scenarios to test those recovery options. In this regard, the EBA proposes these guidelines in which the minimum list of quantitative and qualitative indicators for the purposes of recovery planning under article 9(2) of the BRRD is specified.

### 2. Main points

- The proposed guidelines provide the **requirements** that institutions should fulfil when developing the framework for recovery plan indicators.
- The guidelines specify the minimum list of categories that should be included in all recovery plans and the indicators within each one:
  - **Capital:** CET 1, total capital ratio and leverage ratio.
  - **Liquidity:** LCR, short-term wholesale funding ratio, net outflow of retail and corporate funding and cost of wholesale funding.
  - **Profitability:** return on assets, return on equity, significant losses due to administrative/regulatory fine or adverse court ruling.
  - **Asset quality:** impaired and past due loans/total loans, coverage ratio and non-performing loans by counterparty sector.
  - **Market-based** (only if they are relevant to its legal structure, risk profile, size and/or complexity): rating under review or/rating downgrade, CDS spread, stock price variation (daily or weekly) and default of a peer institution.
  - **Macroeconomic** (they should be included if they are relevant to its legal structure, risk profile, size and/or complexity): GDP variations, CDS of sovereigns and rating downgrades of sovereigns.
- A list with additional recovery plan indicators are provided (illustrative purposes) due to the EBA's knowledge that institutions should not limit their set of indicators to this minimum list (e.g. request from counterparties for early redemption of liabilities).

### 3. Next steps

- Interested financial institutions and professionals can submit their comments before 2 January 2015.



**24/09/2014**

**The EBA has published two consultation papers on three draft guidelines:**

- **Draft Guidelines on factual circumstances amounting to a material threat to financial stability and of the elements related to the effectiveness of the sale of business tool under article 39(4) BRRD**
- **Draft Guidelines on the determination when the liquidation of assets or liabilities under normal insolvency proceedings could have an adverse effect on one or more financial markets under article 42(14) BRRD**
- **Draft Guidelines on the minimum list of services or facilities that are necessary to enable a recipient to operate a business transferred to it under article 65(5) BRRD**

### **1. Context**

In accordance with the BRRD, the EBA has published these consultation papers whose aim is to facilitate the sale of business tool and the asset separation tool, as well as the transfer of an institution or its assets under any of the resolution tools as a way to implement resolution tools in the EU banking sector.

Therefore, they give guidance on which circumstances resolution authorities should assess when taking their decisions.

### **2. Main points**

#### Draft Guidelines on the sale of business tool

- These guidelines specify when authorities may deviate from certain marketing requirements for the sale of the business of an institution under resolution.
  - The deviation from standard marketing requirements is possible if the failure of the institution represents a material threat to financial stability.
  - They also contain a comprehensive list of elements to assess this threat and illustrate potential conflicts with each of the marketing requirements.

#### Draft Guidelines on the asset separation tool

- These guidelines set out three elements that should be considered when assessing the market situation for the assets concerned and the potential direct and indirect effects on it.
  - An assessment of the market situation for the assets concerned
  - The impact that the liquidation may have on markets
  - The impact that the liquidation may have on financial stability

#### Guidelines on necessary services

- A minimum list of necessary critical services that the resolution authority may require from the institution under resolution is defined taking into account the FSB guidance on critical shared services.
- The services are grouped in categories: HHRR support, IT, transaction processing (including legal transactional issues, in particular anti-money laundering), real estate and facility provision or management, legal services and compliance functions, treasury-related services, trading/asset management, risk management and valuation, accounting and cash handling.

### **3. Next steps**

- Interested financial institutions and professionals can submit their comments on all of these guidelines before 22 December 2014.
- The guidelines on the implementation of resolution tools shall apply during 2015.
- The guidelines on necessary services shall apply during 2015 and would be reviewed by 1 July 2017.



**22/09/2014**

**The EBA has published two consultation papers on draft guidelines on:**

- **Triggers for use of early intervention measures pursuant to Article 27(4) of Directive 2014/59/EU**
- **The interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under Article 32(6) of Directive 2014/59/EU**

### **1. Context**

In accordance with the new BRRD regulatory framework which introduces a common set of early intervention measures, the EBA has published two consultation papers whose aim is to promote convergence of supervisory and resolution practices in relation to how resolution should be triggered and how to apply early intervention measures. They are addressed to competent authorities (NCAs).

Moreover, these Guidelines complement EBA Guidelines for common procedures and methodologies for SREP and together they form a set of supervisory guidance linking on-going supervision, early intervention and resolution. Therefore, all guidelines must be read in conjunction.

### **2. Main points**

#### Draft Guidelines on early intervention triggers

- The triggers are based on:
  - The scores supporting the outcomes of the SREP, expressed both in terms of Overall SREP score and scores for individual SREP elements.
  - Material deterioration or anomalies identified in the monitoring of key financial and non-financial indicators under SREP.
  - Significant events.
- However, the Guidelines do not establish any quantitative threshold for capital or liquidity requirements.
- Breaching the triggers identified in the Guidelines should prompt the NCAs to further investigate the situation or to make a decision considering the urgency of the situation.

#### Draft Guidelines on failing or likely to fail

- These guidelines further specify the circumstances in which an institution shall be deemed to be failing or likely to fail, especially for cross border groups.
- The objective elements (covered in the SREP assessment) that should be taken into account when determining that the institution is failing or likely to fail should cover capital and liquidity positions of an institution and other requirements for continuing (including governance arrangements and operational capacity).

### **3. Next steps**

- Comments on these consultations can be submitted before 22 December 2014.
- The guidelines on early intervention triggers are expected to be applied in 2015.



**09/09/2014**

**The EBA has published the final templates for the 2014 EU-wide stress test.**

### **1. Context**

The objective of the EU-wide stress test is to help supervisors assess the resilience of financial institutions in the European Union to adverse market developments and to ensure consistency and comparability of the outcomes across all banks based on a common methodology, scenarios and disclosure exercise.

