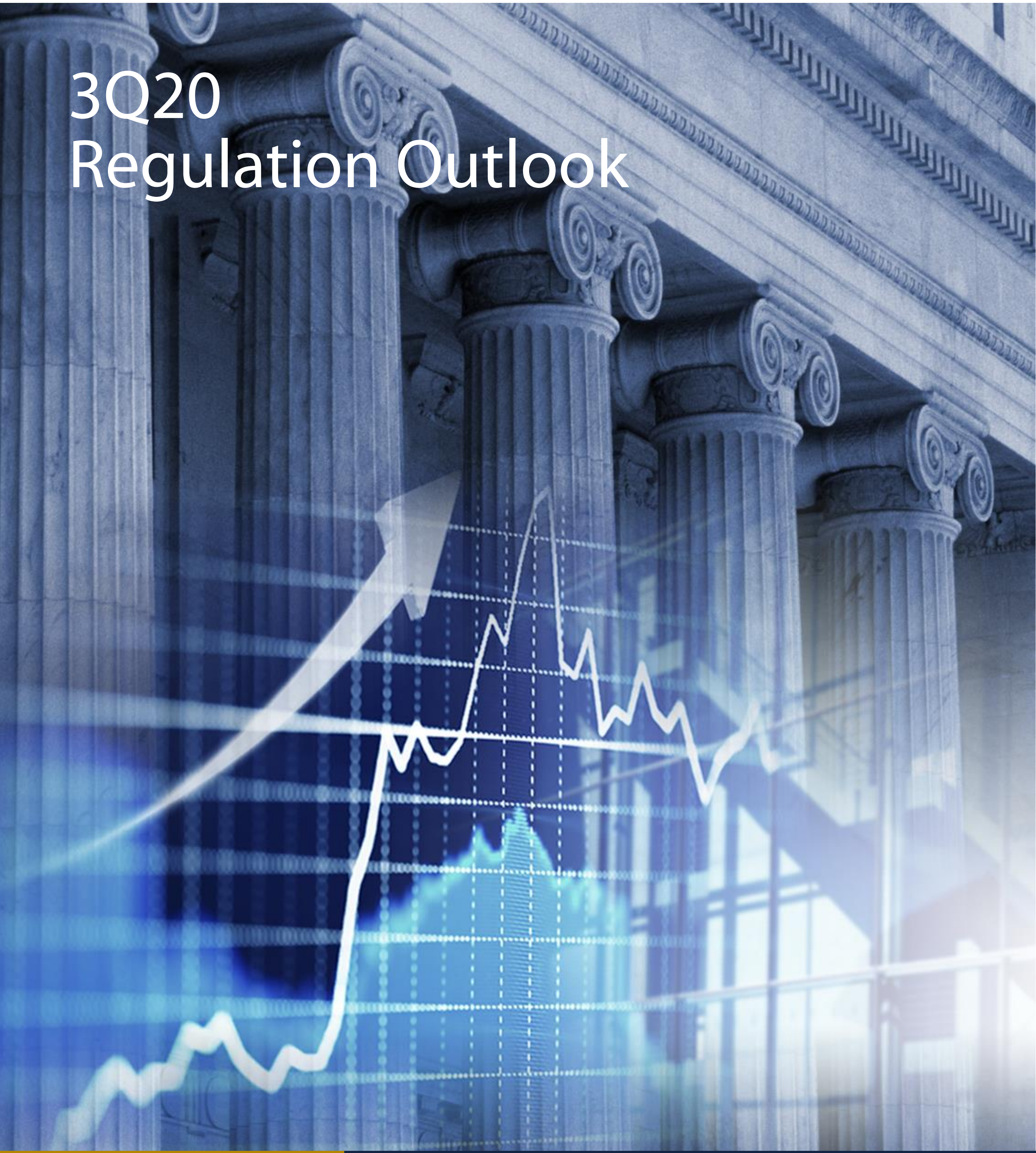
ManagementSolutions
Making things happen

3Q20 Regulation Outlook



Design and Layout

Marketing and Communication Department
Management Solutions

Photographs:

Photographic archive of Management Solutions
iStock

Table of contents

Executive Summary

The third quarter of 2020 is characterized by publications aimed at managing the impact of the crisis caused by COVID-19 and the economic recovery. In addition, the IASB has published amendments to IFRS 17 and, at the European level, the ECB has published a Guide on assessment methodology (EGAM) for the internal model method.

Global publications

- At international level, the BCBS published **targeted revisions to the CVA risk framework** with the objective of aligning the CVA risk framework with the revised market risk framework.

- The IOSCO published **consultation report on the use of artificial intelligence and machine learning by market intermediaries and asset managers**, with the purpose of assisting IOSCO members in providing appropriate regulatory frameworks in the supervision of market intermediaries and asset managers that utilize AI and ML.

- For its part, the IASB has published **amendments to IFRS 17** with the aim of reducing adaptation costs of the Standard, make financial performance easier to explain, and facilitate the transition for its implementation.

- Furthermore, the SRB has published the **Guidance on OCIR** that provides further clarifications to banks on how to implement SRB expectations in a variety of affairs. In addition, the SRB published the **Guidance on FMI contingency plans** that sets out the SRB's expectations with regard to the minimum content of FMI contingency plans prepared by banks

European publications

- In Europe, the EC has published the **Capital Markets Recovery Package** with the aim to facilitate the recapitalisation of companies affected by the economic shock of the coronavirus pandemic. This package includes the **Amendments to Securitisation Regulation and CRR** as well as the **amendments to MiFID II**. The EC has also adopted a new **Digital Finance Package**, including digital finance and retail payments strategies, and legislative proposals on crypto-assets and digital resilience.

European publications (continuation)

- On the other side, the ECB has published has published a **Guide on assessment methodology (EGAM)** for the internal model method (IMM) for calculating exposure to CCR and the advanced method for own funds requirements for credit valuation adjustment risk (A-CVA).

- For its part, the ESMA has published **two final Reports reviewing key provisions of the MiFID II/MiFIR transparency regime.** The first report reviews the MiFIR transparency regime for equity instruments and contains proposals for targeted amendments regarding the transparency obligations for trading venues, the second report reviews the pre-trade transparency obligations applicable to SI in non-equity instruments.

- Furthermore, the EBA has published the **consultation on draft Regulatory Technical Standards (RTS) on default probabilities (PDs) and losses given default (LGDs) for default risk model for institutions using the new IMA under the Fundamental Review of the Trading Book (FRTB)** with the purpose of clarifying the requirements that an institution's internal methodology or external sources are to be met for the estimation of PDs and LGDs under the default risk model.

- In addition the EBA has published the EBA has published public consultations on various elements of the MREL framework which include, the **Consultation paper (CP) on draft RTS methodology to estimate Pillar 2 (P2R) and combined buffer requirements (CBR) for setting MREL requirements**, the **CP on draft Implementing Technical Standards (ITS) on reporting decisions on MREL**, the **CP on draft RTS on indirect subscription of MREL instruments within groups**.

Local publications

- In Spain, the BoS has published the **Draft Circular to payment institutions and electronic money institutions, on public and private financial reporting standards and model financial statements** with the aim of establishing new specific regulations on the accounting regime to be prepared by these institutions.

- In the US, the Fed, FDIC, OCC, SEC and CFTC published a **Final Rule on revisions to prohibitions and restrictions on proprietary trading and certain interests in, and relationships with, hedge funds and private equity funds**, which is intended to improve and streamline the hedge funds and private equity funds provisions and provide clarity to banking entities so that they can offer financial services.

- The Fed also published the results for the **Dodd-Frank Act Stress Test 2020** which concluded that in the aggregate, the firms subject to the supervisory stress test would experience substantial losses under the severely adverse scenario but could continue lending to businesses and households. Additionally the Fed conducted a **sensitivity analysis to assess the resiliency of large banks**.

Regulatory projections

At European level, the EBA will publish the results of the 7th annual EU-wide transparency exercise. In Spain, credit institutions will apply the materiality threshold of the credit obligations specified in Circular 3/2019 and Circular 4/2019 on public and reserved financial information standards and model financial statements. Furthermore, in the USA, the Fed´s Final Rule to simplify and tailor compliance requirements relating to the Volcker Rule will enter into force.

Regulatory projections*

1. Next quarter

- **(US) October 2020:**
  - The firm's first stress buffer requirements set by the Fed would generally be effective.
  - The Agencies Final Rule to simplify and tailor compliance requirements relating to the Volcker Rule will enter into force.
- **(Global) December 2020**: the BCBS GL on step-in risk will be applicable.
- **(Europe) December 2020**:
  - the ECB Regulation (EU) 2018/1845 on the materiality threshold for credit obligations past due will be applicable.
  - The EBA will publish the results of the the 7th annual EU-wide transparency exercise.
- **(Spain) December 2020**: credit institutions will apply the significance threshold of the credit obligations specified in the Circular 3/2019 of the BdE and the Circular 4/2019 on public and reserved financial information standards and model financial statements of the BdE.
- **(Europe) 2020**:
  - Its expected that the EC adopts the Final RTS on SA-CCR published by the EBA on 2019 defining its date of application.
  - The EU's taxonomy for climate change mitigation and climate change adaptation will be fully applicable.
  - Significant institutions will be asked to inform the ECB of any divergences of their practices from the supervisory expectations described in the Guide on climate-related and environmental risks.
- **(USA) December 2020:** the Final Rule on Real Estate Appraisals published by Fed, FDIC and OCC expires.

