ManagementSolutions
Making things happen

Regulation Outlook

3Q15

Design and Layout:

Marketing and Communication Department
Management Solutions

Photographs:

Management Solutions' picture library,
Fotolia

Table of contents

Executive summary

During this quarter, the BCBS has published a consultative document on the review of the Credit Valuation Adjustment (CVA). The EBA has specified several aspects with regard to the definition of default. Regarding local regulation, the Bank of Spain has published a Proyecto de Circular that will complete the transposition of the CRD IV/CRR, and the Fed has approved the final rule that establishes capital surcharges for Global Systemically Important Banks (G-SIBs).

Global publications

- The BCBS has published a consultative paper on the review of the **Credit Valuation Adjustment** (CVA). The proposal sets forth two different frameworks: a **FRTB-CVA framework** (Fundamental Review of the Trading Book) and a **Basic CVA framework**.
- The BCBS has reviewed the 2010 Guidelines on **corporate governance**. In this regard, the BCBS has published **thirteen revised principles** in order to assist banks and supervisors to achieve a robust and transparent risk management and decision-management process.
- Finally, the BCBS has published the results of its latest Basel III **Monitoring Report.** The exercise allowed gathering aggregate results on capital ratios, leverage ratio (LR), liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

European publications

- The EBA, in parallel with the exercise carried out by the BCBS, has conducted its eight **Monitoring Exercise** for banks in the EU.
- The EBA has also published five documents in order to comply with the mandates of the Bank Recovery and Resolution Directive (BRRD) in relation to the **minimum requirement for own funds and eligible liabilities** (MREL), the contractual recognition of **write-down and conversion powers**, **resolution colleges**, procedures and contents of **resolution notifications**, and **independent valuers.**

European publications (continuation)

- The EBA has published the **key metrics used to identify** global systemically important institutions **(G-SIIs)** in the EU. While each participating institution discloses this information individually, the EBA acts as a central data hub in the disclosure process, providing a platform to aggregate data across the EU.
- Finally, the EBA has published **Guidelines** that provide detailed clarification on the application of the **definition of default**, which includes aspects such as the days past due criterion, indications of unlikeliness to pay, etc. Moreover, the EBA is planning to carry out a **Quantitative Impact Study (QIS)** in order to assess the impact of the proposed requirements both in quantitative and qualitative manner. Therefore, it has published a **template and instructions** to obtain feedback from institutions.

Local publications

- At the national level, the Bank of Spain has published a **Proyecto de Circular** with regard to supervision and solvency, which will complete the **transposition of the CRD IV/CRR** into national law.
- The Bank of Spain has also approved the **Circular (CBE) 3/2015** amending the **CBE 5/2014**, amending the **CBE 4/2004**, on public and undisclosed financial information; and the **CBE 1/2013**, on the risk information center (CIR).
- In the US, the Fed has published a final rule that establishes risk-based **capital surcharges** upon US Bank Holding Companies that are identified as **G-SIBs**, as well as a proposed rulemaking to modify several aspects of its **capital planning and stress testing regulations.**

Regulatory projections

During the next quarter, the BCBS is expected to publish the final rule on the revisions to the simpler approaches for calculating capital requirements for operational risk and the final rule on the revisions to the standardized approach for credit risk. The FSB will publish the standard specifying the final total loss-absorbing capacity (TLAC) requirement.

Regulatory projections

1. Next quarter

- **(Global) October 2015**: the BCBS is expected to publish the final draft on revisions to the simpler approaches for measuring operational risk capital, given that the publication was scheduled to be published by mid-2015.
- **(Europe) October 2015**: the LCR will be applicable. Thus, institutions shall maintain a ratio of at least 60%.
- **(Europe) October 2015**: the EBA will publish the final templates and instructions for purposes of the QIS that will carry out on the definition of default.
- **(Global) November 2015**: the FSB will publish the final draft on the TLAC.
- **(Global) November 2015:** the FSB will update the list of G-SIBs.
- **(Global) December 2015**: the BCBS will publish the final draft on revisions to the standardized approach for credit risk.
- **(Global) December 2015**: the BCBS will publish the final standards on the Fundamental Review of the Trading Book (FRTB).
- **(Europe) December 2015**: the EBA will publish RTS specifying several aspects with regard to the IRB models, such as the estimation of the probability of default (PD).
- **(Europe) December 2015**: the EBA ITS on supervisory reporting regarding the LR and LCR will be applicable.

2. Next year

- **(Global) January 2016**: the FSB will publish the second review of the Key Attributes of Effective Resolution Regimes for Financial Institutions.
- **(Global) January 2016**: G-SIBs will be required to comply with the HLA (Higher Loss Absorbency) requirement.
- **(Global) January 2016**: G-SIBs will be required to comply with the principles for effective risk data aggregation and risk reporting (RDA&RR).
- **(Europe) January 2016**: the EBA guidelines on the Supervisory Review and Evaluation Process (SREP) will be applicable.
- **(Europe) January 2016**: the MREL will be applicable.
- **(Europe) January 2016**: the EBA guidelines on the management of the Interest Rate Risk in the Banking Book (IRRBB) will be applicable.
- **(Europe) January 2016**: the Solvency II Directive will be applicable, including amendments by Omnibus II.
- **(Spain) January 2016**: the Ley de Ordenación, Supervisión y Solvencia de las Entidades Aseguradoras y Reaseguradoras will enter into force.
- **(Spain) January 2016**: the capital buffers and the restrictions on the distribution of dividends established within the Ley 10/2014 framework will be applicable.
- **(Spain) January 2016**: the provisions on the bail-in included within the Ley de Recuperación y Resolución de entidades de crédito y empresas de servicios de inversión will be applicable.
- **(USA) January 2016**: the capital surcharges upon Bank Holding Companies identified as G-SIBs will be applicable.
- **(Europe) June 2016**: the Markets in Financial Instruments Directive (MiFID II) shall be transposed into national law.
- **(Spain) June 2016**: the Ley de Auditoría de Cuentas will enter into force.

3. More than a year

- **(Global) December 2016**: the new Pillar 3 disclosure framework will be applicable.
- **(Global) January 2018**: the IFRS 9 will have to be implemented.
- **(Global) January 2018**: the NSFR and its disclosure requirements will be applicable.
- **(Global) January 2018**: the revised securitisation framework will come into force.
- **(Global) January 2018**: the LR will migrate to a Pillar 1 minimum capital requirement.
- **(Global) January 2019**: the TLAC requirement will enter into force.

Publications of this quarter

Summary of outstanding publications of this quarter.