On this regard, the EBA has now presented the common templates for all EU banks which illustrate the type and the format of data that will be disclosed on a bank by bank basis

### **2. Main points**

- The data to be disclosed will be based on the outcome of the stress test from end 2013 to end 2016.
- The disclosed data will cover:
  - Bank's composition of capital
  - Risk weighted assets
  - Profit and losses
  - Exposures to sovereigns
  - Credit risk and securitisation
- In addition, for the first time, the EBA will provide a fully loaded CRR/CRD IV Common Equity Tier 1 (CET 1) capital ratio for each bank.

### **3. Next steps**

- The EBA expects to publish the final results of the 2014 EU-wide stress test in October 2014.

**06/08/2014**

**The EBA has published a Consultation Paper on Draft Technical advice on possible delegated acts on criteria and factors for intervention powers concerning structured deposits under Article 41 and Article 42 of MiFIR.**

### **1. Context**

In accordance with the European Commission's request (May 2014) and the article 39(2) of the Markets in Financial Instruments Regulation (MiFIR) which mandates to monitor the market for structured deposits which are marketed, distributed or sold in the EU, the EBA has published a Consultation Paper laying out criteria for its task of exercising intervention powers on structured deposits.

As the MiFIR establishes an identical framework for the intervention powers of the ESMA on financial instruments, the EBA based its own work on the criteria identified by ESMA in May 2014.

### **2. Main points**

- The EBA has deleted some of the criteria that were not applicable to structured deposits.
- The EBA considers appropriate to include some criteria that were not explicitly included for financial instruments. The proposed changes on the ESMA criteria to adapt it to structured products are related to the value of the underlying, the performance calculation, the risk of disruption to financial institutions, and the early withdrawal.
- Some new criteria considered relevant by the EBA has been added related to coverage.

### **3. Next steps**

- Interested financial institutions and professionals can submit their comments to the EBA before **5 October 2014**.



**06/08/2014**

**The EBA has published a Final draft RTS on the treatment of equity exposures under the IRB Approach according to Article 495(3) of CRR.**

### **1. Context**

In accordance with Article 495(3) CRR the EBA has published these RTS to specify the **treatment of equity exposures** under the **IRB approach**. No changes have been introduced into these RTS published as a consultation paper on May 2014.

The provision included in article 495(3) CRR allows competent authorities temporarily to exempt from internal ratings-based (IRB) treatment certain equity exposures held by institutions as at 31 December 2007. This provision was already included in Article 154(3) CRD.

Whereas under CRD competent authorities were **free to grant** the exemption and also decided what particular equity exposures would be exempted, the CRR imposes **specific conditions** that must be met for the exemption to be granted.

### **2. Main points**

- Only those categories of equity exposures that benefited on 31 December 2013 from an exemption, granted in accordance with CRD, shall qualify for the exemption from the IRB treatment according to article 495(1) of CRR.
- This condition is justified as follows:
  - The impact assessment reveals that the impact of any proposed change would be immaterial in most institutions.
  - These RTS should allow continuity with the former application of this exemption in Member States.
  - The harmonisation of the rules would be limited to the Member States that decided to apply the exemption and only for a limited period of time.

### **3. Next steps**

- This exemption continues being temporal and it will end on **31 December 2017**.

**28/07/2014**

**The EBA has published the updated versions of three ITS:**

- **ITS on asset encumbrance reporting under Article 100 of CRR**
- **ITS on supervisory reporting on forbearance and non-performing exposures under article 99(4) of CRR**
- **ITS on additional liquidity monitoring metrics under Article 415(3)(b) of CRR**

### **1. Context**

In 2013 the EBA published final draft ITS on asset encumbrance, non-performing exposures and forbearance, and additional monitoring metrics (AMM) for liquidity. Now, the EBA publishes new versions in order to update them.

They will be part of the EU Single Rulebook.

### **2. Main points**

The updated versions of the ITS on asset encumbrance and non-performing exposures and forbearance

- These updated versions include data point definitions and validation rules from the ITS on supervisory reporting of institutions and eliminate them from the ITS on supervisory reporting published by the European Commission.

The updated version of ITS on AMM for liquidity

- Its standards have undergone minor formatting changes and have rectified some incorrect legal references. On this regard, the ITS introduce:
  - Format changes needed for the development of the DPM/Taxonomy (identification of templates, columns and rows used in the DPM)
  - Deletion of some provisions which were inconsistent with the main instructions of the ITS (precisions, treatment of cells without content or use of "Of which")
  - Additional specifications needed for reporting amounts
  - Inconsistencies between templates and instructions, especially in terms of labels or missing explanations
  - Correction of legal references and general clarifications

### **3. Next steps**

- The reporting of asset encumbrance and of the template applying the ITS on NPL and forbearance shall be implemented on **31 December 2014** for all templates.
- The ITS on AMM for liquidity shall apply from **1 July 2015**. The EBA will publish the data point model and the set of validation rules applicable to the set of AMM templates on its website.





**25/07/2014**

**The EBA has published a Report on the peer review of the EBA Guidelines on the management of concentration risk under the supervisory review process (GL 31).**

### **1. Context**

In June 2012, the EBA approved a Review Panel Methodology which sets out the guidance, the procedures for completion and the follow-up work for the assessment and comparison of the effectiveness of the supervisory activities and the provisions of competent authorities. Therefore, following the mandates of the Review Panel and article 30 of the EBA Regulation, the EBA has published this peer review of the guidelines on management of concentration risk.

On this regard, the report shows that concentration risk is continuously monitored and that National Competent Authorities (NCAs) largely comply with the assessed guidelines (GL31). In addition, it shows that credit concentration risk forms an integral part of NCAs' risk assessment system.