2. Next year

- **(Global) January 2021**: the IASB Phase 2 of the Interest Rate Benchmark Reform, with proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 will apply.
- **(Europe) January 2021**:
  - The EBA GL on the new definition of default will be applicable.
  - The EBA GL on CRM for institutions applying the advanced internal rating-based (A-IRB) approach will be applicable.
  - The ESMA GL on securitisation repository data completeness and consistency thresholds will apply.
- **(Spain) January 2021:** The BoS Circular Circular 4/2017 to payment institutions and electronic money institutions, on public and private financial reporting standards and model financial statements will apply.
- **(Europe) March 2021**:
  - The EP and the Council Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector will enter into force.
  - The RTS on environmental, social and governance (ESG) disclosure standards will apply.
- **(Europe) 2021**: EIOPA's occupational retirement provisions stress test results will be published.
- **(Europe) June 2021**:
  - The CRR II of the EP and the Council will be applicable with certain exceptions.
  - The EP and the Council adaptation of the investment firms prudential framework will be applicable.
  - The EBA Guidelines on loan origination and monitoring will enter into force.
  - The ESMA Guidelines on outsourcing to cloud service providers will enter into force.
  - The EBA new regulatory framework for investment firms will enter into force.
  - The EBA Final draft comprehensive ITS on institutions' Pillar 3 disclosures will apply.
  - The EBA Final draft ITS on supervisory reporting (Framework 3.0) will apply.

(*) The regulatory projections have been updated with the information available up to the date of publication of the report, on the modified deadlines as part of the flexibility measures adopted by different authorities in relation to the management of COVID-19.

2. Next year (cont.)

- The EBA Guidelines specifying the conditions for the application of the alternative treatment of institutions' exposures related to tri-party repurchase agreements for large exposures purposes will apply.
- The ECB´s temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic.

- **(Europe) July 2021**: the amendments introduced by the CRR II which have an impact on the ECB Guide on internal models will apply.
- **(US) July 2021**: FED and FDIC Final Rule on modifications to resolution plan requirements will be applicable for companies subject to category I, II and III standards.
- **(Europe) September 2021**: the EBA's ITS on specific reporting requirements for market risk will apply.

3. More than a year

- **(Global) December 2021**: the BCBS new assessment methodology for G-SIBs will be applicable.
- **(Europe) December 2021**: a new stress test methodology is expected to be approved.
- **(UK) December 2021**: the PRA will next reassess firms' SRB rates.
- **(Europe) 2022**: the proposed framework would be introduced in the 2022 EU-wide stress test.
- **(Europe) January 2022**:
  - The EBA GL on IRB parameters estimation will be applicable.
  - The EBA final RTS on an economic downturn as well as the GL for the estimation of LGD appropriate for an economic downturn will be applicable.
  - The ESAs provisions regarding product disclosure in periodic reports RTS on ESG disclosure standards will apply.
  - The EBA GL on CRM for institutions applying the IRB approach with own estimates of LGDs will apply.
- **(UK) January 2022**:
  - The PRA will require firms to comply with an end-state MREL.
  - The PRA PS 11/20 on credit risk: PD and LGD estimation will enter into force.
- **(US) July 2022**: the Final Rule of the Fed and the FDIC on modifications to resolution plan requirements for covered companies that are triennial reduced filers will apply beginning July 2022.
- **(Europe) July 2022**: It will be applicable the EP and Council Directive (EU) 2019/2162 and Regulation (EU) 2019/2160 on exposures in the form of covered bonds.
- **(Europe) December 2022**: the EBA will issue an impact assessment of MREL on banks' profitability.
- **(Global) January 2023**:
  - The revised SA for credit risk, the revised IRB framework, the revised CVA framework, the revised operational and market risk framework published in Basel III and the standard on the minimum capital requirements for market risk by the BCBS will be implemented. Moreover, the LR framework using the revised exposure definition and the G-SIB buffer will be applicable.
  - Most of the new disclosure requirements of the BCBS Pillar III updated framework will have to be implemented.
  - The BCBS technical amendment on the capital treatment of securitisations of NPLs will enter into force.
  - The amendments to IFRS 17 proposed by the BCBS will enter into force.
- **(Europe) January 2024**:
  - SRB's deadline of meeting external and internal MREL, including subordination requirements.
- **(Global) January 2028**: an output floor of 72.5% of RWA in the SA approach will be applicable according to the Basel III reform.

Quarterly publications

Summary of outstanding publications of this quarter

Topic	Title	Date	Page
	Basel Committee on Banking Supervision		
CVA	• Targeted revisions to the CVA risk framework	14/07/2020	10
	International Organization of Securities Commissions		
AI / ML	• The use of AI and ML by market intermediaries and asset managers	02/07/2020	11
	International Financial Reporting Standards		
IASB; IFRS 17	• Amendments to IFRS 17	01/07/2020	13
	Single Resolution Board		
Resolution	• Guidance on operational continuity in resolution (OCIR). • Guidance on FMI contingency plans.	03/08/2020	15
	European Comission		
Capital Markets Recovery Package	• Amendments to Securitisation Regulation • Amendments to Capital Requirements Regulation (CRR) • Amendments to Markets in Financial Instruments Directive II (MiFID II) • Amendments to Prospectus Regulation	30/07/2020	17
Digital Finance Package	• Digital finance strategy • Proposal for a regulation on markets in crypto-assets • Proposal for a regulation on a pilot regime for market infrastructures based on distributed ledger technology • Proposal for a regulation on digital operational resilience for the financial sector • Proposal for a directive amending directives 2006/43/EC, 2009/65/EC, 2009/138/EU, 2011/61/EU, EU/2013/36, 2014/65/EU, (EU) 2015/2366 and EU/2016/2341 • Retail payments strategy	29/09/2020	18
	European Central Bank		
Materiality threshold	• GL on the definition of the materiality threshold for banks	09/07/2020	19
COVID-19	• Temporary exclusion of certain exposures to central banks from the total exposure measure	18/09/2020	20
EGAM	• Guide on assessment methodology (EGAM).	24/09/2020	21
	European Securities and Markets Authority		
Securitizations	• Guidelines on securitization repository data completeness and consistency thresholds	13/07/2020	22
CCPs	• Third EU-wide CCPs stress test	15/07/2020	23
MiFID II / MIFIR	• MiFID II/MiFIR Review Report on the transparency regime for equity and equity-like instruments, the double volume cap mechanism and the trading obligations for shares. • MiFIR report on systematic internalisers in non-equity instruments.	20/07/2020	24

31/03/2020
Deferral of Basel III implementation

1. Context

In December 2017, the BCBS revised the CVA risk framework to align its design with the market risk framework published in January 2016 because Banks incurred significant CVA losses during the global financial crisis. It is therefore important that the regulatory framework mitigates this risk in a prudent and robust manner. Furthermore, in January 2019, the BCBS has now published a Standard on the minimum capital requirements for market risk which aims at addressing those issues that have been identified in the course of monitoring the implementation and impact of the standard published in 2016.

In this context, and after the publication of the consultation paper on November 2019, the BCBS has now published **Targeted revisions to the CVA risk framework**. In particular, BCBS made two main changes: i) reflecting the corresponding market risk revisions in the CVA risk framework and ii) considering additional targeted revisions to the CVA risk framework.

2. Main points

- **Aligning the CVA risk framework with the revised market risk framework**. This document introduces amendments to the CVA risk framework in three broad areas:
  - Aligning risk weights (RWs) with the market risk framework. The BCBS carry out the following amendments to the SA-CVA:
    - Reduce all delta RWs in the **interest rate risk** class by 30%.
    - Reduce all delta RWs in the **foreign exchange risk** class by 50%.
    - Reduce the delta RWs in the **counterparty credit spread and reference credit spread risk** classes for high yield and non-rated sovereigns from 3% to 2%.
    - Cap the **vega** RWs at 100%.
    - Reduce the **RWs in the BA-CVA for high yield and non-rated sovereigns**, including exposures to central banks and multilateral development banks from 3% to 2%.
  - Introducing index buckets. This document sets out the same new buckets, where banks could calculate capital requirements using credit and equity indices directly instead of looking through to the underlying constituents in the: i) counterparty credit spread risk class; ii) reference credit spread risk class; and iii) equity risk class of the SA-CVA. In addition, this document stablishes that the risk weights and base values of correlations for the index buckets be the same as for the revised market risk framework.
  - Revising the aggregation formula. This document revises the formula for aggregating capital requirements across buckets in the CVA risk framework in order to better align it to the market risk framework. This revision of the aggregation formula will improve the recognition of CVA index hedges in the SA-CVA.
- **Further possible adjustments of the CVA risk framework**.
  - Revising the treatment of client cleared derivatives in the CVA framework in order to enhance consistency with the corresponding counterparty credit risk (CCR) treatment and to incentivise central clearing. In particular, this document exempts from the CVA risk framework client exposures that meet the criteria for a preferential treatment under the counterparty credit risk framework and reduces the floor for the margin period of risk (MPoR) for clearing members' exposures to clients in the SA-CVA from ten to five days.
  - Adjusting the scope of portfolios subject to CVA risk capital requirements by excluding those securities financing transaction (SFTs) where the CVA loss exposures are immaterial.
  - Setting the multiplier mCVA to 1. Supervisory authorities would have the possibility of increasing the mCVA multiplier and hence, requiring the bank to maintain higher capital requirements for CVA risk if they determine that banks' CVA models are subject to a high degree of model risk.
  - Revising the SA-CVA and the BA-CVA in order to maintain an appropriate relative calibration and revised scaling of the overall capital requirements (scaled down by 0.65) calculated under both the reduced BA-CVA and full BA-CVA approaches.