Topic	Title	Date	Page
	Basel Committee on Banking Supervision		
CVA	• Consultative Document on Review of the Credit Valuation Adjustment (CVA) Risk Framework.	01/07/2015	8
Corporate Governance	• Corporate governance principles for banks.	09/07/2015	9
Monitoring Report	• Basel III Monitoring Report. • CRD IV/CRR Monitoring exercise.	16/09/2015	10
	European Banking Authority		
BRRD	• Final RTS on criteria for determining the MREL. • Final RTS on the contractual recognition of write-down and conversion powers. • Final RTS on resolution colleges. • Final RTS on procedures and contents of resolution notifications. • Final RTS on independent valuers	06/07/2015	12
Credit Risk	• CP RTS on the conditions that competent authorities shall take into account when determining higher risk-weights and minimum LGD values.	06/07/2015	14
Transparency exercise	• 2015 EU-wide transparency exercise – sample of banks. • Draft templates with the type of data that will be disclosed.	15/07/2015	15
RWA	• Report on the results from the 2014 low default portfolio exercise. • Report on counterparty credit risk benchmarking exercise.	23/07/2015	16
G-SIIs	• Key metrics used to identify global systemically important institutions (G-SIIs).	28/07/2015	17
Reporting	• DPM and XBRL taxonomy for remittance of supervisory reporting. • Revised list of ITS validation rules.	10/09/2015	18
Credit Risk	• Consultation Paper on Guidelines on the application of the definition of default. • QIS on default definition template. • QIS on default definition instructions.	22/09/2015	19
	Comisión Europea		
Reporting	• Commission implementing Regulation amending Implementing Regulation laying down ITS on supervisory reporting.	31/07/2015	20

CP: consultation paper. GL: guidelines. RTS: Regulatory Technical Standards. ITS: implementing technical standards.

01/07/2015
Consultative Document on Review of the Credit Valuation Adjustment (CVA) Risk Framework.

1. Context

The BCBS has published a consultative paper on the review of the Credit Valuation Adjustment (CVA). The motivations for the review are to ensure that all important drivers of CVA risk and CVA hedges are covered; align the capital standard with the fair value measurement employed under various accounting regimes; and ensure consistency with the Fundamental Review of the Trading Book (FRTB).

The proposal sets forth two different frameworks: a **FRTB-CVA framework**, for banks that satisfy several conditions related to the calculation and the risk management of their CVA and have received approval from the supervisor; and a **Basic CVA framework**, for banks that do not meet those conditions. The CVA capital charge would apply to all derivatives except those cleared through a qualified central counterparty.

2. Main points

- **FRTB-CVA framework**:
  - Eligibility criteria. There are three major eligibility criteria that need to be met before a bank is authorised to use this framework (ability to model exposure and calculate CVA, development of methodologies for calculating credit spreads of illiquid counterparties, and establishment of a CVA desk within the entity).
  - Eligible hedges. The single-name instruments recognised as hedges of counterparty credit spread risk has been widened and market risk hedges are now also recognised.
  - Regulatory CVA calculations. The following aspects shall be considered:
    - The definition of regulatory CVA is based on a set of principles rather than on a regulatory formula (e.g. CVA as the expectation of future losses, use of market-implied PD and LGD, etc.).
    - Two alternatives are being considered for a supervisory floor on the margin period of risk.
    - Two options are being considered for generating scenarios of discounting exposures (i.e. based in accounting or based in internal models).
  - CVA capital requirement. The following approaches are described:
    - A standardized approach (SA-CVA).
    - An internal model approach (IMA-CVA), provided that some further conditions are satisfied (e.g. backtesting) and the supervisor has granted approval.
- **Basic CVA framework**:
  - Eligible hedges. The only hedges that would be eligible are single-name CDS, single-name contingent CDS and index CDS.
  - CVA capital requirement. It is calculated as the sum of two terms: capital requirement for counterparty credit risk and capital requirement for exposure risk.

3. Next steps

- Comments to this consultation paper shall have been submitted by **1 October 2015**.
- In parallel, the BCBS will conduct a **Quantitative Impact Survey** in the **second half of 2015** to inform deliberations on the final calibration of the framework.

09/07/2015
Corporate governance principles for banks.

1. Context

Effective corporate governance is critical for the proper functioning of the banking sector and the economy as a whole. While there is no single approach to good corporate governance, in the light of ongoing developments, and to take account of the FSB peer review recommendations, the BCBS has decided to revisit the 2010 guidance.

In this regard, the BCBS provides **thirteen revised principles** in order to aid banks and supervisors to achieve a robust and transparent risk management and decision-management process.

2. Main points

- **Role of the Board of Directors principles**: the Board should be in charge of overseeing the implementation of effective risk management systems. Therefore, the Board should not only define appropriate governance structures and practices for its own work but it should also ensure the establishment of the group structure (Principles 1, 3, and 5).
- **Board collective competence principles**: the importance of the board's collective competence is emphasized, along with the obligation on individual board members to dedicate sufficient time to their mandates and to remain current on developments in banking (Principle 2).
- **Senior Management principles**: the Senior Management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies (Principle 4).
- **Three lines of defense principles**: the risk management roles played by the business units, risk management teams and internal audit and control functions are strengthened, along with the importance of a sound risk culture to drive risk management within a bank (Principles 6, 7, 8, 9 and 10).
- **Compensation systems principles**: compensation systems form a key component of the governance and incentive structure through which the Board and Senior Management of a bank convey acceptable risk-taking behavior and reinforce the bank's operating and risk culture (Principle 11).
- **Disclosure principles**: at a minimum, banks should disclose the recruitment approach for the selection of members of the Board and whether the bank has set up board committees and the number of times key standing committees have met (Principle 12).
- **Bank supervisors principles**: supervisors are provided with guidance when they evaluate the processes used by banks to select Board members and Senior Management (Principle 13).

16/09/2015

- **Basel III Monitoring Report.**
- **CRD IV/CRR Monitoring exercise.**

1. Context

The BCBS has published the results of its latest Basel III monitoring report. In parallel with this report, the EBA has conducted its eight monitoring exercise for banks in the EU. These exercises allowed gathering aggregate results on capital ratios, leverage ratio (LR), liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

Both exercises classify banks in Group 1 (comprised of those internationally active banks with a Tier 1 capital exceeding €3billion) and Group 2. For the BCBS exercise a total of 221 banks participated, comprising 100 Group 1 banks and 121 Group 2 banks. In contrast, the analysis of the EBA exercise is based on data submitted by 53 Group 1 banks and 311 Group 2 banks.