### **2. Main points**

- The report shows that concentration risk is continuously monitored and NCAs largely or fully apply GL31 regarding credit concentration risk.
- **Good supervisory practices** are identified in relation to the management of credit concentration risk:
  - The capability of large credit institutions to capture adequate credit data
  - The analysis and monitor of their credit concentrations
  - The production of a comprehensive set of automated supervisory reporting
- Some **weaknesses** are identified:
  - Some NCAs do not adequately verify whether credit institutions apply forward-looking credit risk mitigation techniques and risks associated with large indirect credit exposures.
  - Only half of the NCAs consider whether the credit institution's framework takes into account the underlying exposures to credit concentrations risks that may arise from complex products;
  - Only half of the NCAs assess credit institutions' conservatism of their models' underlying assumptions and techniques, as well as how a credit institution uses such outputs when it formulates credit policies and limits.

### **3. Next steps**

- Based on the outcome of the peer review, the EBA will assess these elements and practices when developing the module on credit concentration risk in its Single Supervisory Handbook, as well as in its ongoing work on Guidelines related to supervisory practices.

21/07/2014

The EBA has published the following documents:

- **Final RTS on the content of recovery plans under Article 5(10) of the BRRD establishing a framework for the recovery and resolution of credit institutions and investment firms**
- **Final RTS on the assessment of recovery plans under Article 6(8) of the BRRD**
- **Guidelines on the range of scenarios to be used in recovery plans**

### 1. Context

The new Union-wide framework for crisis prevention, crisis management and resolution requires credit institutions and investment firms to plan in advance to strengthen their ability to restore financial and economic viability when they fall into situations of severe stress.

On this regard, the EBA has published two RTS and the Guidelines according to articles 6(8) and 5(7) of the BRRD whose objectives are to specify the information to be included in a recovery plan, to determine the criteria which competent authorities should apply when assessing the recovery plan and to provide a range of scenarios to be used when testing these plans.

They will be part of the EU Single Rulebook.

### 2. Main points

RTS on the contents of recovery plans: it specifies the information which institutions should include in their recovery plans (minimum content of recovery plans), that is:

- The summary of their recovery plan
- Information on governance including the identification of responsible persons and the escalation and decision-making process, all with the view to ensuring the timely implementation of an institution's recovery plan.
- Strategic analysis including a description of the institution or group, its core business lines and critical functions as well as the recovery options designed to respond to financial stress scenarios.
- A communication and disclosure plan whose main objective is to promote internal communication within the institutions or group and external communication with shareholders, other investors, competent authorities and general public.
- A description of preparatory measures and a timeline that will facilitate the implementation of these plans.

RTS on the assessment of recovery plans: it requires competent authorities to assess recovery plans against three sets of criteria:

- **Completeness**: these criteria provide an assessment of whether the plan complies with all the requirements of the BRRD and, where applicable, of relevant RTS and guidelines.
- **Quality**: it reviews whether the plans are clear and relevant to the identification of recovery options, whether they provide sufficient details and whether they are internally consistent.
- **Credibility**: it determines whether the implementation of the plan would be likely to restore the viability and financial soundness of an institution or group and whether the plan could be implemented effectively on financial distresses.

Guidelines on the range of scenarios to be used in recovery plans

- At least three scenarios of severe macroeconomic and financial distress should be included to ensure coverage of a system-wide event, an idiosyncratic event and a combination of both mentioned events.

### 3. Next steps

- The RTS will be published as delegated regulation by the European Commission.
- Competent authorities and institutions shall comply with these Guidelines before **1 January 2015**.



**21/07/2014**

**The EBA has published a Consultation Paper on Guidelines on the criteria to determine the conditions of application of Article 131(3) of the CRD IV in relation to the assessment of other systemically important institutions (O-SIIs).**

### 1. Context

In accordance with article 131(3) of the CRD IV, which mandates the EBA to specify the criteria for the identification of institutions as systemically important either at Member State or Union level (O-SIIs), the EBA has published this consultation paper. The identification is important as the CRD IV establishes that competent authorities can require O-SIIs to hold an additional buffer of up to 2% of CET1.

The aim of these guidelines is to strike the appropriate balance between a European framework ensuring a level playing field and comparability across the Union; and the need to take into consideration specificities of Member States' individual banking sectors.

### 2. Main points

- These guidelines establish a two-step scoring process for assessing the systemic importance.
  - On the basis of mandatory quantitative indicators the competent authorities will obtain scores indicating the systemic importance of each bank.
    - Indicators considered: size (total assets), importance (value of domestic payment transactions, private sector deposits from depositors in the EU and private sector loans to recipients in the EU), complexity (cross-jurisdictional liabilities/claims and notional value of OTC derivatives) and interconnectedness (interbank liabilities/assets and debt securities outstanding).
    - On this regard, if a bank has a score equal or higher than 350 basis points will be automatically designated as O-SIIs.
    - However, this threshold can be raised to 425 points or be decreased to 275 basis points if the specificities of a Member State's banking sector guarantee a more appropriate designation.
  - Despite the existence of this threshold, the competent authorities can still qualify banks as O-SIIs by using their supervisory judgment. Nevertheless, to ensure a high level of transparency and comparability, they are required to publicly disclose the reasons why they make use of these criteria.
- Moreover, small institutions may be excluded from the identification process if they are unlikely to pose systemic threats to the domestic economy.

### 3. Next steps

- Interested financial institutions and professionals can submit their comments until **18 October 2014**.
- These Guidelines apply as of 1 January 2015. Relevant authorities should implement the Guidelines by incorporating them in their supervisory procedures within six months after publication on the EBA website.
- During 2015 and 2016, the EBA and relevant authorities should assess mandatory and optional indicators used in these Guidelines.

10/07/2014

The EBA has published the following Consultation Papers:

- **RTS on the content of resolution plans and the assessment of resolvability**
- **Guidelines on the specification of measures to reduce or remove impediments to resolvability and the circumstances in which each measure may be applied under BRRD**
- **Guidelines on the types of tests, reviews or exercises that may lead to support measures under Article 32(4)(d)(iii) of the BRRD**

### 1. Context

In accordance with the articles 10,12 and 15 of the BRRD, the EBA has launched this consultation paper on **resolution planning** and the **assessment of resolvability**.