3. Next steps

- The revised standard comes into effect on **1 January 2023**.

IOSCO

02/07/2020

The use of artificial intelligence and machine learning by market intermediaries and asset managers

1. Context

Artificial Intelligence (AI) and Machine Learning (ML), are increasingly being utilized in financial services, due to a combination of increased data availability and computing power. The use of this technology by market intermediaries and asset managers may create significant efficiencies and benefits for firms and investors. However, this use may also create or amplify certain risks, which could potentially have an impact on the efficiency of financial markets and could result in consumer harm. The use of, and controls surrounding AI and ML within financial markets is therefore a current focus for regulators.

In this context, the IOSCO has published the consultation report on **The use of artificial intelligence and machine learning by market intermediaries and asset managers**, to assist IOSCO members in providing appropriate regulatory frameworks in the supervision of market intermediaries and asset managers that utilize AI and ML. Although the guidance is not binding, affected members are encouraged to consider the proposed measures carefully in the context of their legal and regulatory frameworks.

2. Main points

- **Analysis of the current status of the use of AI and ML techniques**. The use of AI and ML has led firms to consider these techniques in the following areas to reduce costs, increase efficiency and support decision-making:
  - Advisory and support services. Most automated investment advisors use simple, rule-based algorithms, although some are beginning to utilize predictive ML algorithms. The automated advice system is therefore usually limited to generating potential advice or asset allocation for the investment adviser to review.
  - Risk management. Risk management involves using data to price and manage exposure. Market intermediaries are harnessing ML based risk management systems which could help provide an early-warning indicator of potential customer defaults.
  - Client identification and monitoring. ML has allowed market intermediaries to automate new client onboarding, fraud detection, money laundering and cyber-attack monitoring.
  - Selection of trading algorithms. Many intermediaries are offering a software solution that selects an appropriate trading strategy depending on the market situation. This solution seek to classify historical trading and performance, predict the performance of strategies and broker algorithms, and recommends when to use which algorithms.
  - Asset management/ Portfolio management. The supervised learning, where a function is inferred from labelled training data, has been used for small-scale pattern recognition and simple prediction models to aid on the buying and selling trading decisions.
- **Potential Risks and Harms Posed by the Use of AI and ML**. The evolution and increasing adoption of AI and ML may raise a number of conduct concerns:
  - Governance and oversight. Implementing AI and ML mostly rely on existing governance and oversight arrangements to sign off and oversee the development and use of the technology. Few firms identified a need to introduce new or modify existing procedural controls.
  - Algorithm development, testing and ongoing monitoring. In most cases there is not an established framework for specifically developing AI and ML. Instead, many firms use the same development and testing frameworks that they use for traditional algorithms and standard system development management processes.
  - Data quality and bias. The performance of AI and ML is inherently dependent on the quality of the dataset particularly when building the model. Learned bias in the dataset can impact the decisions made and provide undesirable outcomes.
  - Transparency and explainability. Adoption of AI and ML require algorithms that are accurate and understandable. While increased transparency could improve general public understanding, excessive transparency could lead to opportunities to manipulate the models.
  - Outsourcing. Use of external providers for AI and ML solutions may raise concerns about data privacy, cybersecurity and operational among others.
  - Ethical concerns. May arise when models develop certain social biases and recommend undesirable outcomes. The IOSCO's Fintech Network identified five primary themes:
    - **Beneficence**, ensure the model is being used in good faith.
    - **Non-malfeasance**, understand and interpret AI and ML based decisions to identify where misconduct may be taking place.
    - **Human autonomy**, ensure humans have power over the model.
    - **Justice**, ensuring there is accountability for the actions and that accountability comes with appropriate understanding of the models.
    - **Explainability**, ensure the outcomes arising out of the models used can be explained.
- .

2. Main points (cont.)

- **Firms' response to the potential risks arising from the use of AI and ML**. Some companies are developing AI and ML techniques, under the current regulatory framework. Although there are generic principles on systems and controls, only a few jurisdictions have regulatory requirements that apply specifically to IA and ML. Also, some companies indicated that they are limiting the use of AI and ML until they can comply with the applicable regulation on the use of the technology. Finally, the companies identified the following issues as a way to mitigate the possible risks posed by the use of the AI and the ML:
    - Culture. Manage drivers and behaviours within the firm to create a culture, which can help reduce any potential harm to investors caused by inappropriate behaviour. Ethical implications from the use of AI and ML could be viewed within this existing framework.
    - Accountability. Accountability aims to reduce harm to investors and strengthen market integrity by making individuals personally accountable for their conduct and competence.
    - Knowledge/expertise/skills. Ensuring the right skills, knowledge and expertise is essential for an employee to discharge the responsibilities associated with its position.
    - Operational resilience. Operational disruptions are one of the key concerns when using AI and ML techniques. The due diligence and oversight of third-party service providers has been revealed as a key mitigating control.
- **Proposed Guidance**. The proposed guidance reflect the expectation that IOSCO members will incorporate them into regulatory frameworks, with the aim of having market intermediaries and asset management companies incorporate standards of conduct. The following measures are included:
    - Measure 1. Consider requiring firms to have documented internal governance framework in relation to the development, validation, implementation and monitoring of AI and ML systems, with clear lines of accountability.
    - Measure 2. Require firms to adequately test and monitor the algorithms to validate the results of an AI and ML technique on a continuous basis.
    - Measure 3. Require firms to have the adequate skills, expertise and experience to develop, test, deploy, monitor and oversee the controls over the AI and ML systems that the firm utilizes.
    - Measure 4. Require firms to understand their reliance and manage their relationship with third party providers, including monitoring their performance and conducting oversight.
    - Measure 5. Consider what level of disclosure of the use of AI and ML is required by firms, including disclose meaningful information to customers and clients, and considering what type of information they may require to ensure they have appropriate oversight.
    - Measure 6. Consider requiring firms to have appropriate controls in place to ensure that the data is of sufficient quality to prevent biases for a well-founded application AI and ML.

3. Next steps

- The deadline for submitting comments is **October 26th 2020.**

01/07/2020
Amendments to IFRS 17

1. Context

In June 2020, all IASB members approved for issuance the amendments to IFRS 17, the successor accounting standard to IFRS 4, which represents a significant change to insurers' and reinsurers' accounting and consequently their financial statements.

In this context, the IASB has published the document on the **Amendments to IFRS 17** with the aim of reducing adaptation costs of the Standard, make financial performance easier to explain, and facilitate the transition for its implementation.

2. Main points

- **Main objectives pursued with the approved revisions/amendments:**
  - Reduction of costs. By simplifying certain aspects of the regulatory requirements, the IASB aims to reduce the adaptation costs to IFRS17 for insurance companies (also including the costs of technological developments).
  - Simplification of the results report. With the revision of the requirements, the IASB aims to eliminate the accounting mismatches that could arise under certain circumstances.
  - Facilitate the Transition to IFRS17. To facilitate the transition to the new IFRS17 for the largest number of entities, it has been decided to extend the standard's effective date by one year. In addition, various reliefs have been introduced in the transition process to reduce the complexity of applying IFRS17 for the first time.
  - Not alter the basis of IFRS17. One of the fundamental premises in reviewing possible amendments to IFRS17 has been not to alter the main objectives of the standard (greater transparency in financial information for reporting or providing consistent accounting for all insurance contracts).
  - Not undo the progress made. With the amendments to IFRS17 , the IASB did not want to negatively impact or render obsolete the developments and progress already made by the different entities during the 3 years of analysis and implementation of the standard.
- **Conclusions agreed during the IASB sessions** in relation to the review of the amendments to the IFRS17:

Enmiendas		
Exclusion	A) Scope exclusion for credit card and other similar contracts that provide credit or payment arrangements, which meet the definition of an insurance contract	Approved by the board
	B) Scope exclusion for loan contracts that meet the definition of an insurance contract	Approved by the board
Acquisition Cost Flows	Indications on the allocation of insurance acquisition cash flows for the estimation of expected recovery	Approved by the board
Contractual service margin (CSM)	Changes on the CSM attributed to investment services	Approved by the board
Reinsurance	Adjustments on the calculation of recovery of losses on the underlying insurance contracts	Approved by the board
Balance sheet	Presentation of the carrying amount for insurance contracts portfolios issued separately from those that are assets and those that are liabilities	Approved by the board
Risks	Expand the risk mitigation option for insurance contracts with direct participation properties	Approved by the board
Accounting Policy	Decision and implementation of an accounting policy on interim financial statements	No points raised by staff

2. Main points (cont.)

Effective Date	A) Delay of the effective date for the implementation of the IFRS17 standard until 01/01/2023	Approved by the board
	B) Extension of the expiry date of the temporary exemption from the application of IFRS9 to annual periods beginning after January 1, 2023	Approved by the board
Transition	Specific modifications in Transition	Approved by the board
Minor Modifications	Clarifications and specific adjustments on compliance cash flows	Approved by the board
Other items reviewed	A) Elimination of the requirement for annual cohorts	Dismissed by the board
	B) IFRS17 requirements for insurance contracts purchased in their settlement period	Keep the requirements of IFRS 17 unchanged
	C) Indications of the effect on previous interim reports	Modification of the norm by the board

3. Next steps

- Entities are required to apply the standard from **January 1st 2023**, although early application is permitted for entities that apply IFRS 9.