2. Main points

- The exercises were based on the assumption of a **full implementation** of the Basel III/CRD IV-CRR framework.
- The results are based on data as of **31 December 2014**.
- The main **average results** obtained were:

Organism	Group	CET1 ratio	Capital shortfall*	Shortfall reduction**	LR	LCR	NSFR
BCBS	1	11.1%	0	100%	5.0%	125.3%	111.2%
	2	12.3%	1.5bn€	16.7%	5.3%	143.7%	113.8%
EBA	1	11.4%	1.5bn€	45%	4.2%	124%	102%
	2	12.4%	2.4bn€	n.a.	5.0%	150%	109%

* Shortfall with respect to the minimum requirement of 7% (CET1+Capital Conservation Buffer).
** Shortfall reduction between June 2014 and December 2014.

06/07/2015

- **Final RTS on criteria for determining the MREL.**
- **Final RTS on the contractual recognition of write-down and conversion powers.**
- **Final RTS on resolution colleges.**
- **Final RTS on procedures and contents of resolution notifications.**
- **Final RTS on independent valuers.**

1. Context

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

In this regard, the EBA has published five documents in order to comply with the mandates of the BRRD in relation to the minimum requirement for own funds and eligible liabilities (MREL), the contractual recognition of write-down and conversion powers, resolution colleges, and procedures and contents of resolution notifications.

2. Main points

Final RTS on criteria for determining the MREL

- The MREL shall be set on a case-by-case basis by the resolution authority, after consulting the competent authority, considering the following criteria:
  - **Loss absorption**. The loss absorption amount shall equal capital requirements (including buffer requirements).
  - **Recapitalisation**. The following shall be considered:
    - The recapitalisation amount shall be at least equal to capital requirements necessary to comply with the conditions for authorisation.
    - Sufficient market confidence should be assessed by considering how much is needed to restore the capital buffers.
  - **Exclusions from bail-in**. If bail-in-able liabilities are excluded from loss absorption in the MREL needs to be increased to account for their exclusion.
  - **Contributions by the Deposit Guarantee Scheme (DGS)**. The MREL may be reduced where the DGS could contribute to the financing of resolution.
  - **Business model, funding model and risk profile**. Information on the outcomes of the SREP received from the competent authority shall be considered.
  - **Size and systemic risk**. Resolution authorities shall identify institutions that are likely to pose a systemic risk and assess whether the MREL is sufficient.

Final RTS on the contractual recognition of write-down and conversion powers

- The RTS set out the **content of the contractual term** required by the BRRD (e.g. a description of the write-down and conversion powers of each resolution authority).
- Moreover, the RTS also further specify **liabilities excluded from the obligation to include the contractual term**.

Final RTS on resolution colleges

- The RTS include provisions with regard to:
  - **Operational organisation**: establishment and functioning of resolution colleges.
  - **Resolution planning joint decisions**: joint decision on the group resolution plan and resolvability assessment, joint decision on setting the MREL, etc.
  - **Cross-border group resolution**: need for a group resolution scheme and the need for mutualising financing arrangements.

Final RTS on procedures and contents of resolution notifications

- The RTS specify the **procedures and contents** of several notifications with regard to resolution (e.g. notification by the management body to the competent authority when they consider the entity to be failing or likely to fail).

Final RTS on independent valuers

- The RTS set out a number of conditions that must be met in order for a person to be regarded as independent. These are:
  - The person concerned possesses the **qualifications, experience, ability, knowledge and resources** required and can carry out the valuation effectively without undue reliance on any relevant public authority, including the resolution authority, or the relevant entity.
  - The person is **legally separated from the relevant public authorities**, including the resolution authority, and the relevant entity.
  - The person has **no material common or conflicting interest** within the meaning of the RTS.

3. Next steps

- These RTS shall enter into force on the **twentieth day** following that of its publication in the Official Journal of the European Union.

06/07/2015

Consultation Paper RTS on the conditions that competent authorities shall take into account when determining higher risk-weights and minimum LGD values.

1. Context

The CRR establishes the risk weights (RWs) for mortgage exposures for banks applying the Standardised Approach (SA) when calculating capital requirements: 35% for the exposure fully covered by Residential Real Estate (RRE) and 50% for the exposure fully covered by Commercial Real Estate (CRE). However, competent authorities may increase the risk weights for these exposures up to 150%. Besides, for banks applying IRB models, the minimum LGD floor is set at 10% for RRE and 15% for CRE. Similarly, competent authorities may increase the LGD floors for these exposures.

The EBA specifies through these RTS **three sets of conditions** that competent authorities have to take into account when assessing whether an increase of RWs or the minimum value of exposure weighted LGD is necessary: the **assessment of the appropriateness** of the risk weights or LGD floors, the **financial stability considerations**, and **other conditions**.

2. Main points

- **Assessment of the appropriateness of the RWs or LGD floors**.
    - Competent authorities are required to:
        - <u>Determine the loss experience and loss expectation</u> when setting higher RWs and the <u>observed LGD and LGD expectation</u> when setting higher LGD floors.
        - <u>Make adjustments to the loss experience or observed LGD</u> on the basis of forward-looking immovable property market developments, among others driven by the historical and expected evolution in immovable property market prices and its volatility, the fundamental drivers in demand and supply and the structural and cyclical characteristics of the immovable property market.
    - The RTS set out <u>indicative benchmarks</u> which aim to provide further guidance to the setting of higher RWs by competent authorities.
- **Financial stability considerations** are specified as three possible scenarios which indicate that refraining from setting higher RWs or higher minimum LGD values would have a material impact on the current or future stability of the financial system.
- **Other conditions**. Competent authorities should provide:
    - An explanation as to why the RWs and LGD values are increased in a way that <u>ensures correspondence between the higher RW or LGD value and the loss or LGD expectation</u> related to these exposures.
    - An explanation as to why increasing the RWs or LGD floors is deemed to <u>mitigate the financial stability considerations</u>.

3. Next steps

- Comments to this consultation paper shall be submitted by **6 October 2015**.

15/07/2015

- **2015 EU-wide transparency exercise – sample of banks.**
- **Draft templates with the type of data that will be disclosed.**

1. Context

In March 2015, the EBA announced its decision of not carrying out an EU-wide stress test in 2015 and instead running a transparency exercise in line with the one conducted in 2013.