The proposed Guidelines set out the **circumstances** under which resolution authorities can impose measures to overcome obstacles to resolvability identified by the assessment (article 17 BRRD).

The need for **extraordinary public financial support** for an institution should be considered as an indicator that an institution is failing or likely to fail, and therefore triggers the need for resolution. However, some situations where conditions set in the BRRD are met may not necessarily mean the resolution of the institution. According to article 32(4)(d)(iii) of the BRRD, the EBA has published these Guidelines to specify the type of tests (stress tests), active quality reviews or equivalent exercises that may lead to extraordinary support measures.

### 2. Main points

RTS on the content of resolution plans and the assessment of resolvability

- The RTS identify eight **categories of information** which a resolution plan should contain and set out both general and specific requirements to be included in each category to ensure the achievement of the preferred resolution strategy.
- They detail the **criteria** on which resolution authorities should base their assessment of the resolvability of an institution or group (a staged approach is proposed).
- The RTS recognise the need for **proportionality** for less complex institutions.

Guidelines on the specification of measures to reduce or remove impediments to resolvability

- The proposed Guidelines specify further details on the list of measures provided in Article 17 of the BRRD: **structural** measures concerning the organizational, legal and business structure of an institution; **financial** measures relating to its assets and liabilities; and **information**-related measures.

CP on Guidelines on the types of tests, reviews or exercises that may lead to support measures

- These Guidelines point out the main features of these types of test, reviews or exercises, including a timeline, a scope, a time horizon and reference date, a quality review process, a common methodology and, where relevant, a macro-economic scenario and hurdle rates, as well as a timeframe to address the shortfall.

### 3. Next steps

- Interested financial institutions and professionals can submit their comments on the consultation paper on the Guidelines on support measures before **9 August 2014**. The consultation period to submit comments on the RTS and Guidelines on impediments it is opened till **9 October 2014**.



**09/07/2014**

## **The EBA has published a new XBRL taxonomy for remittance of supervisory reporting.**

### **1. Context**

On December 2013, the EBA published an XBRL taxonomy (2.0.1) to be used for the remittance of data from competent regulatory authorities to the EBA under the ITS on supervisory reporting. Then, three months later, the EBA published a consultation paper in which revised that version of the XBRL taxonomy to incorporate additional reporting requirements and to correct minor discrepancies between the existing taxonomy, data point model and the final ITS.

The EBA now proposes a **new XBRL taxonomy** that have been developed based on the final ITS on supervisory reporting. It presents the data items, business concepts, relations, visualisations and validation rules described by the EBA Data Point Model (DPM) contained in the ITS on supervisory reporting.

### **2. Main points**

- **The new XBRL taxonomy facilitates the supervisory process**, allowing supervisors to identify and assess risks consistently across the EU and compare EU banks in an effective manner.
- **Incorporates corrections to the COREP and FINREP reporting structures** so as to be better in line with the published ITS, and new reporting structures for asset encumbrance. It also includes the following technical documents:
  - The set of XML files forming the XBRL taxonomy
  - A description of the architecture of the XBRL taxonomy
  - The DPM of which the taxonomy is a standardised technical implementation (March 2014).

### **3. Next steps**

- Prior to 30 September 2014, the XBRL taxonomy that should be applied is the 2.0.1 whereas reports with references dates as of **30 September 2014 and beyond are to use this revised taxonomy (2.1)**.
- Later this year, the EBA expects to publish a further revision of its XBRL taxonomy incorporating further alignment corrections, and additional reporting requirements regarding funding plans, which is expected to be used for reports with reference dates as of **31 December 2014** and beyond.



08/07/2014

The EBA has published the **Guidelines on Significant Credit Risk Transfer relating to articles 243 and 244 of CRR.**

### 1. Context

In accordance with articles 243 and 244 of the CRR, the EBA has published these Guidelines to provide more guidance on the assessment of the significant transfer of credit risk (SRT). They are developed to support both originator institutions and competent authorities in the assessment of SRT for securitization transactions.

The aim of these Guidelines is to **ensure a more consistent approach in the assessment of SRT** across the EU and at achieving a level playing field in this area. They will be part of the EU Single Rulebook.

### 2. Main points

- These Guidelines include requirements:
  - For **originator institutions** when engaging in securitisation transactions for SRT.
  - For **competent authorities**:
    - To assess transactions that claim SRT using the definitions of traditional and synthetic securitisations of the CRR (art. 243.2 and 244.2).
    - When assessing whether commensurate credit risk has been transferred to independent third parties according to the conditions established in the CRR (art. 243.4 and 244.4).
- They also include a standard template on how authorities should provide information to EBA for approved transactions claiming SRT.

### 3. Next steps

- Competent authorities must notify the EBA as to whether they already comply or intend to comply with these Guidelines, or notify the EBA of their reasons for non-compliance, by **7 September 2014**.
- The EBA will provide advice to the European Commission by **31 December 2017** on whether a binding technical standard is required on SRT.



**07/07/2014**

**The EBA has published the RTS on the conditions for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for market risk under Article 363(4) of CRR.**

## **1. Context**

According to article 363.4 of the CRR, the EBA has developed these RTS to specify the conditions for assessing the materiality of extensions and changes of the Internal Model Approach (IMA) for market risk. These RTS complement and amend the standards on the rules for credit and operational risk which were adopted and published in the EU Official Journal on May 2014.

Therefore, the objective of these RTS is **to complement and amend those standards** by adding specific rules, assessing the materiality of extensions and changes to internal approaches and ensuring that approved internal approaches comply with the regulatory requirements.