03/08/2020

- **Guidance on operational continuity in resolution (OCIR)**
- **Guidance on FMI contingency plans**

1. Context

In April 2020, the SRB published the document 'Expectations for Banks' that sets out the capabilities the SRB expects banks to demonstrate in order to show that they are resolvable. As outlined in this document, operational continuity in resolution (OCIR) refers to the ability to effectively implement, from an operational point of view, the resolution strategy and, consequently, to stabilise and restructure the bank. Furthermore, according to this document banks are expected to prepare financial market infrastructure (FMI) contingency plans supporting continued access to critical and/or essential FMI services ahead of and during resolution.

In this context, the SRB has published the **Guidance on OCIR** that provides further clarifications to banks on how to implement SRB expectations related to service identification and mapping, assessment of operational continuity risk, mitigating measures such as having adequately documented, resolution-resilient contracts, appropriate management information systems and governance arrangements. Furthermore, the SRB has also published the **Guidance on FMI contingency plans** that sets out the SRB's expectations with regard to the minimum content of FMI contingency plans prepared by banks.

2. Main points

Guidance on operational continuity in resolution (OCIR)

- **Service identification and mapping**. Identification and mapping enables banks to conduct an assessment of the risks to operational continuity in resolution, which will be the basis for identifying and implementing appropriate mitigating actions to address them, including preparedness measures. In this regard, banks are expected to:
    - Undertake a comprehensive identification of the relevant services (provided by intragroup providers or by third parties), operational assets (owned or licensed/leased) and staff/roles.
    - Undertake and maintain a comprehensive mapping of all relevant services to the:
        - **Critical Functions (CFs) and Core Business Lines (CBLs)** needed for the effective implementation of the resolution strategy and consequent restructuring.
        - **Legal entities** (providing and receiving the services).
        - Relevant **operational assets and staff/roles** and their location (within the group and physically).
    - Undertake and maintain the mapping of relevant services and operational assets to the contracts/arrangements governing them.
    - Gather the above information in a catalogue of relevant services relationships across the group
- **Assessment of operational continuity risk**. The scope of the assessment of risks to operational continuity by banks is expected to cover all relevant services, operational assets and staff/roles. To this end, in conducting the risk assessment, banks are expected to:
    - Identify a comprehensive list of risk drivers, which are potential events that may cause the operational continuity risk to materialise.
    - Assess each category or sub-category of relevant dependency identified against the identified list of risk drivers.
- **Mitigating actions and preparedness measures**. Banks are expected to adequately document all relevant services, in such a way as to allow resolution authorities to take resolution action while ensuring operational continuity. For this purpose, the relevant services cover:
    - Those provided by units/divisions within the same group legal entity (intra-entity).
    - Those provided by another group legal entity.
    - Those outsourced to third parties.
- **Adequate management information system (MIS)**. Banks are expected to have MIS capability to produce timely, customised reporting of upto-date data which enables rapid access to the information needed to identify potential risks to service continuity resulting from entry into resolution, to facilitate separability and to develop the bank's business reorganisation plan.
- **Governance arrangements**. Banks are expected to have adequate policy and governance arrangements in place to ensure that operational arrangements are implemented in such a way as to meet operational continuity expectations.

2. Main points (cont.)

Guidance on FMI contingency plans.

- **General guidance**. The SRB expects the content of the FMI contingency plan to be tailored to the entity in question and to its specific relationships with FMI service providers globally. The FMI contingency plan is expected to be based on banks' understanding of FMI rule books and contracts with intermediaries, as well as on discussions between the banks and their FMI service providers, as appropriate. It is expected to contain at least the following information:
    - How the provider of critical and essential FMI services would be expected to respond to the lead up to and entry into resolution of a given entity, its parent or affiliate.
    - How the entities within the group deemed to remain operational throughout resolution would expect to continue to meet the conditions for uninterrupted access to each of the critical and essential FMI services.
    - The technology, as well as the operational and organisational arrangements, including human resources, that would need to be deployed to operationalise the contingency plans ahead of and during resolution.
    - The information that the critical and essential FMI service provider has indicated would be necessary for its risk-management decision-making, the communication plan for delivering this information and the potential constraints or risks in providing this promptly.
    - The consequences of any termination, suspension or other degradation in the entity's access to FMI services on its ability to perform critical functions, and the measures that the bank could take to mitigate the impact of a termination or suspension, how rapidly they could be implemented and the expected outcome of those measures.

EUROPEAN COMMISSION

30/07/2020

- **Amendments to Securitisation Regulation**
- **Amendments to Capital Requirements Regulation (CRR)**
- **Amendments to Markets in Financial Instruments Directive II (MiFID II)**
- **Amendments to Prospectus Regulation**

1. Context

On 28 April, the EC published a banking package in response to coronavirus, to facilitate bank lending and supporting households and businesses in the EU. This package was intended to encourage banks to make full use of the flexibility embedded in the EU's prudential and accounting framework, so that banks can fully support citizens and companies during this pandemic by providing funding.

In this context, the EC has published the **Capital Markets Recovery Package** with the aim to facilitate the recapitalisation of companies affected by the economic shock of the coronavirus pandemic. In particular, this package proposes targeted changes to capital market rules, which will encourage greater investments in the economy, allow for the rapid re-capitalisation of companies and increase banks' capacity to finance the recovery. The package contains targeted adjustments to the Prospectus Regulation, MiFID II and securitisation rules.

2. Main points

- **Amendments to Securitisation Regulation and CRR**. The aim of the proposals is to encourage a broader use of securitisation in the recovery phase, by freeing up bank capital and supporting banks in their effort to enhance lending to households and businesses. The amendments would:
  - <u>Extend the Simple, Transparent and Standardised (STS) framework to on-balance-sheet synthetic securitization</u>.
  - <u>Remove regulatory obstacles to the securitisation of non-performing exposures</u> (NPEs).
- **Amendments to MiFID II**. The EC proposes to make some targeted amendments to MiFID II requirements, in order to reduce some of the administrative burdens that experienced investors face in their business-to-business relationships:
  - The <u>level of information provided to clients will now be more targeted</u> to their needs:
    - Clients will receive **fewer automated mandatory disclosures**.
    - Information will no **longer be provided on paper**, except if retail clients specifically request so.
    - This proposal is lifting the **product governance requirements** for simple corporate bonds to make more plain vanilla corporate bonds available to retail investors.
  - Changes to <u>derivatives rules for which the underlying value is a commodity</u>, such as gas or electricity. The changes are intended to ensure that euro denominated EU commodity markets can grow so that the real economy is in a better position to shield themselves from future risks in commodity price movements.
  - Rules guiding the <u>provision of research on small and mid-cap companies</u> and on fixed income instruments will be partially revisited.
- **Amendments to Prospectus Regulation**. The EC proposes to create an “EU Recovery Prospectus” (i.e. a type of short-form prospectus) for companies that have a track record in the public market. This temporary prospectus would be easy to produce for companies, easy to read for investors, and easy to scrutinise for national competent authorities. This will help companies to raise capital (e.g. as shares) instead of going deeper into debt. A second set of targeted amendments to the Prospectus Regulation aims at facilitating fundraising by banks that play an essential role in financing the recovery of the real economy.

3. Next steps

- The European Parliament and the Council have to **agree on these legislative texts**. After the package is adopted and has entered into force, the changes to the Prospectus Regulation and the Securitisation Framework will apply directly in the Member States. The MiFID amendments will need to be transposed into national laws before they are applicable.

EUROPEAN COMMISSION

29/09/2020

- **Digital finance strategy**
- **Proposal for a regulation on markets in crypto-assets**
- **Proposal for a regulation on a pilot regime for market infrastructures based on distributed ledger technology**
- **Proposal for a regulation on digital operational resilience for the financial sector**
- **Proposal for a directive amending directives 2006/43/EC, 2009/65/EC, 2009/138/EU, 2011/61/EU EU/2013/36, 2014/65/EU, (EU) 2015/2366 and EU/2016/2341**
- **Retail payments strategy**

1. Context

In March 2018, the EC launched the FinTech Action Plan to enable the financial sector to make use of the rapid advances in new technologies, such as blockchain, artificial intelligence and cloud services. The Action Plan had three main objectives: to support innovative business models to scale up across the single market; to encourage the uptake of new technologies in the financial sector; and to increase cybersecurity and the integrity of the financial system.

In this context, the EC has adopted a new **Digital Finance Package**, including digital finance and retail payments strategies, and legislative proposals on crypto-assets and digital resilience. The EC aims to leverage synergies between high innovative start-ups and established firms in the financial sector while addressing associated risks.

2. Main points

- **Digital finance strategy**. The digital finance strategy sets out general lines on how Europe can support the digital transformation of finance in the coming years, while regulating its risks. The strategy sets out four main priorities:
    - Remove fragmentation in the Digital Single Market.
    - Adapt the EU regulatory framework to facilitate digital innovation.
    - Promote a data-driven finance.
    - Address the challenges and risks with digital transformation, including enhancing the digital operational resilience of the financial system.
- **Proposal for a regulation on markets in crypto-assets**. The EC proposes a framework on crypto-assets to allow for innovation in a way that preserves financial stability and protects investors. The EC differentiates between those crypto-assets already governed by EU legislation, and other crypto-assets:
    - Crypto-assets already governed by EU legislation will remain subject to existing legislation but the EC proposes a pilot regime for market infrastructures that wish to try to trade and settle transactions in financial instruments in crypto-asset form. The new rules will allow operators authorised in one Member State to provide their services across the EU (i.e. passporting). This should enable market participants and regulators to gain experience with the use of Distributed ledger technologies (DLTs) exchanges that would trade or record shares or bonds on the digital ledger.
    - For previously unregulated crypto-assets, including 'stablecoins', the EC proposes a bespoke regime. The proposed regulation sets strict requirements for issuers of crypto-assets in Europe and crypto-asset service providers wishing to apply for an authorisation to provide their services in the single market. Safeguards include capital requirements, custody of assets, a mandatory complaint holder procedure available to investors, and rights of the investor against the issuer. Issuers of significant asset-backed crypto-assets would be subject to more stringent capital requirements, liquidity management and interoperability requirements.