In this regard, the EBA has published a **draft sample of banks** taking part in the 2015 transparency exercise, together with the **draft templates** illustrating the type of data as of December 2014 and June 2015 that will be disclosed. In addition, the EBA has released a te**ntative calendar of the EU-wide stress test** that will take place in 2016.

2. Main points

<u>2015 EU-wide transparency exercise</u>

- **Draft sample of banks**: The scope of the sample of banks has widened compared to the 2013 transparency exercise, and now is almost as extensive as the scope of the 2014 EU-wide stress test. Differences among the sample of banks included in the stress test and the 2015 transparency exercise mainly arise from mergers between institutions.
- **Draft templates**. Information will be disclosed with regard to:
    - <u>Capital</u>: templates are aligned with the information published under the stress test.
    - <u>RWAs</u>: in addition to the data disclosed under the stress test, the EBA will publish information such as the risk exposure for contributions to the default fund of a CCP and the risk exposure for CVA.
    - <u>P&L</u>: information has an increased level of detail compared to the stress test, especially regarding gains/losses on financial instruments and provisions.
    - <u>Credit risk</u>: aiming at publishing templates on the Standardized and IRB approaches in line with COREP, the Standardized approach templates have been modified compared to the ones published for the stress test.
    - <u>Sovereign exposures</u>: templates are aligned with the information released under the stress test.
    - <u>Additional information not included under the stress test</u>: templates on market risk, performing and non-performing exposures, forborne exposures, leverage and collaterals for mortgage loans.

<u>2016 EU-wide stress test</u>

- **Draft calendar**: the draft methodology and templates will be discussed with relevant stakeholders before the **end of 2015**, and the detailed scenario and methodology are expected to be launched in **1Q16**. The assessment is expected to be concluded by **3Q16**, when the individual results will be published.

3. Next steps

- The EBA will be carry out the transparency exercise towards the **end of 2015**.

23/07/2015

- **Report on the results from the 2014 low default portfolio exercise.**
- **Report on counterparty credit risk benchmarking exercise.**

1. Context

European legislators have acknowledged the need to ensure consistency on the calculation of RWAs for equivalent portfolios. In this regard, the CRR and the CRD IV include a number of mandates for the EBA to deliver technical standards, guidelines and reports aimed at reducing uncertainty and differences in the calculation of capital requirements.

In this context, the EBA has published two reports on the consistency of RWAs across EU institutions for large corporate, sovereign and institutions' IRB portfolios, collectively referred to as **Low Default Portfolios** (LDP); as well as for the calculation of **Counterparty Credit Risk** (CCR) exposures under the Internal Model Method (IMM), and the Credit Valuation Adjustments (CVA) according to the advanced approach (ACVA).

2. Main points

Report on the results from the 2014 low default portfolio exercise

- **Top-down analysis of the LDP**. A key finding was that three-quarters of the observed difference in the global charge (GC) could be explained by the proportion of defaulted exposures in the portfolio and the portfolio mix between large corporate, sovereign and institutions exposures.
- **Analysis based on common obligors**. This analysis allows a direct comparison of the IRB parameters. Some of the key findings are the following:
    - Maturity has a very limited effect of RW differences for the large corporate portfolio, while for the institutions and sovereign portfolios the impact is significant.
    - For the large corporate portfolio, observed differences in PDs play a significant role in explaining RW differences for FIRB institutions than for AIRB institutions.
- **Comparative analysis of GC under the IRB approach and Standardised Approach**. This analysis showed a similar dispersion of GC for the sovereign and institutions portfolios but greater dispersion for the large corporate portfolio.
- **Impact analysis using benchmark parameters**. If the internal IRB parameters were replaced with benchmarking parameters, RW would increase by about 7.5% in the large corporate portfolio and by 6.6% for the total portfolio.

Report on counterparty credit risk benchmarking exercise

- Some of the most important findings concerning **IMM** are the following:
    - Banks with large derivatives portfolios have very relevant IMM exposures.
    - The majority of IMM exposure is covered by netting agreements, and there is a large homogeneity in the portion of margined over unmargined netting sets with respect to IMM EAD. The use of netting agreements and margining with bilateral contracts is largely widespread.
    - There is an accentuated variability for FX and equity OTC derivatives with respect to interest rate OTC derivatives.
    - The choice for a stress period is more prudent when it allows the inclusion of both the Lehman default and EU sovereign crisis.
    - There is a large variability in the implied EAD from the hypothetical portfolio exercises also attributable to different regulatory discretions.
- Some of the most important findings concerning **CVA VaR** are the following:
    - The choice for a prudent stress period for achieving a higher ratio between S-VaR and VaR should be inside the financial crisis.
    - Banks should privilege the use of CDS spread name curves when liquid and tradable.
    - The range of variability for capital charges implied by the hypothetical portfolio exercises is quite relevant, especially under an internally estimated expected exposure profile.

3. Next steps

- The findings from the two reports will inform the work the EBA is conducting for improving the regulatory framework and restoring confidence in internal models.

28/07/2015
Key metrics used to identify global systemically important institutions (G-SIIs).

1. Context

The CRR requires global systemically important institutions (G-SIIs) to disclose the values of the indicators used for the identification of G-SIIs process. Moreover, the EBA Guidelines on disclosure of indicators of global systemic importance provide that also other large institutions with an overall exposure measure of more than €200bn and which are potentially systemically relevant will be subject to the same disclosure requirements.

In this regard, the EBA has published the **key metrics used to identify G-SIIs** in the EU. While each participating institution discloses this information individually, the EBA acts as a central data hub in the disclosure process, providing a platform to aggregate data across the EU with an user-friendly excel tool.

2. Main points

- The disclosure exercise covers **37 EU institutions** whose leverage ratio exposure measure exceeded €200bn in 2014 (from which 14 were identified as G-SIBs by the FSB and the BCBS in their latest update).
- The following **conclusions** can be obtained:
    - Size: HSBC, BNP Paribas, Barclays, Credit Agricole and Deutsche Bank are the institutions with the highest level of exposures.
    - Interconnectedness: BNP Paribas is the most interconnected institution (in terms of intra-financial assets and liabilities and securities outstanding), followed by HSBC and Barclays.
    - Substitutability: Deutsche Bank, HSBC, RBS, BNP Paribas and Barclays are the most difficult to replace institutions.
    - Complexity: Deutsche Bank, Barclays, RBS and BNP Paribas are the most complex institutions, which can be explained to some extent by the high level of Level 3 assets that they hold.
    - Cross-jurisdictional activity: Santander is one of the institutions with the highest level of cross-jurisdictional activity, along with HSBC, BNP Paribas, Barclays and Deutsche Bank.