## **2. Main points**

- The EBA introduced in these RTS **three categories** of model extensions and changes, which require: permission, ex-ante notification and ex-post notification.
- It also introduces an exhaustive **list of qualitative conditions** that is linked to the minimum requirements for internal approaches.
- Finally, these RTS includes the design of **quantitative thresholds** to be applied as a back-stop measure when determining the materiality of an extension or change.
  - All these thresholds are based on the percentage change of a point-in-time approximation of an institution's own funds **requirements** for market risk (5%) and on the percentage change of each of the risk numbers calculated by the VaR model, the Stressed VaR model, the Incremental Risk Charge (IRC) model or the internal model for correlation trading (10%), before and after the planned extension or change.
  - An additional threshold is also included to reduce the computational burden that the calculation of these thresholds may cause in the context of quickly changing markets. As a result:
    - **Changes of less than 1%** of each of the Internal Models Approach (IMA) risk numbers may be considered as non-material (ex-post notification on annual basis). Thus, it exempts the bank to calculate those extensions and changes.
    - **Changes of more than 1%** require that the institution computes the quantitative effects of the extensions for 14 further days or until either of the above thresholds are met. If no thresholds are met at the end of the 15 days, the extension would be considered immaterial. If it falls under Annex III, it will be subject to ex-ante notification, otherwise only to ex-post notification.

**07/07/2014**

**The EBA has published a Consultation Paper on its draft Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP).**

### **1. Context**

In accordance with article 107 (3) of the CRD IV, the EBA has launched a consultation paper on these guidelines which will be applied in the supervision of all institutions across the EU and aim at promoting **common procedures and methodologies for the supervisory review and evaluation process (SREP)** and for the assessment of the organization and treatment of risks.

These guidelines provide a common framework for the work of supervisors in their assessment of risks to **banks' business models', their solvency and liquidity**. They will be a key component of the EU Single Rulebook.

### **2. Main points**

- The guidelines comprehensively cover all aspects of SREP, an ongoing supervisory process bringing together findings from all supervisory activities performed on an institution into a comprehensive supervisory view. The SREP framework introduced in these guidelines is built around four main concepts:
  - Business model analysis
  - Assessment of internal governance
  - Assessment of risks to capital and adequacy of capital
  - Assessment of risks to liquidity and adequacy of liquidity.
- The assessment will be summarised in a common scoring and will lead to a consistency in setting supervisory requirements to hold additional capital and liquidity resources as needed.
  - Quarterly monitoring of key indicators is used as a basis for identifying material deteriorations in the risk profile and supporting the SREP framework.
  - The summary of the Overall SREP assessment reflect any supervisory findings made over the course of the previous 12 months and any other developments that have led the competent authority to change its view of the institution's risks and viability.
- These guidelines recognise the proportionality principle by:
  - Introducing a categorisation of institutions (with four distinct categories) according to their systemic importance and the span of any cross-border activities.
  - Building a minimum supervisory engagement model, where the frequency, depth and intensity of the assessments vary depending on the category of the institution.

### **3. Next steps**

- Interested financial institutions and professionals can submit their comments before **7 October 2014**.
- These guidelines are **expected to be applied by 1 January 2016**. In addition, these Guidelines recognize longer transitional arrangements for the application of certain quantitative liquidity and capital supervisory provisions.



**07/07/2014**

**The EBA has published Draft RTS on the margin periods for risk used for the treatment of clearing members' exposures to clients under CRR.**

## **1. Context**

In accordance with article 304.5 CRR, the EBA has published these RTS with the aim of specifying the **minimum margin periods of risk (MPOR)** that financial institutions acting as clearing members may use as input for the calculation of their capital requirements for exposures to clients.

A consultation paper on these RTS was launched on February 2014 and, in general terms, the respondents welcomed the proposed text. Consequently, no material changes have been incorporated to the previous version.

These RTS will be part of the EU Single Rulebook.

## **2. Main points**

- These RTS specify the level of the MPOR that clearing members may use when they apply the Internal Model Method (IMM) or other non-internal methods to calculate the regulatory requirements for Counterparty Credit Risk (CCR).
  - For the IMM, the MPOR will be an input for the internal model.
  - For the other models (mark-to-market, standardized method or original exposure method), the MPOR will determine a multiplier of the exposure value that is less than one.
- The liquidation periods estimated by CCPs for margin purposes as proxies for the MPOR are identified:
  - Where the relevant netting set includes transactions cleared with a QCCP, the margin periods that institutions may use shall be the longest between five business days and the longest liquidation period of the contracts or transactions included in the netting set, as that liquidation period has been disclosed by the QCCP.
    - Where the liquidation period disclosed includes an additional period for the purpose of the novation of the positions to a non-defaulting clearing member, the period to be used as MPOR shall exclude it.
- Where the relevant netting set includes transactions not cleared with a QCCP, the margin periods of risk that institutions may use shall be at least ten business days.

04/07/2014

The EBA has published the following Consultation Papers:

- **Draft regulatory technical standards on general conditions of the functioning of colleges of supervisors in accordance with Article 51(4) and Article 116(4) of Directive 2013/36/EU (Capital Requirements Directive – CRD IV)**
- **Draft implementing technical standards on joint decisions on prudential requirements in accordance with Article 20 of Regulation (EU) No 575/2013 (CRR)**

### 1. Context

In accordance with articles 51 and 166 of the CRD IV, the EBA has launched a consultation paper on the functioning of colleges of supervisors. These technical standards detail supervisory activities performed by colleges in going concern and emergency situation. The consultation paper on joint decisions on prudential requirements follows the mandate in Article 20 of the CRR and sets out in detail the processes to be followed by competent authorities when reaching joint decisions related to the approval of internal models.

These standards aim at facilitating the interaction and cooperation between authorities at EU and global level and strengthening supervision of cross-border banking groups across the EU.