The EC also proposes a pilot regime for market infrastructures that wish to try to trade and settle transactions in financial instruments in crypto-asset form. The pilot regime represents a so-called 'sandbox' approach which allows temporary derogations from existing rules so that regulators can gain experience on the use of distributed ledger technology in market infrastructures, while ensuring that they can deal with risks to investor protection, market integrity and financial stability.

- **Proposal for a regulation on digital operational resilience for the financial sector**. Banks, stock exchanges, clearinghouses, as well as fintechs, will have to respect strict standards to prevent and limit the impact of ICT-related incidents. The EC also sets an oversight framework on service providers (e.g. Big Techs) which provide cloud computing to financial institutions.
- **Retail payments strategy**. The retail payments strategy for the EU aims to further develop the European payments market so Europe can benefit fully from innovation and the opportunities that come with digitalisation. The strategy focuses on:
    - Create the conditions to make the development of instant payments and EU-wide payment solutions possible.
    - Consumer protection and ensure payment solutions are safe.
    - Lessen Europe's dependency on big global players in this area.

3. Next steps

- The European Parliament and the Council have to **agree on these legislative texts**.

EUROPEAN CENTRAL BANK
EUROSYSTEM

09/07/2020

Guideline on the definition of the materiality threshold for banks that are directly supervised by national supervisors

1. Context

The Capital Requirements Regulation (CRR) requires the competent banking supervision authorities (CA) to determine the materiality threshold for banks that are directly supervised by national supervisors. The materiality threshold refers to the point at which a bank decides a debtor is in default on its loan. In 2018, the ECB defined in a regulation this materiality threshold for the banks that it supervises directly.

In this context, the ECB has published the **Guideline on the definition of the materiality threshold for banks that are directly supervised by national supervisors** for less significant banks (LSI). This Guideline specifies how National Competent Authorities (NCAs) shall exercise the discretion conferred on CAs in relation to LSIs with regard to the threshold for assessing the materiality of credit obligations past due, irrespective of the method used for the calculation of their risk-weighted exposure amounts.

2. Main points

- **Materiality threshold**. According to the CRR, NCAs shall require LSIs to assess the materiality of a credit obligation past due against the following threshold, which comprises two components:
    - A limit in terms of the <u>sum of all amounts past due owed by the obligor to the credit institution</u>, the parent undertaking of that credit institution or any of its subsidiaries (i.e. a credit obligation past due), equal:
        - For **retail exposures**, to EUR 100.
        - For **exposures other than retail exposures**, to EUR 500.
    - A limit in terms of the <u>amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures</u> to that obligor for the credit institution, the parent undertaking or any of its subsidiaries, excluding equity exposures, equal to 1 %.
    - NCAs shall require LSIs applying the definition of default laid down in CRR for <u>retail exposures at the level of an individual credit facility</u> to apply this threshold at the level of the individual credit facility granted to the obligor by the credit institution, the parent undertaking or any of its subsidiaries. A default shall be deemed to have occurred when both of the limits are exceeded for more than 90 consecutive days

3. Next steps

- This Guideline shall take effect on the day of its **notification to the NCAs** of the participating Member States.
- The NCAs shall comply with this Guideline no later than **31 December 2020** and they shall ensure that LSIs **notify them of the exact date** on which they will commence applying the threshold for the assessment of the materiality of a credit obligation past due.

EUROPEAN CENTRAL BANK

EUROSYSTEM

18/09/2020

Decision on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic

1. Context

In June 2020 the Capital Requirement Regulation (CRR) was amended by the CRR "quick fix" to provide for the possibility of temporarily excluding certain exposures to central banks (CBs) from the calculation of an institution's total exposure measure before 28 June 2021, that is, before the amendments to the leverage ratio requirement that were introduced by CRR II become applicable. In particular, this regulation permits an institution to make this exclusion where the institution's competent authority has determined, after consultation with the relevant CB, and publicly declared that exceptional circumstances exist that warrant the exclusion.

In this context, the ECB has published a **Decision on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic** where it concurs with ECB Banking supervision that there are exceptional circumstances allowing the temporary exclusion of certain CB exposures from the leverage ratio. This decision is aimed at easing the implementation of monetary policy

2. Main points

- **Temporary exclusion of certain exposures**. The ECB has determined that exceptional circumstances exist that warrant the exclusion of the following CB exposures from the total exposure measure in order to facilitate the implementation of monetary policies:
    - <u>Coins and banknotes</u> constituting legal currency in the jurisdiction of the CB.
    - <u>Assets</u> representing claims on the CB, including reserves held at the CB. It shall apply to those exposures to Eurosystem CBs that relate to deposits held in the deposit facility or to balances held on reserve accounts, including funds held in order to meet minimum reserve requirements.

The determination shall apply in relation to any institution that is a significant supervised entity in a euro area Member State.

3. Next steps

- This temporary exclusion will apply until **27 June 2021**

EUROPEAN CENTRAL BANK
EUROSYSTEM

24/09/2020
Guide on assessment methodology (EGAM)

1. Context

The Capital Requirements Regulation (CRR) requires model approval for new models of any risk type and for material model extensions and changes to credit, operational and market risk internal models. Indeed, banks are allowed to use internal models to calculate the value of their exposures to counterparty credit risk (CCR) and credit valuation adjustment (CVA) risk as long as these models meet regulatory requirements.

In this context, the ECB has published a **Guide on assessment methodology (EGAM)** for the internal model method (IMM) for calculating exposure to CCR and the advanced method for own funds requirements for credit valuation adjustment risk (A-CVA). The EGAM is to be applied in the context of any CCR related internal model investigation (IMI) and the ongoing monitoring of approved internal models, and outlines for supervisors how the ECB intends to investigate compliance with the existing legal framework when performing these tasks. It also provides optional guidance to significant institutions on the self-assessment of their IMM and A-CVA models.

2. Main points

- **Assessment methodology**. This guide provides transparency on the methodologies that the ECB uses to assess CCR model components within model investigations when assessing whether institutions meet regulatory requirements. The assessment methodologies that it presents should not be understood to be exhaustive since depending on the materiality of specific findings identified during an investigation, the assessment team may have to apply additional assessment methodologies. The guide contains the following sections:
    - Sequential and partial implementation of the IMM across different transaction types
    - Organisation and governance of model validation (e.g. frequency and completeness of the model validation process)
    - Internal governance, risk control, collateral management and audit (e.g. senior management and management body; CCR control unit)
    - IMM use test (e.g. use test in the internal capital allocation and corporate governance functions)
    - Documentation and design
    - Exposure quantification (e.g. risk factor models for market data; pricing functions, exposure grid and number of escenarios; calibration)
    - Validation methodologies (e.g. methodology for back-testing)
    - Stress testing (e.g. robustness of the organisation of the stress-testing process)
    - Data maintenance and IT processes (e.g. data documentation and reporting)
    - Specifics for the A-CVA (e.g. own funds requirement calculation for CVA risk)

13/07/2020
Guidelines (GL) on securitisation repository data completeness and consistency thresholds

1. Context

On November 2018, the ESMA published and submitted a Final Report on securitisation repositories technical standards, which includes a set of RTS on these procedures. Furthermore, the European Commision (EC) reviewed this RTS that led to an obligation to ensure that the data submission in respect of the "No Data Options" should be sufficiently representative of the underlying exposures in the securitization. On January 2020, the ESMA issued a consultation paper (CP) on the draft Guidelines (GL) on securitization repository data completeness and consistency thresholds, receiving 12 responses from entities and representative bodies in the following market segments: repositories, industry representative bodies and asset management.

In this context, the ESMA has published the **Final GL on securitisation repository data completeness and consistency thresholds**, with the objective to establish consistent, efficient and effective supervisory practices within the European System of Financial Supervision and to ensure the common, uniform and consistent application of the Securitisation Regulation by describing thresholds for when the use of 'No Data Options' prevent the data submission from being 'sufficiently representative of the underlying exposures in the securitization'. In particular, based on the feedback received to the CP, the ESMA has increased from 20 to 35 the tolerance thresholds for both the 'legacy assets field threshold' (i.e. Threshold 1 percentage occurrence) and the 'legacy IT systems field threshold' (i.e. Threshold 2 percentage occurrence) for the Corporate underlying exposure template, with a view to tightening these thresholds over time once market participants have gained experience with the ESMA reporting requirements.

2. Main points

- **Thresholds**. This GL establishes that securitization repositories should verify that the 'No Data Options' do not prevent the data submission from being sufficiently representative of the underlying exposures in the securitization by determining:
    - <u>The individual field percentages of applicable 'No Data Options' for each exposure type report</u> in that data submission by: i) determining the number of applicable 'No Data Options' reported in each field in that exposure type report; and ii) dividing each of those field numbers by the total number of underlying exposures reported in that exposure type report.
    - <u>Whether the number of those percentages exceeds any of the thresholds applicable</u> to those exposure type reports by determining:
        - **The number of individual field percentages** in the exposure type report that are greater than 0% and below 10% (Threshold 1 percentage occurrence), and equal to or greater than 10% (Threshold 2 percentage occurrence).
        - Whether the **Threshold 1** percentage occurrence exceeds Threshold 1 set out in this GL applicable to that exposure type report.
    - <u>If either threshold set out in this GL is exceeded</u> for any of the exposure type reports in the data submission, securitization repositories should consider that the 'No Data Options' prevent that data submission from being sufficiently representative of the underlying exposures.