3. Next steps

- The EBA will run this exercise on a yearly basis.

10/09/2015

- **DPM and XBRL taxonomy for remittance of supervisory reporting.**
- **Revised list of ITS validation rules.**

1. Context

In May 2015, the EBA published a XBRL taxonomy (version 2.3.1) to be used for the remittance of data under the ITS on supervisory reporting.

The EBA has now published an **update to the XBRL taxonomy** (version 2.4), which introduces changes that represent the amendments to the ITS on supervisory reporting resulting from the Commission's adoption of Delegated Acts amending the definition of the Leverage Ratio (LR) and specifying a new Liquidity Coverage Ratio (LCR) framework.

Moreover, the EBA has issued a **revised list of validation rules** in its ITS on supervisory reporting.

2. Main points

<u>DPM and XBRL taxonomy for remittance of supervisory reporting</u>

- The updated taxonomy introduces changes to the **COREP and FINREP** reporting structures. In particular, it incorporates:
    - Revised reporting structures for **LR**.
    - New parallel reporting structures for **LCR** for credit institutions. New LCR templates are not applicable to investment firms, which will continue reporting the LCR items using the current templates.
- It also gives effect to the answer to the single rulebook question that specifies that figures for **LCR and NSFR templates with breakdowns in significant currencies** should be reported in units of the relevant significant currency.

<u>Revised list of ITS validation rules</u>

- The EBA highlights those **validation rules** which have been **deactivated** either for incorrectness or for triggering IT problems.

3. Next steps

- Since the amended LCR and LR ITS will apply 6 months from the date of their publication in the Official Journal, the new 2.4 taxonomy will apply for reference dates following their point of application.

22/09/2015

- **Consultation Paper on Guidelines on the application of the definition of default.**
- **QIS on default definition template.**
- **QIS on default definition instructions.**

1. Context

The CRR specifies the definition of default of an obligor that is used for the purpose of IRB Approach. However, in the absence of specific rules, various approaches have been adopted across institutions and jurisdictions.

In this regard, the EBA has published **Guidelines** that provide detailed clarification on the **application of the definition of default**, which includes aspects such as the days past due criterion, indications of unlikeliness to pay, etc. The EBA considers this harmonisation to be necessary in order to ensure a consistent use of the definition of default. Moreover, the EBA is planning to carry out a **Quantitative Impact Study (QIS)** in order to assess the impact of the proposed requirements both in quantitative and qualitative manner. Therefore, it has published a **template and instructions** to obtain feedback from institutions.

2. Main points

Consultation Paper on Guidelines on the application of the definition of default

- **Past due criterion**. The GL clarify, among others, aspects with regard to:
    - Counting on days past due: in the case the credit arrangements allow the client to change the schedule, suspend or postpone the payments, the changed, suspended or postponed instalments should not be considered past due.
    - Factoring: a differentiation has been made on two types of factoring arrangements based on whether the risks and benefits related with the ceded receivables are fully transferred to the factor or not.
- **Indications of unlikeliness to pay**. The GL provide clarification regarding the application of each indication of unlikeliness to pay, such as bankruptcy.
- **Application of the definition of default in external data**. The GL specify that the requirements on external data apply only to institutions that use the IRB approach and use such data for estimating risk parameters.
- **Criteria for the return to a non-defaulted status**. The probation period and the minimum conditions for reclassification to a non-defaulted status have been specified (e.g. payments have been made regularly according to the schedule, there are no past due credit obligations, etc.)
- **Consistency of the application of the definition of default**. It has been clarified that in some situations institutions may use different definitions of default for certain types of exposures (e.g. different geographical locations), although the differences have to be justified.
- **Application of the definition of default for retail exposures**. The GL clarify aspects with regard to the level of application of the definition of default, the pulling effect, and the materiality threshold for joint exposures.
- **Documentation and internal governance**. The GL specify that the documentation related with the application of the definition of default should include detailed operationalization of all indications of default; and requirements with regard to internal governance have been clarified for institutions that use the IRB Approach (e.g. definition of default approved by the management body, or by a committee designated by it, and by senior management).

Quantitative Impact Study (QIS)

- **Scope**. This data collection exercise will be carried out on a voluntary basis. As in the further analysis of the data it is planned to use information available in the COREP reports, the QIS is directed to those banks that provide COREP reporting.
- **Consolidation level**. The data in the QIS should be provided on the same consolidation level as used for the purpose of COREP reporting.
- **Reporting date**. Unless noted otherwise, all data should be reported as of 30 June 2015.

3. Next steps

- Comments to the Guidelines shall be submitted by **22 January 2016**.
- Comments to the template and instructions of the QIS shall be submitted by **9 October 2015**.
- The EBA will publish and distribute the final QIS templates and instructions on **15 October 2015**, and institutions shall submit the completed templates to the relevant CAs by **10 December 2015**.

31/07/2015
Commission implementing Regulation amending Implementing Regulation laying down ITS on supervisory reporting.

1. Context

The Implementing Regulation 680/2014 specifies the requirements according to which institutions are required to report information relevant to their compliance with the CRR. In this regard, given that the regulatory framework established by the CRR is gradually being supplemented and amended, the Implementing Regulation needs to be updated accordingly.