### 2. Main points

BTS on general conditions of the functioning of colleges of supervisors:

- The BTS introduce **two new templates** related to the general conditions of the functioning of colleges:
  - For the performance of the mapping exercise: this template aims to identify the group's subsidiaries or branches and in which countries they are based.
  - For the written cooperation and coordination agreements: it differs from the CEBS template and provides more standard and less college-specific text.
- The RTS specify **the information to be exchanged** between college members, whereas the ITS establish the **process** that members of the college should follow for this information exchange.
  - The BTS now specifies the information to be exchanged in undertaking the SREP, the review of the performance of approved internal models, key risk indicators and compliance issues.
- The BTS also cover the **planning and coordination of supervisory activities** in preparation for and during emergency situations and includes **provisions requiring college members to agree** on a framework to deal with emergency situations and **the minimum set of information to be exchange** once an emergency situation has been identified.

ITS on joint decisions on prudential requirements

- If a group operates in that third country and intends to apply the internal models, the **involvement** of third country supervisory authorities can be possible.
- The ITS include provisions on the involvement of the authorities when permission is requested to apply **material extensions or changes** to internal models that are already approved.
- These ITS include provisions requiring the **consolidating supervisor** to forward applications to the competent authorities within 10 days of receipt.
- The **planning** of the joint decision process is defined in the ITS. It covers the timetable for this process (6 months) and the decision on the division of work between the consolidating supervisor and the competent authorities.
- The elements of the joint decision **document** are also specified (information about the authorities reaching the joint decision, the institutions to which the joint decision applies, etc.).

### 3. Next steps

Interested financial institutions and professionals can submit their comments of both consultation papers before **3 October 2014**.

The EBA is expected to submit these draft RTS to the European Commission by the end of 2014.



**04/07/2014**

**The EBA has published lists for the calculation of capital requirements for credit risk.**

### **1. Context**

In accordance with the articles 115, 124, 150, 164 and 199 of the CRR the EBA has published a series of lists that will assist EU institutions in the determination of their capital requirements of credit risk.

The objective of these lists is to cover the treatment of exposures to EU regional authorities, changes to capital requirements for exposures secured by immovable property, the treatment of equity exposures by banks using the Internal Ratings-Based approach (IRB), and the eligibility of physical collateral.

### **2. Main points**

- List of EU **regional governments and local authorities** treated as preferential exposures (CRR. Art. 115).
- List of stricter **criteria for exposures secured by immovable property** (CRR. Art. 124).
- List of **equities** that can be treated under the standardized approach by banks that are meant to use the IRB approach (CRR. Art. 150.1)
- List of changes to **minimum LGD** for retail exposures secured by residential or commercial immovable property (CRR. Art. 164.5).
- List of **types of physical collateral** for which institutions that apply IRB approach can assume that the conditions referred to in paragraph 6 of Article 199 CRR are met (CRR. Art. 199).

**03/07/2014**

**The EBA has published an Opinion on the prudential filter for fair value gains and losses arising from the institution's own credit risk related to derivative liabilities.**

### **1. Context**

On 16 April 2014, the EBA received a Call for Advice (CfA) by the Commission which seeks EBA's technical advice to assess the appropriateness of the application of Article 33(1)(c) of the CRR and the level of prudence of alternative methods of treating fair value gains and losses arising from an institution's own credit standing.

Therefore, the objective of this technical advice is to determine the **use of prudential** filter for gains and losses arising from banks' own credit risk of derivatives and to include an overall assessment of the current challenges and the appropriateness of the possible alternative approaches.

### **2. Main points**

- The analysis of the EBA highlighted that at present it is **challenging to measure own credit risk of derivatives** in a robust way due to the specificities of measuring derivatives, which could be different from one institution to another.
- The EBA recommends the use of the **Basel approach** (full deduction of DVA from CET1) as it also ensures a conservative outcome and a level playing field at the international level and has the merit of addressing such a complex and ongoing issue in a rather simple way.
- The EBA suggests the possibility that the CRR requirements could be refined to avoid any unintended divergence and different interpretation in practice.
- In the meantime, a close monitoring of institutions' practices for measuring own credit risk, their practices related to the application of the current CRR requirement, as well as the evolution of the related adjustment within the calculation of CET1 might seem appropriate, according to the EBA.

### **3. Next steps**

- The EU Commission will prepare a report on this issue that will be delivered to the European Parliament and the Council by **31 December 2014**.



03/07/2014

The EBA has published:

- **Report on EU covered bond frameworks and capital treatment**
- **Opinion of the European Banking Authority on the preferential capital treatment of covered bonds**

## 1. Context

In accordance with the article 503 of the CRR, the EBA has published an opinion in which the EBA provides advice on the adequacy of the current prudential treatment of covered bonds. In addition, the EBA has published a report on the EU covered bond frameworks as the European Systemic Risk Board asked the EBA to identify best practices in relation to covered bonds in the Recommendation on the funding of credit institutions (ESRB 2012/2).

The findings of the report are based on a review of national regulatory frameworks and supervisory practices on covered bonds in the EU.

## 2. Main points

- The EBA recommends:
  - **Additional criteria to qualify for preferential risk weight treatment:** although it considers that the preferential-risk weight treatment that certain covered bonds receive in accordance with the article 129 of the CRR is appropriate, the EBA recommends the introduction of qualifying conditions that should cover:
    - A minimum over-collateralisation level whose formulation will depend on the class of cover assets and the coverage principle adopted across jurisdictions (nominal, net present value, net-present value under stress, etc.).
    - A liquidity buffer that mitigate the risk in the covered bond programme.
    - The supervision prior to the insurance of covered bonds, ongoing supervision and supervision post-default.
  - **Further clarification on current disclosure requirements:** the disclosure criteria included in the CRR should be further clarified by binding technical standards.
- The EBA provides advice on the **preferential treatment of some specific cover assets:**
  - Residential guaranteed loans should be maintained within the scope of the preferential risk-weight treatment.
  - Aircraft liens should not be included in the scope.
  - The derogation on the use of residential mortgage-backed securities (RMBSs) and commercial mortgage-backed securities (CMBSs) should not be renewed as cover assets beyond December 2017.
- The EBA also identifies **best practices** for a robust common regulatory framework:
  - They cover crucial areas of covered bond regulation, from the dual recourse principle, segregation of cover assets and bankruptcy remoteness, composition of cover pools, loan-to-value (LTV) limits and measurement, over-collateralisation, liquidity buffers, stress testing, supervision and disclosure.