3. Next steps

- This Final GL may apply as of **1st January 2021**

15/07/2020
Results of the third stress test exercise regarding CCPs in the EU

1. Context

One of the objectives of the EMIR (Regulation (EU) No 648/2012 on OTC derivatives, central counterparties (CCPs) and trade repositories) is to promote central clearing and ensure safe and resilient CCPs. Therefore, ESMA shall at least annually, in cooperation with the European Systemic Risk Board (ESRB), initiate and coordinate Union-wide assessments of the resilience of CCPs to adverse market developments. Following this mandate, the ESMA published in April 2019 the Methodological framework for its third EU-wide CCPs stress test with the aim to assess the resilience of CCPs, identify potential shortcomings, and issue recommendations as appropriate.

In this context, the ESMA has published the **results of its third stress test exercise regarding CCPs in the EU** which confirm the overall resilience of EU CCPs to common shocks and multiple defaults scenarios arising from credit, liquidity and concentration shocks. The credit stress test highlighted differences in resilience between CCPs under the selected market stress scenario, although no systemic risk has been identified. Similarly, the liquidity stress test showed EU CCPs to be resilient under the considered scenarios and did not reveal any systemic risk. Furthermore, the new concentration component highlighted the need for EU CCPs to accurately account for liquidation cost within their risk frameworks.

2. Main points

- **Scope**. The exercise covered 16 authorised EU CCPs, including the three UK CCPs.
- **Credit stress**. Two default scenarios were run, combined with the common market stress scenario, on two different reference dates, 21 December 2018 and 8 March 2019. The first scenario is where the default of two clearing member groups under common price shocks is assumed separately at each CCP. The second scenario involves a default of the same two groups for all CCPs EU-wide, designed to assess the resilience of CCPs collectively to the market stress scenario. The results show that:
    - On 8 March 2019 one CCP exhibits a shortfall of prefunded resources which would have to be covered with additional non-prefunded resources; and
    - On 21 December 2018, there is no shortfall of prefunded resources at any CCP.
- **Liquidity stress**. On the liquidity component two default scenarios have been run on a single reference date (8 March 2019), a CCP scenario, and a EU-wide scenario. Overall, the liquidity results show EU CCPs to be resilient under the implemented scenarios and tested assumptions, with only a few CCPs exhibiting a shortfall in at least one currency, requiring them to transform some of their resources available in one currency into another currency to meet their liabilities in a timely manner. Nevertheless, the amounts remain negligible compared to the size of the FX market.
- **Concentration stress**. The EU-wide concentration analysis shows that concentrated positions represent a significant risk for EU CCPs. For most asset classes, concentrated position risk is clustered in one or 2 CCPs. At EU level, the largest concentration risk can be found in fixed income, with around 20bn €. Concentration in commodity derivatives and in the equity segment (securities and derivatives) is also significant, with around 9.5bn € of concentration risk. The analysis found that concentration risk is factored in explicitly in a majority of CCPs, through dedicated margin add-ons.
- **Reverse credit stress**. The reverse stress tests analysis assessed the sensitivity of the credit stress results to stepwise increases in both the number of defaulting groups and the severity of market shocks. Overall, the analysis shows that incremental changes in market shocks severity are more harmful than increases in the number of defaulting members.

3. Next steps

- In line with the EMIR mandate, where the assessments expose shortcomings in the resilience of one or more CCPs, ESMA will issue the necessary **recommendations**.

15/07/2020

- **MiFID II/MiFIR Review Report on the transparency regime for equity and equity-like instruments, the double volume cap mechanism and the trading obligations for shares**
- **MiFIR report on systematic internalisers in non-equity instruments**

1. Context

MiFIR regulation requires ESMA to submit a report to the European Commission (EC) on the impact in practice of the transparency obligations and, in particular, on the impact of the volume cap mechanism. In order to provide for a comprehensive and meaningful assessment, ESMA has decided at its own initiative to also include an assessment of other key transparency provisions namely, the share trading obligation and the transparency provisions applicable to systematic internalisers (SI). Furthermore, competent authorities and ESMA shall monitor the application of the pre-trade transparency obligations applicable to Sis in respect of bonds, structured finance products, emission allowances and derivatives.

In this context, the ESMA has published **two final Reports reviewing key provisions of the MiFID II/MiFIR transparency regime**. The first Report reviews the MiFIR transparency regime for equity instruments and contains proposals for targeted amendments regarding the transparency obligations for trading venues and specifically the double volume cap mechanism. It also includes recommendations on other key transparency provisions, in particular the trading obligation for shares and the transparency provisions applicable to SI in equity instruments. The second Report reviews the pre-trade transparency obligations applicable to SI in non-equity instruments.

2. Main points

<u>MiFID II/MiFIR Review Report on the transparency regime for equity and equity-like instruments, the double volume cap mechanism and the trading obligations for shares</u>

- **Transparency**. This final report contains proposals aiming at simplifying the structure of the transparency regime while trying to improve the overall pre- and post-trade transparency available to market participants. This report focuses on the transparency regime applicable to SI and covers the double volume cap mechanism. It also contains an analysis of the post-trade transparency regime for equity and equity-like instruments both on- and off-venue and the transparency regime applicable to third-country transactions. In particular, the ESMA recommendations concern three main aspects of the MiFIR regime:
    - the <u>level of pre-trade transparency</u> and the waivers.
    - the definition of a <u>liquid market</u>.
    - the emergence of <u>new trading systems</u>.

<u>MiFIR report on systematic internalisers in non-equity instruments</u>

- **Pre-trade transparency obligations for SI in respect of non-equity instruments**. This report explains the legal framework and presents an overview of European SI. It also provides an assessment of the effectiveness of the regime for SI in liquid and illiquid instruments and formulates recommendations to address possible inefficiencies.
- **Monitoring the application of the pre-trade transparency regime for SI in non-equity instruments**. This document provides the outcome of the monitoring of:
    - Sizes at which <u>quotes are made available to clients</u> and other market participants.
    - Whether <u>quoted prices reflect prevailing market conditions</u>.

3. Next steps

- Both reports are submitted to the EC and is expected to be taken into consideration by the EC for further **legislative proposals**.

07/07/2020

Final Guidelines on the treatment of structural FX under Article 352(2) of Regulation (EU) No 575/2013 (CRR)

1. Context

Article CRR 352 (2) allows, with the approval of the competent authorities (CA), the exemption of positions taken to hedge exchange rate effects on the capital ratio under certain conditions (e.g. if they are of a structural nature, or if they are non-trading). In order to harmonise EU interpretation and implementation of the treatment of structural FX positions, in June 2017, the EBA published a discussion paper (DP) to gather feedback on current stakeholder practice and interpretation. This DP outlined the rationale behind the structural FX treatment (modified in the Fundamental Review of the Trading Book) and discussed the elements that need to be considered by institutions and CAs when assessing this provision. Further, on 16 October 2019 the EBA published a consultation paper (CP) which gathered responses from twenty one respondents.

In this context, the EBA has published the **Final Guidelines (GL) on the provision regarding the treatment of structural FX provision** to set objective criteria that CAs should consider for the purpose of assessing whether the conditions to exclude the positions taken by firms to hedge against the adverse effect of the exchange rate on capital ratios are met while granting a balanced degree of flexibility. In particular, these GL include the procedural admissibility of a request, the substantive admissibility of a request, the assessment of the structural nature of the positions and of the intention to hedge the ratio against the adverse effects of the exchange rate, the size of the position to be excluded, and the ongoing monitoring of the permission.

2. Main points

- **Procedural admissibility of a request**. CAs should deem as acceptable the submission of more than one request for permission by an institution, including where such requests relate to different levels of application of the own funds requirements. Institutions should justify how the positions in the currency for which they seek the exemption meet the specifications and specify:
    - The methodology that they intend to use to exclude the specific position from the net open position in the foreign currency where the own funds requirements for FX risk are calculated using the IRB approach.
    - The methodology that they use to calculate the own funds requirements for FX risk and for removing the position for which they seek the exemption from the net open position, where they compute the own funds requirements for market risk on a consolidated basis without having the permission to offset positions in some institutions or undertakings in the group.
- **Substantive admissibility of a request**.
    - Hedging of a ratio. The request for the permission should specify which of the three capital ratios (Common equity tier 1, Tier 1 or Total capital ratio) the institution aims to hedge and the rationale for the selection of that ratio.
    - Currencies to which the hedging relates. The request by an institution to exempt positions should be made with regard to currencies that are relevant to the business of the institution. In particular, these should be the five currencies for which the net open positions of the institution calculated are the largest, or other relevant currencies, if there is adequate justification. In an institution seeks the permission with regard to positions in more than one relevant currency, they should apply additional conditions.
    - Positions eligible to be exempted:
        - Positions in the foreign currency stemming from an item that is held in the trading book (TB) should **not be considered as eligible to be exempted**.
        - In order for a position in a foreign currency to be **considered eligible to be exempted**, that position should be net long at the level at which the institution computes the own funds requirements for market risk. In case the institution computes the own funds requirements on a consolidated basis, additional requirements are established.
- **Assessment of the structural nature of the positions and of the intention to hedge the ratio**.
    - Assessment of the structural nature of a position. The following positions should be considered as positions of a structural nature:
        - Where the institution requesting the permission applies the requirements of CRR on an **individual basis**, a position in the relevant currency which corresponds to investments in subsidiaries that are included in the same scope of consolidation as the institution requesting the permission
        - Where the institution requesting the permission applies the requirements of CRR on a **consolidated basis**, a position meeting the following conditions: i) it stems from an investment in a subsidiary that has been included in the consolidation; and ii) the currency of the position coincides with the reporting currency used by the subsidiary holding the item to which such position corresponds.
        - **Other position not meeting the previous conditions** but are adequately justified based in the following aspects: i) whether those positions are related to the cross-border nature of the institution; ii) whether those positions are related to a business of the institution which is consolidated and stable over time; and iii) how the institution plans to manage those positions over time.