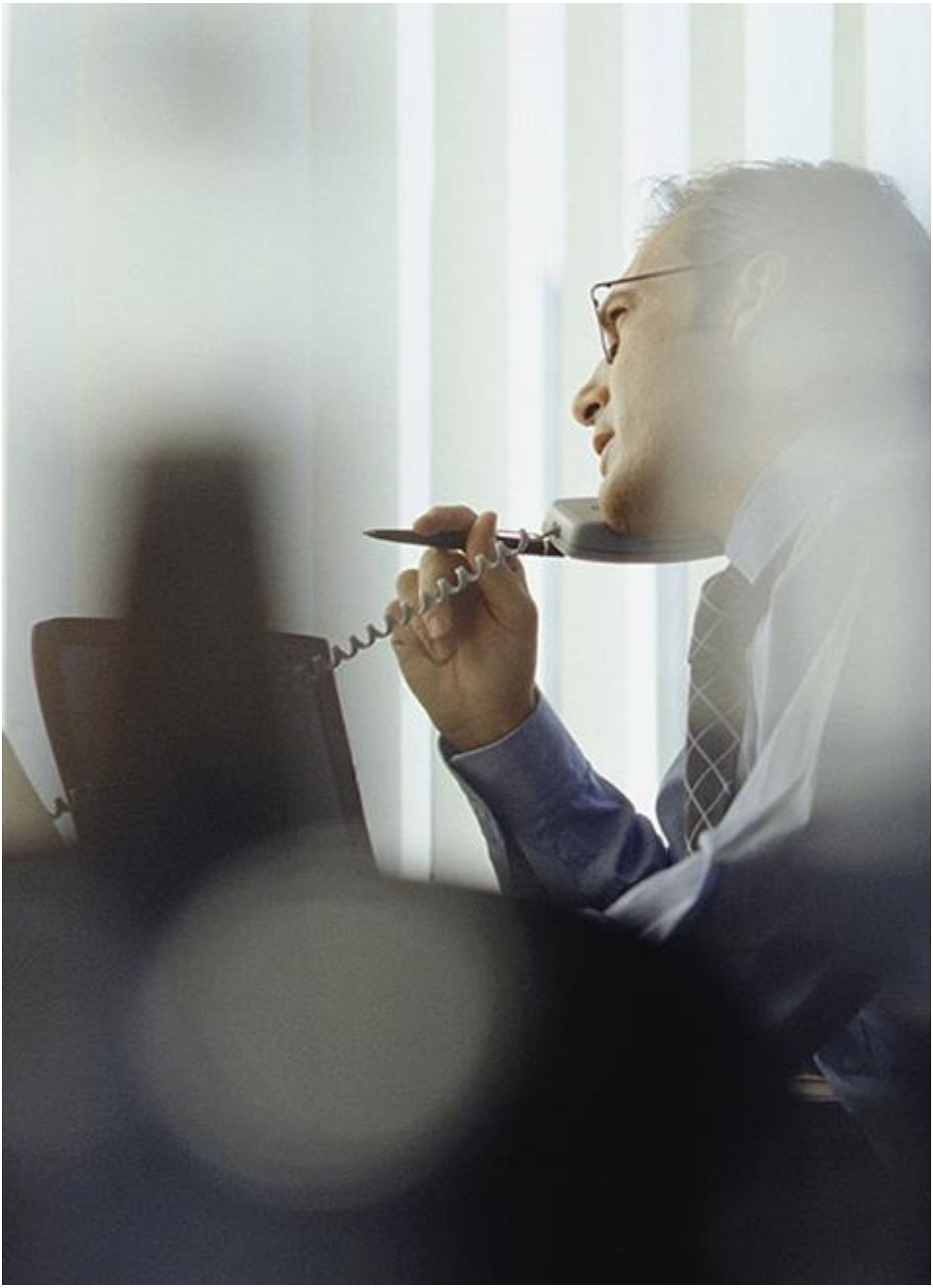
In this context, a new Commission Implementing Regulation amending Implementing Regulation 680/2014 has been published in the Official Journal of the European Union. This Regulation is based on the draft ITS submitted by the EBA to the Commission.

2. Main points

- Implementing Regulation No 680/2014 is **amended** as follows:
  - The templates numbered 1, 4, 6.2, 7, 8.1, 9.1, 9.2, 9.3, 17, 21 and 22 of Annex I (which are related to own funds, group solvency, credit and counterparty credit risks, etc.) are replaced by the respectively numbered templates set out in Annex I to the new Implementing Regulation.
  - Annex II (i.e. instructions on reporting of own funds and own funds requirements) is replaced by the text set out in Annex II to the new Implementing Regulation.
  - The templates numbered 1.3, 16, 20 and 46 of Annex III (which are related to information on equity in the balance sheet statement, the statement of changes in equity, etc.) are replaced by the respectively numbered templates set out in Annex III to the new Implementing Regulation.
  - The templates numbered 1.3, 16, 20 and 46 of Annex IV (which are related to information on equity in the balance sheet statement, the statement of changes in equity, etc.) are replaced by the respectively numbered templates set out in Annex IV to the new Implementing Regulation.
  - Annex V (i.e. instructions on reporting of financial information) is replaced by the text set out in Annex V to the new Implementing Regulation.
  - Annex IX (i.e. instructions for reporting large exposures and concentration risk) is replaced by the text set out in Annex VI to the new Implementing Regulation.
  - Annex XVII (i.e. instructions on reporting on asset encumbrance) is replaced by the text set out in Annex VII to this Regulation.

3. Next steps

- This Regulation shall enter into force on the **twentieth day** following that of its publication in the Official Journal of the European Union.
- This Implementing Regulation shall apply from **1 June 2015**.



Congreso de los Diputados
SENADO DE ESPAÑA

15/07/2015
Ley de ordenación, supervisión y solvencia de entidades aseguradoras y reaseguradoras.

1. Context

In November 2009, the European Parliament and the Council approved the Solvency II Directive with the aim of establishing a unique legal framework for insurance and reinsurance institutions within the EU. Subsequently, in April 2014, the EU legislators adopted the Omnibus II Directive, amending Solvency II with regard to the powers of the EIOPA and the ESMA in this field.

In this regard, the Cortes Generales have approved the **Law that transposes Solvency II**, including amendments by Omnibus II, into the Spanish legal system. This new framework introduces new **solvency standards**, the requirement of an effective **governance system** and a new **supervisory model**.

2. Main points

- **Solvency standards**:
  - Institutions shall comply with the solvency capital requirement (SCR). It can be calculated using either a standardized formula or internal models (once the Dirección General de Seguros y Fondos de Pensiones (DGSFP) has approved them).
  - Institutions shall maintain eligible basic own-funds to cover the minimum capital requirement (MCR).
  - Institutions shall publish an annual report on financial condition and solvency.
- **Governance system**:
  - Institutions shall have in place an effective governance system, comprising the following functions: risk management, compliance, internal audit and actuarial. The board will be the responsible for the governance system.
  - Institutions shall establish an effective risk management system, including a regular internal assessment of risks and solvency.
  - All persons who effectively run the institution or are involved in the functions of the governance system shall meet certain honourability and aptitude requirements.
- **Supervisory model**:
  - The DGSFP will be the responsible for carrying out the supervisory tasks and will have the power to adopt mandatory rules developing the insurance framework.
  - The supervision shall consist on the verification of the governance system, solvency, market practices, etc. To this end, the DGSFP is entrusted with certain powers (e.g. requesting information, carrying out inspections without having to identify itself, etc.).
  - The DGSFP may impose, among others, special control measures or sanctions in some situations (e.g. shortfall in own funds to meet the SCR and the MCR).

3. Next steps

- This law will enter into force on **1 January 2016**.
- The Government is empowered to approve a rule developing this law, which will detail certain aspects (e.g. calculation of the SCR, content of the annual report, risks that shall be covered by the risk management system, honourability and aptitude requirements, etc.).