01/07/2014

**The EBA has published Guidelines on harmonised definitions and templates for funding plans of credit institutions under Recommendation A4 of European Systemic Risk Board (ESRB) 2012/2**

### 1. Context

According to the article 35 of the CRD IV, these guidelines seek to establish consistent, efficient and effective supervisory practices by **harmonising templates and definitions** that facilitate the reporting of funding plans by credit institutions.

Its objective of providing tools to assess the feasibility, viability, soundness of funding plans and their impact on the supply of credit to the real economy is due to the Euro Area Summit agreement on 29 June 2012 of envisaging the direct use of European funds from the European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) for bank recapitalization/bailout and resolution.

### 2. Main points

- These guidelines are addressed to competent authorities which should ensure that institutions shall submit the Funding Plan Template at least annually.
- The reporting of the funding plans should regard two main considerations to reach the appropriate level of consolidation:
  - **Adequacy of information:** the information collected should enable the competent authorities to form a clear view on the funding of their national banking system and on the potential impact of funding plans on the supply of credit.
  - **Proportionality:** competent authorities should exercise their discretion as to the level and perimeter of consolidation for these guidelines on a firm-by-firm basis, having regard to different principles.

### 3. Next steps

- In the upcoming weeks, the EBA will publish a **data point model describing the templates** and containing the definitions, as well as a XBRL taxonomy.
- Banks shall provide their first submission to competent authorities by **30 September 2015**, with a reference date no later than 30 June 2015 and then submit it to the EBA by **15 November 2015**.
- For subsequent submissions, banks shall submit the data to competent authorities by **31 March** and competent authorities to the EBA by 30 April.



**25/07/2014**

**The ESA has published a joint Consultation Paper on Draft Regulatory Technical Standards on risk concentration and intra-group transactions under article 21a (1a) of the Financial Conglomerates Directive.**

### **1. Context**

In accordance with article 21a(1a) of the Financial Conglomerate Directive (FICOD), which evolved the supplementary conglomerate supervision towards a more risk-based supervision through avoiding the multiple use of capital and monitoring group risks, the three ESAs have published this consultation RTS on risk concentration and intra-group transactions within financial conglomerate.

The aim of these RTS is to clarify which risk concentrations and intra-group transactions within a financial conglomerate should be considered as significant and to provide some supervisory measures for coordinators and other relevant competent authorities.

### **2. Main points**

- Significant risk concentration shall be deemed to arise from risk exposures towards counterparties which are not part of the financial conglomerate.
- The ESAs have provided a set of factors (the solvency and liquidity position, the size, complexity and specific structure of the financial conglomerate) that coordinators and other competent authorities should consider when defining appropriate thresholds, identifying types of significant risk concentration and reporting them.
- Regulated entities are required to report certain minimum information.
- The RTS specify a set of supervisory measures which should be taken into account by supervisors in their supplementary supervision.

### **3. Next steps**

- Interested financial institutions and professionals can submit their comments before 24 October 2014.

**29/09/2014**

**The ECB has published the Guide to banking supervision.**

### **1. Context**

This guide is an important milestone in the implementation of the SSM, the new system of financial supervision comprising, as at October 2014, the ECB and the NCAs of the euro area countries. It explains how the SSM will function and gives guidance on the SSM's supervisory practices.

### **2. Main points**

- The supervisory principles of the SSM are set: use of best practices, integrity and decentralization, homogeneity within the SSM, consistency with the single market, independence and accountability, risk-based approach, proportionality, adequate levels of supervisory activity for all credit institutions and effective and timely corrective measures.
- It describes the functioning of the SSM:
  - The distribution of tasks between the ECB and the NCAs of the participating member states
  - The decision-making process within the SSM
  - The operating structure of the SSM
  - The supervisory cycle of the SSM
- In addition, it specifies the conduct of supervision in the SSM including:
  - Authorizations, acquisitions of qualifying holdings, withdrawal of authorization,
  - Supervision of significant institutions and of less significant institutions,
  - Overall quality and planning control.

### **3. Next steps**

- The ECB will take over its supervisory tasks on 4 November 2014.



**08/08/2014**

## **The EBA has published the Comprehensive Assessment Stress Test Manual**

### **1. Context**

In October 2013, the ECB announced that it was preparing a comprehensive assessment (CA) on the significant banks that will be under the Single Supervisory Mechanism (SSM) due to its aim to enhance the transparency of the balance sheets of significant banks and to rebuild investor confidence prior to the ECB taking over its supervisory tasks in November 2014.

The ECB has now presented the stress manual for the comprehensive assessment that details how it will incorporate findings from its AQR into stress test projections. In addition, the stress test quality assurance process is described.

### **2. Main points**

- The Manual outlines the stress test quality assurance (QA) process, which ensures a rigorous exercise and focuses on delivering results that are accurate, consistent and credible.
  - Various quality checks will be performed in cooperation with NCAs.
  - The ECB will compare findings for individual banks with those of their peers and will apply its own top-down stress test model (eg. verification of the parameter consistency within banks, comparison of bank results vs. ECB top-down model).
  - The QA process will have a Red/Amber/Green (RAG) threshold approach:
    - The RAG tests cover the major risk types and other key elements of the stress test results (credit risk, market risk, securitisations, net interest income and other pre-provision profit).
  - The result of the QA will be an updated bottom-up stress test result that addresses concerns raised during the QA and will be used as an input for the join up.
  - Banks may be required to provide further evidence, further analysis and, if necessary, resubmitting their stress-test projections.
- The methodology for integrating the results of the AQR and the stress test (join-up) is set.
  - The join-up and thereby the impact of the AQR on the stress test calculations will work through multiple channels.
  - Findings from the portfolios examined in the AQR will be used to determine the starting points of the stress test and may lead to an adjustment to the year-end 2013 balance sheet.
  - Where evidence from the AQR points to a bank having insufficient provisions, this will be reflected in adjustments to the bank's simulated projected losses in 2014, 2015 and 2016 for both the baseline and adverse scenarios.