2. Main points (cont.)

  - <u>Assessment of the intention to hedge the ratio – governance and risk management strategy of the structural positions</u>. In order for the CAs to be able to establish that the position in the relevant currency has been taken or is maintained for the purpose of hedging the relevant ratio, certain conditions should be met (e.g. the existence of a risk-management framework for managing such positions).
- **Size of the position to be excluded**. The size of a position to be excluded should be determined by first calculating the maximum net open position in the relevant currency and by comparing the size of the structural position that the institution has taken for hedging the ratio.
- **Ongoing monitoring of the permission**. Institutions should perform the calculation of the maximum net open position at least monthly. In addition, CAs may request institutions to compute the maximum net open position and the sensitivity at any time. Furthermore, for each of the currencies for which institutions have the permission from the CA to exclude some positions from the corresponding net open position, institutions should calculate on a monthly basis, among others, the net position in the currency previous to any permission, the size of the net position that is structural and which has been taken for hedging the ratio or the maximum net open position, and report them to the CA on a quarterly basis.

3. Next steps

- This guideline will be applicable from **January 1st 2022**. CAs should review, update or revoke permissions already granted at the date of application of these GL

10/07/2020
- **Report on the implementation of selected COVID-19 policies**
- **Notifications on general payment moratoria**

1. Context

The EBA has taken a number of steps to clarify the flexibility embedded in the regulatory capital framework and provide operational relief in response to the COVID-19 pandemic. Among others, the EBA has published the Guidelines (GL) on legislative and non-legislative moratoria on loan repayments (GL on moratoria) whereby conditions are provided under which exposures covered by the moratoria should not necessarily be classified as forborne, and consequently, would not have to be automatically assessed and distressed restructuring under the definition of default.

In this context, the EBA has published its **first COVID-19 implementation report**, which provides clarifications on questions raised in the context of the EBA's monitoring the implementation of COVID-19 policies. This implementation report, includes questions and answers brought to the attention of the supervisory community on the GL on moratoria, which is accompanied by a **summary overview of the general payment moratoria in place in the EU**. Furthermore, this report also includes consideration of criteria that institutions should adopt with regard to operational risk in the context of COVID-19 with the aim to reduce possible inconsistencies in the calculation of capital requirements calculations related to operational risk.

2. Main points

- **GL on moratoria**. This Report cover EBA's considerations regarding the following aspects:
  - Similar measures. The EBA considers that the number of options available to institutions participating in the general memorandum scheme is limited to ensure that the relief measures offered by individual institutions remain similar. These options may relate to the length of the moratorium, the length of the extension of the payment schedule, the application of the moratorium to principal amounts or full instalments, or other specific aspects of the conditions offered, but not to all of these elements at the same time. Furthermore, the implementa the moratorium and postpones one or several payments and no interest is charged for the time covered, or alternatively, the moratorium may be neutral on the NPV if at least one of the instalments is adjusted upwards or added.
  - Selection criteria. The scope of application of the moratorium is offered to clients based on their request to apply the moratorium, presenting the extent to which the obligor is affected by the COVID-19 pandemic. In this sense, the acceptance of the obligor's application cannot be dependent on the assessment of creditworthiness or payment capacities of the obligor, but on the general criteria specified in the moratorium.
- **Operational risk**. This section covers the common criteria that institutions should follow for the identification and treatment tion of the moratorium may specify a limited list of options for which the choice lies with the obligor and not with the institution.
  - Effect on the net present value (NPV). The effect of the moratorium on the NPV are not specified in the GL as it is up to the institution to follow the conditions set out in the legislative or non-legislative moratorium. Decline in the NPV might occur if the obligor makes use of of operational risk events and losses through the provision of five main types of impacts related to COVID-19 that must be supervised by the institutions in order to address possible doubts and to reduce inconsistencies in their use for capital requirements calculations. For each type of the impacts described, clarifications on how these events should be treated (e.g. as operational risk losses considered under the Advanced Measurement Approach (AMA) and Basel III Standardised Approach (SA)) are provided:
  - Impacts of COVID-19 on institutions' business continuity. Interruption or deterioration of the quality of services provided to counterparties, customers, etc., caused by the lack of effective business continuity and contingency plans.
  - Impacts of COVID-19 on institutions' ordinary course of business. Reduction of profits from banking and financial services caused by the reduced access to offices due to lockdowns.
  - Impacts of COVID-19 on loss events. Increase in events and/or losses either related solely to operational risk or at the boundaries between operational risk and market risk.
  - Impacts of COVID-19 on credit risk and potential consequences on operational risk. Losses should be considered within the scope of operational risk for the calculation of AMA/SA capital requirements unless it has been considered in the estimation of the credit risk RWA.
  - Impacts of implementing novel legislation in response to COVID-19. Additional costs incurred as a result of newly adopted legal obligations (e.g. mandatory changes in credit or labour standards).

24/07/2020

Draft Regulatory Technical Standards on requirements that an internal methodology or external sources used under the internal default risk model are to fulfil for estimating default probabilities and losses given default under Article 325bp(12) of Regulation (EU) No 575/2013 (Capital Requirements Regulation 2 - CRR2)

1. Context

After the Basel Committee on Banking Supervision (BCBS) finalised and published standards on Minimum capital requirement for market risk in January 2019, previous minimum capital requirements for market risk in the global regulatory framework were replaced. As a key requirement, institutions using the Internal Model Approach (IMA) to compute own funds requirements for market risk are required to compute additional own funds requirement using an internal default risk model for their positions in traded debt and equity instruments included in IMA trading desks.

In this context, the EBA has published the **consultation on draft Regulatory Technical Standards (RTS) on default probabilities (PDs) and losses given default (LGDs) for default risk model for institutions using the new IMA under the Fundamental Review of the Trading Book (FRTB)** to clarify the requirements that an institution's internal methodology or external sources are to be met for the estimation of PDs and LGDs under the default risk model.

2. Main points

- **Estimating PDs / LGDs**. The requirements for estimating PDs where the institution has not received any permission to use the IRB Approach and the requirements for estimating LGDs where the institution has not received any permission to use their own estimates of LGDs , shall be:
    - For an institution's internal methodology, all the requirements needed to be fulfilled for an institution to be granted the permission to estimate PDs, or LGDs respectively.
    - For external sources, provide estimates of PDs or LGDs respectively, that are appropriate having regard to the institution's portfolio and that are validated on a periodic basis for their use in the internal default risk model, provide a hierarchy of sources to ensure the overall consistency of PDs or LGDs estimates used in the internal default risk model when more than one external source is used and meet the documentation requirements.
- **Documentation requirements for external sources**. To comply with minimum qualitative standards, an inventory of the external data sources used by the institution when estimating PDs and LGDs shall be kept up to date (e.g. a description of the methodologies used from external sources, the results of the validation performed and the hierarchy of the sources used).

3. Next steps

•Comments on this consultation can be submitted until **October 22nd 2020**.

24/07/2020
CP on Draft GL alternative treatment of exposures related to tri-party repurchase agreements

1. Context

The market of repurchase transactions is a major source of short-term funding for institutions. Due to the amendment introduced by the CRR II, an institution may replace the collateralized amount of its exposures with a collateral issued by a third party due to a tri-party repurchase agreement (tri-party repo) facilitated by a tri-party agent with the full amount of the limits that the institution has instructed the tri-party agent to apply to the securities issued by that collateral issuer. This replacement must be conducted under certain conditions determined by the EBA.

In this context, the EBA has published the **Consultation Paper (CP) on Draft Guidelines (GL) specifying the conditions for the application of the alternative treatment of institutions' exposures related to "tri-party repurchase agreements" for large exposures purposes** for those instances where an institution decides to make use of such possibility, with the objective to ensure a prudent and harmonized applications of the provisions provided within the CRR while keeping the approach simple, ensure a level playing field among institutions in the Union, and provide guidance to competent authorities (CAs) in their assessment of compliance.