21/07/2015
Ley de Auditoría de Cuentas

1. Context

In April 2014, the European Parliament and the Council adopted a directive and a regulation on statutory audits of annual accounts and consolidated accounts. The aim of both legislative texts was to increase auditor transparency and independency, as well as to enhance audit companies quality, strengthening confidence on economic and financial information.

In this context, the Cortes Generales have approved the Ley de Auditoría de Cuentas, adapting the Spanish legal system to the European regulatory framework. This law presents a duality of regimes, regulating on the one hand the **audits of accounts in general**; and on the other hand, the **audits of accounts of public interest institutions** (EIP), which are credit institutions, insurance undertakings and listed companies, among others.

2. Main points

- **Audits of accounts in general**. The law establishes requirements such as the following:
  - Establishment of further contents within the audit report.
  - Statutory auditors or audit firms shall be independent. It shall be deemed that they are not independent if they meet one of the incompatibility causes (e.g. provision of accounting services, legal services, design and implementation of internal control or risk management procedures services related to the elaboration or control of financial information etc.).
  - Statutory auditors or audit firms are subject to a rotation requirement. Thus, they shall not be employed for a period of more than 9 years.
  - Statutory auditors or audit firms shall not provide auditing services to a company if within the last 3 years the fees received from this company for audit and non-audit services are 30 % or more of their annual revenue.
- **Audits on accounts of EIPs**. The law establishes further requirements, such as:
  - EIPs have to establish an Audit Committee and statutory auditors or audit firms have to elaborate an additional report for that committee.
  - Statutory auditors or audit firms of EIPs shall not provide other incompatible services (e.g. tax services), in addition to those incompatibility causes established within the general regime.
  - Statutory auditors or audit firms are subject to a rotation requirement. Thus, they shall not be employed for a period of over 10 years.
  - Statutory auditors or audit firms shall not provide auditing services to a company if within the last 3 years the fees received from this company for audit and non-audit services are 15% or more of their annual revenue.
  - Organization structure requirements may be established to statutory auditors or audit firms of EIPs.

3. Next steps

- With certain exceptions, this law will enter into force on **June 17, 2016**.

06/07/2015
Proyecto de Circular por la que se modifica la Circular 5/2014 y la Circular 1/2013

1. Context

The Bank of Spain has published a Proyecto de Circular amending the Circular (CBE) 5/2014, amending the CBE 4/2004, on public and undisclosed financial information; and the CBE 1/2013, on the risk information center (CIR).

Its main objective is to amend, repeal and postpone the entry into force of some reports included within the above mentioned CBEs. Amendments and repeals have been accomplished because of the future regulation by the European Central Bank with regard to credit risk information, and the future modification of the Annex IX of the CBE 4/2004. The delayed entry into force is the consequence of problems related to the reception of reports covered by the CBE 5/2014.

2. Main points

- **Amendments to the CBE 5/2014**:
    - The following reports have been amended: PI 6, PI 7-1, PC 6, PC7-1, FI 13, FI 18-1, FI 18-2 and FI 19.
    - The following reports have been removed: FI 100-2, FI 101, FI 130, FI 131, FI 135 and FI 137.
    - Groups that are considered to be significant for the purpose of the Single Supervisory Mechanism (SSM):
        - Shall submit on a quarterly basis a **set of reports** including the information of each of their **individual institutions** not located within the SSM and with consolidated assets of more than 3 bn€.
        - They shall submit the information within **40 working days** after the date to which the data refer.
    - The reporting date for statistical purposes has been modified:
        - The reports C.1 and C.3 shall be submitted by **30 August 2015**.

        Reports from FI 1 to FI 42 shall be submitted by **30 June 2016**.
    - The entry into force dates have been modified: in general, amendments on the CBE 4/2004 shall enter into force on **31 March 2016**. Nonetheless, there are many exemptions (e.g. amendments on the Annex IX entered into force on 31 December 2014; replacement of existing Annex I, II and III by the new ones will enter into force on 30 June 2015; some reports following FI 100 will enter into force on 30 March 2017 etc.).
- **Amendments to the CBE 1/2013**:
    - Amendments and removal of certain reports and modules: for instance, modules E, H and I have been removed.
    - Entry into force: the "**parallel period in the CIR**" is extended (period for simultaneous reporting of data under the CBE 1/2013 until it is verified that the information received in the CIR has sufficient data quality).

3. Next steps

- Comments to this Proyecto de Circular shall have been submitted by **13 July 2015**.

BANCO DE ESPAÑA
Eurosistema

13/07/2015

Proyecto de Circular a las entidades de crédito sobre supervisión y solvencia, que completa la adaptación del ordenamiento jurídico español a la CRD IV y al CRR.

1. Context

The adaptation of the EU law to the Basel III framework was carried out through two main legislative acts: the CRR and the CRD IV. Furthermore, the transposition of this new European framework into the Spanish law was accomplished by means of the Real Decreto-ley 14/2013, the Ley 10/2014 and the Real Decreto 84/2015.

In this regard, the Bank of Spain has approved a Proyecto de Circular mainly aimed at finalizing the transposition of the CRD IV. It also includes some national options established within the CRR, and it further develops some aspects related to the supervision of institutions that form part of a financial conglomerate. Moreover, this Proyecto lays down the concept of competent authority, which will be either the ECB or the BdE according to the division of tasks within the SSM.

2. Main points

- **National options**: it gives the same credit risk weight as the one given to exposures to the Central Administration to certain exposures to the public sector, according to the national options established within the CRR.
- **Capital buffers**: among other aspects, it specifies that the method used to identify other systemically important institutions (O-SIIs) is the one specified by the EBA Guidelines.
- **Internal governance**: it specifies some aspects with regard to committees and internal governance (e.g. the risk, remunerations and nominations committees should be composed of at least 3 members; committees shall be unified where assets are lower than 10 bn €; institutions have to establish a compliance function and an internal audit function, etc.), the process of assessment of the suitability requirements, the remunerations regime, the restrictions to capital distributions, etc.
- **ICAAP and SREP**: it includes the ICAAP requirements specified in the Ley 10/2014 and the RD 84/2015, and it details some SREP requirements (e.g. it specifies the risks that will be assessed: credit, market, operational, systemic, etc.).
- **Risk treatment**: it establishes the risk management mechanisms that institutions shall have in place with regard to some risks specified within the RD 84/2015 (concentration, securitization, etc.), and a provision is included to implement the principles for an effective risk data aggregation and risk reporting (RDA&RR) by the BCBS.
- **Financial conglomerates**: some aspects of their regime are extended, mainly the ones related to additional supervision and submission of information.
- **Disclosure requirements**: it further develops the information on corporate governance and remuneration policies that shall be included in the institutions' websites.
- **Reporting to the Bank of Spain**: some requirements are established additional to those required under the Implementing Regulation on supervisory reporting. In this sense, institutions shall submit information regarding interest rate risk, remunerations and financial conglomerates, according to the scope of application defined for each of them.