### **3. Next steps**

- The joint-up phase will take place in early September.
- Around the end of August, all banks will be informed of the exact calendar and modalities of the discussions of partial and preliminary AQR and stress test results.
- The comprehensive assessment results will be published in the second half of October 2014, after having been endorsed by the ECB.

17/07/2014

The EBA has published a note on the comprehensive assessment and the template for the comprehensive assessment outcome.

### 1. Context

In October 2013, the ECB announced that it was preparing a comprehensive assessment (CA) on the significant banks that will be under the Single Supervisory Mechanism (SSM) due to its aim to enhance the transparency of the balance sheets of significant banks and to rebuild investor confidence prior to the ECB taking over its supervisory tasks in November 2014.

Following this issue, the ECB has now presented the **process for interacting** with banks and communicating the results of its on-going CA of 128 banks. It also has released **disclosure templates** showing the format in which the findings will be published and it has provided an update on the progress made in the AQR and stress test exercise.

### 2. Main points

- The **disclosure templates** show how the final results will be presented in October.
  - They are to provide more information on a consistent basis than in any previous exercise on the balance sheet condition, asset quality and leverage of euro area banks.
  - In addition to these templates (bank-by-bank outcome), an aggregate report will also be published.
  - The template published today comprises the following main sections: main results and overview, detailed AQR results, detailed stress test results (identical to the EBA's disclosure template).
- The final results will distinguish between capital shortfalls in the asset quality review (AQR), and those under the baseline and adverse scenarios of the stress test:
  - Banks facing a capital shortfall will be requested to submit **capital plans** within a period of two weeks, which will then be evaluated by the SSM.
- The ECB is preparing to incorporate the AQR findings into the stress test (**the "join-up"**):
  - The results of the AQR will be used to adjust the starting point of the stress test.
  - The join-up approach is a hybrid one in that it will partly be performed by the banks and partly by a centrally led team of NCA and ECB experts.

### 3. Next steps

- The methodology for the "join-up" of the AQR and the stress test will be published by the ECB in the first half of August.
- Around the end of August, all banks will be informed of the exact calendar and modalities of the discussions of partial and preliminary AQR and stress test results.
- The comprehensive assessment results will be published in the second half of October, after having been endorsed by the ECB.

## Local publications



**10/09/2014**

**The Government has approved the Real Decreto-ley 11/2014, de medidas urgentes en materia concursal.**

### **1. Context**

The Consejo de Ministros has approved a Real Decreto-ley 11/2014 (it entered into force on 6 September 2014) which aim is to facilitate agreements that will allow the survival of companies that could enter into a bankruptcy process. Moreover, it completes the measures already in place for the preconcursal stage and seeks to solve some shortcomings and problems identified in the bankruptcy phase.

### **2. Main points**

- Possible extensions of the agreements' effects can be extended to dissenting creditors and, in particular, to secured creditors.
- A new mechanism to allow the actions of this RDL can be applied, for once, to the conventions adopted under the previous legislation, only if majorities exist and if it is approved by a judge.
- Three measures are incorporated to facilitate the transfer of debtor's production units for goods and services, only in cases where a company gets into liquidation.
- A Monitoring Committee is created to monitor practices and reductions of refinancing indebtedness.

**31/07/2014**

**The BdE has published a Proyecto de Circular por la que se modifican las Circulares del BdE 4/2004, 1/2010 y 1/2013.**

### **1. Context**

The Proyecto de Circular del BdE modifies the Circular on public and confidential financial information and financial statements, on interest rates' statistics applied to deposits and credits to households, and on the Risk Information Center (CIR).

The main objectives of the Proyecto de Circular are to incorporate the new requirements for statistical and supervisory information that the BdE should submit to the ECB, and to adapt public financial and confidential information to processing criteria, terminology, definitions and formats of the FINREP's financial statements of the EU regulation.

### **2. Main point**

- FINREP's financial statements are established as a new requirement for the consolidated supervisory financial information that institutions need to provide following the EU financial reporting standards.
- Required data from CIR is adapted.
- The models are based on the Data Point Model (DPM) which is developed by the EBA for modeling information with monitoring purposes that increases the quality of information and reduces development and management costs.

### **3. Next steps**

- Interested financial institutions and professionals can submit their comments to the BdE before 30 September 2014.

# Management Solutions' Alert System on Regulation

*Through the Alert System on regulation, Management Solutions drives immediate knowledge on new regulations among its professionals and clients*

## Alert System of Normative

- The R&D department in Management Solutions monitors on a daily basis the global regulatory publications from more than 20 regulators among three key sectors industries: Financial institutions, Telecommunications and Energy.
- For the publications which are more likely to give rise to significant effects upon MS clients, the R&D department has been sending out publications to those professionals and clients who requested it, since the beginning of 2013.
- Alerts are published in Spanish and English in less than 24 hours since the regulator publication.
- Moreover, quarterly MS publishes the Regulation Outlook, which collects all the alerts sent out during the period and anticipates the main upcoming regulatory changes.
- To be included in the Alert System on financial regulation, send an email to [investigacion-desarrollo@msspain.com](mailto:investigacion-desarrollo@msspain.com)

## Regulators







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Management Solutions is an international consultancy firm focusing on providing business, risk, financial, organizational and process-related advice, both in respect of functional components and in the implementation of related technologies.

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