3. Next steps

- Comments to this Proyecto de Circular shall have been submitted by **27 July 2015**.
- Once approved, the Circular will enter into force the following day that of its publication in the Boletín Oficial del Estado.

20/07/2015
Proposed rulemaking to revise the Capital Plan and Stress Test Rules.

1. Context

The capital planning and stress testing regime by the Fed consists of two programs: the Comprehensive Capital Analysis and Review (CCAR), which assesses the internal capital planning of Large Bank Holding Companies and their ability to maintain sufficient capital; and the Dodd-Frank Act stress testing (DFAST), which is a quantitative evaluation of the impact of stressful economic and financial market conditions on the capital adequacy of banking organizations.

In this regard, the Fed has proposed a rule to modify several aspects of its **capital planning and stress testing regulations**. Some of the changes would apply to all banking organizations, whereas some other revisions would be applicable only to certain banking organizations.

2. Main points

- **Proposed revisions for all banking organizations**:
    - Removal of the requirement that banking organizations demonstrate their ability to maintain a Tier 1 common capital ratio of 5% of risk-weighted assets, as the new minimum CET1 ratio of 4.5% is required.
- **Proposed revisions for Large Bank Holding Companies**:
    - Modifications on capital action assumptions in the stress test rules to allow organizations to reflect dividends associated with expensed employee compensation and issuances to fund acquisitions.
- **Proposed revisions for banking organizations subject to the Advanced Approaches**:
    - Delay of inclusion of the supplementary leverage ratio for one year, so organizations would be required to incorporate it into their stress testing in the 2017 cycle.
    - Deferral until further notice of the use of the advanced approaches for calculating risk-based capital requirements for purposes of the capital plan and stress test rules.
- **Proposed revisions for certain Bank Holding Companies and Savings and Loan Holding Companies**:
    - Removal of the requirement that Bank Holding Companies with total consolidated assets between $10 billion and $50 billion and Savings and Loan Holding Companies with total consolidated assets of more than $10 billion incorporate fixed assumptions regarding dividends in their stress test. Instead, they would be required to incorporate their own divided payment assumptions.
    - Delay of the application of the company-run stress test rules to Savings and Loan Holding Companies with total consolidated assets of more than $10 billion, so these organizations would become subject to these rules beginning on January 1, 2017.

3. Next steps

- Comments to this proposal shall have been submitted by **September 24, 2015**.
- Revisions to the capital plan and stress test framework would apply for the **2016 capital plan and stress test cycles**.
- The Fed is considering additional issues related to its capital plan and stress testing rules. Nevertheless, any further modification will be undertaken through a separate rulemaking and would take effect no earlier than the 2017 cycle.

21/07/2015

Final Rule on the implementation of Risk-bsed Capital Surcharges for Global Systemically important Bank Holding Companies (G-SIBS).

1. Context

The financial crisis demonstrated that certain US financial companies had grown so large, leveraged, and interconnected that their failure could pose a threat to financial stability. Furthermore, a perception persists in the markets that some companies remain too big to fail, and this perception reduces incentives of these companies to discipline excessive risk-taking.

In this regard, the Fed has published a final rule that establishes risk-based capital surcharges upon US Bank Holding Companies that are identified as G-SIBs. This final rule is aligned with the BCBS framework, which also establishes a higher loss absorbency requirement for G-SIBs.

2. Main points

- **Scope of the capital surcharge**: Bank Holding Companies that qualify as advanced approaches institutions (those with $250 billion or more in consolidated assets or $10 billion or more in consolidated on-balance-sheet foreign exposures).
- **Methodology for identifying G-SIBs**:
  - It is based on five broad categories: size, interconnectedness, cross-jurisdictional activity, substitutability and complexity.
  - A bank's score is measured through the application of individual systemic indicators within each category (e.g. total exposures, intra-financial system assets and liabilities, assets under custody, notional amount of OTC derivatives, etc.).
  - The result of each systemic indicator is multiplied by the prescribed weighting and by 10,000 to reflect the result in basis points.
  - Bank Holding Companies will be designated as G-SIBs if the resulting score is 130 basis points or greater.
  - Under this methodology, 8 banks would currently be identified as G-SIBs.
- **Calculation of the G-SIB surcharge**:
  - A G-SIB should calculate the surcharge using two methods:
    - The first method is the same employed for the identification of the G-SIBs.
    - The second method is based on the sum of the individual systemic indicators scores of the broad categories (except the substitutability category) and a measure of use of short-term wholesale funding.
  - A G-SIB's surcharge would be the higher of the two surcharges determined under the two methods.
  - A G-SIB's capital conservation buffer is increased by the amount of its G-SIB surcharge.

3. Next steps

- The proposed framework will be **phased in beginning in 2016** and become fully effective on **January 1, 2019**.
- The surcharge in effect on January 2016 must be calculated by **December 31, 2015**.

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 on Regulation

- 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

Regulators

Our goal is to exceed client expectations, becoming their trusted partners

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.

With a cross-functional team of more than 1,700 professionals from the business, technical, mathematical and other areas, Management Solutions operates through 18 offices across Europe (9), the Americas (8) and Asia (1).

To meet these requirements, Management Solutions has its activities structured by industry (Financial Institutions, Energy and Telecommunications) and business line (FCRC, RBC, NT), grouping together a wide range of areas of specialization, including Strategy, CRM and Marketing, Organization and Processes, Risk Management and Control, Management and Financial Reporting and Applied Technology.

Within the financial industry, Management Solutions provides services to all types of institution (banks, insurance companies, investment companies, financing companies, etc.), operating at both the global and the local level, and to public bodies.

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

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

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

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

Privacy policy

Design and Layout
Marketing and Communication Department
Management Solutions – Spain

www.managementsolutions.com

Madrid Barcelona Bilbao London Frankfurt Warszawa Zürich Milano Lisboa Beijing
New York San Juan de Puerto Rico México DF Bogotá São Paulo Lima Santiago de Chile Buenos Aires