2. Main points

- **Scope of application**. These GL will apply in relation to institutions' exposures to collateral issuers due to tri-party repos facilitated by a tri-party agent and are addressed to CAs and to financial institutions.
- **Governance arrangements**. This CP establishes that institutions should ensure that: i) the use of the alternative treatment is adequately documented in its policies and procedures, and ii) their management body oversees and monitors the implementation of the alternative treatment.
- **Verification of the establishment of appropriate safeguards by the tri-party agent to prevent breaches of the limits instructed by the institution to apply to the securities issued by the collateral issuer**. This CP sets out that institutions must ensure minimum elements to be included in the service agreement (e.g. a clear description of the services provided by the tri-party agent with regard to collateral management including securities delivery), and that the content of the safeguards to be put in place by a triparty agent to ensure compliance with the limits instructed by the institution includes that, among others, the tri-party collateral management is only performed in accordance with the duly signed service agreement.
- **Determination, revision and monitoring of the limits instructed by the institution to the tri-party agent to apply to the securities issued by the collateral issuer**.
  - Determination of the instructed limits. Institutions should determine specific limits, expressed as an absolute amount or percentage value of all securities or a specific type of security in the collaterals issuer's portfolio.
  - Revision of the instructed limits and its frequency. Institutions should ensure that the service agreement includes the circumstances under which the instructed limits could be revised and the frequency of their revision.
  - Monitoring of the instructed limits and its frequency. Where institutions make use of the alternative treatment, they should verify that the systems that the tri-party agent has in place to monitor the collateral composition are adequate with regard to the accurate and timely management of the instructed limits.
- **Ensuring compliance with the large exposure limits**. This CP establishes that institutions should ensure that the use of the alternative treatment does not lead to a breach of the large exposure limits, and where a breach of the instructed limits has occurred, the tri-party agent should inform the institution immediately of, among others, the name of the collateral issuer in relation with which the breach has occurred, and the date when the breach occurred.
- **Communication with CAs**. This CP sets out that where an institution intends to make use of alternative treatment with a tri-party agent, it should notify ex-ante the CA. In this sense, the CAs may inform the institution within four weeks if it has any material concerns on the use of the alternative treatment (i.e. regarding the institution, the service agreement, and the tri-party agent), and institutions should not use the alternative treatment until the competent authority has satisfied itself that the institution has satisfactorily addressed any material concerns.

3. Next steps

- Comments to this CP shall be submitted by **22nd October 2020**.
- These GL are expected to apply from **28th June 2021**.

28/07/2020
Guidelines on the pragmatic 2020 SREP

1. Context

As part of the coordinated response to the COVID-19 pandemic, the EBA outlined in its statement of 22 April 2020 how the principles of effectiveness, flexibility and pragmatism will guide supervisory approaches in relation to the 2020 supervisory review and evaluation process (SREP). However, it also noted that further engagement with competent authorities is necessary to ensure that clarity on such an approach would be made available to safeguard and preserve convergent supervisory approaches and outcomes enabled by the SREP Guidelines in the context of this crisis.

In this context, the EBA has published the **Guidelines on the pragmatic 2020 SREP**, which is an annex to the previous guidelines, and grant a special procedure for the SREP for the year 2020. These Guidelines identify how flexibility and pragmatism could be exercised in relation to the SREP framework in the context of the COVID-19 pandemic. These Guidelines, are addressed to competent authorities and elaborate on the key aspects of SREP for the year 2020: (i) Focus of the 2020 SREP; (ii) Overall SREP assessment and scoring; (iii) Supervisory measures; and (iv) Implementation of SREP in cross-border context.

2. Main points

- **Focus of the 2020 SREP**. For the identification of the most relevant risks and vulnerabilities for institutions in the context of the COVID-19 crisis the following information from institutions should be seen as the main input of the SREP, as appropriate:
    - Material changes.
    - Key risks and vulnerabilities: credit risk; liquidity and funding risk; operational risk, with focus on information security and business continuity management; profitability; and the business model framework with a link to governance arrangements.
    - The ICAAP and ILAAP should provide support to competent authorities' overall assessment of the institution's soundness and viability. Competent authorities may request updated ICAAP/ILAAP information, if they consider that information relevant for the application of these guidelines has become obsolete.
- **Overall SREP assessment and scoring**. The overall SREP assessment of the viability of an institution should reflect the conclusions of the supervisory review. The 2020 SREP risk and viability scores assigned in the previous SREP cycle may remain unchanged.
- **Supervisory measures**. Pillar 2:
    - Requirements (P2R). Competent authorities should apply flexibility in adapting the quality of capital that institutions are allowed to use to meet the P2R, while ensuring a sound coverage of risk and the minimum composition laid down in the SREP Guidelines.
    - Guidance (P2G). When determining and setting P2G, competent authorities should act in accordance with the minimum engagement model. Where this is justified by uncertainties over the institution's sensitivity to adverse scenarios, competent authorities may maintain the P2G determined and set during the previous SREP cycle. Competent Authorities may tolerate that the institutions operate temporarily with a level of own funds below the level determined by P2G, but institutions should report this without undue delay.
- **Implementation of SREP in cross-border context**. The consolidating supervisor and the relevant competent authorities should endeavour to agree on a common determination of whether the supervisory review and evaluation process for the 2020 SREP cycle will be performed with or without the application of this Guidelines for all group entities.

3. Next steps

- These GL are already **in force** since the day of their publication

31/07/2020

Updates on 2021 EU-wide stress test timeline sample

1. Context

The EBA launched its first stress test in 2011 in order to inform the Supervisory Review and Evaluation Process (SREP) that competent authorities (CAs) carry out, with the aim to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks and the EU banking system to shocks, and to challenge the capital position of EU banks. In march 2020, following the outbreak of the COVID-19, the EBA decided to postpone the 2020 EU-wide stress test exercise until 2021 to provide greater flexibility to banks during the pandemic.

In this context, the Board of Supervisors (BoS) of the EBA has agreed on the **tentative timeline and sample of the 2021 EU-wide stress test**. Furthermore, the EBA has also agreed on the preliminary timeline for the potential future changes to the EU-wide stress test framework based on the feedback from the discussion paper launched on January 2020.

2. Main points

- **Timeline**. The stress test exercise is expected to be launched at the end of January 2021 and its results to be published at the end of July 2021.
- **Sample**. The 2021 EU-wide stress test will be carried out on a sample of 51 banks, of which 39 from the Euro Area, covering broadly 70% of the banking sector in the euro area, the non-Eurozone Member States and Norway. The tentative sample includes the banks that were going to participate in the postponed 2020 stress test, with some adjustments to ensure sufficient coverage in terms of total assets as well as to reflect changed conditions for specific institutions. UK banks are excluded from the sample while, their EU27 subsidiaries are included when necessary.
- **Changes to the stress test framework**. The EBA has agreed on the preliminary timeline for the potential future changes to the EU-wide stress test framework. A final decision on potential changes to the framework, which takes account of the feedback received on the discussion paper is expected to be taken in Q2-Q3 2021, while the implementation of any potential change will be possible for the 2023 EU-wide stress test.

31/07/2020

- **Consultation paper on draft RTS methodology to estimate P2 and CBR for setting MREL requirements**
- **Consultation paper on draft ITS on reporting decisions on MREL**
- **Consultation paper on draft RTS on indirect subscription of MREL instruments within groups**

1. Context

The bank recovery and resolution directive (BRRD) adopted in 2014 establishes a framework for the recovery and resolution of credit institutions, investment firms and related entities. The BRRD provides that resolution authorities, in cooperation with relevant competent authorities, shall ensure that institutions meet at all times a minimum requirement for own funds and liabilities eligible for bail-in (MREL). Furthermore, the BRRD2 adopted in 2019, requires entities which are not a resolution entity to issue own funds to any entity in the resolution group, and eligible liabilities directly or indirectly to the resolution entity.

In this context, the EBA has published the following public consultations on various elements of the MREL framework:

- **The Consultation paper (CP) on draft Regulatory Technical Standards (RTS) methodology to estimate Pillar 2 (P2R) and combined buffer requirements (CBR) for setting MREL requirements** where it proposes a pragmatic approach aiming to create a framework to improve accuracy in setting the MREL requirement, without requiring sub-consolidation at resolution level and without blurring the lines of responsibilities between competent and resolution authorities in the capital setting process.
- **The CP on draft Implementing Technical Standards (ITS) on reporting decisions on MREL** specifying uniform reporting templates, instructions and methodology for the identification and transmission of information by resolution authorities to the EBA.
- **The CP on draft RTS on indirect subscription of MREL instruments within groups**, specifying the methods to avoid that instruments indirectly subscribed by the resolution entity for the purpose of meeting the MREL hamper the smooth implementation of the resolution strategy.

2. Main points

Consultation paper on draft RTS methodology to estimate P2 and CBR for setting MREL requirements

- **Estimation of the additional equity requirement**. This CP proposes the rules for determining the additional own funds requirement for resolution entities not subjected to such requirement at the consolidated level of the resolution group. These rules are established, among other things, whether the difference between the measure of total risk exposure of the resolution entity at the consolidated level of the resolution group and that of the parent entity of the Union is greater or less than 5%.
- **Pillar 2 estimation**. When a resolution group exceeds the 5% threshold established in the previous point, and does not meet certain requirements in relation to the measure of total risk exposure on an individual basis of the entity that represents the largest proportion of that measure on a consolidated basis of the resolution group, the resolution authorities, in communication with the competent authorities, shall adjust their estimate of the additional capital requirement if there are significant risks that have not been considered. To this end, two main approaches, or a combination of both, are proposed for estimating the capital requirements of the resolution group in order to establish the MREL:
    - A top-down approach, where the resolution authorities should seek to adjust the group requirement, or the one to which the resolution group is the closest, and for which a capital requirement has been set.
    - A bottom-up approach, to be used in cases where at least one of the solo requirement set on entities comprising the resolution group is higher than the group requirement.
- **Combined buffer requirement**. With regard to the estimation of the CBR the proposed approach is the following:
    - For the GSII buffer, the proposal is to keep the GSII buffer as an input to computing MREL.
    - For the OSIIs buffer, the proposal is to use as an input to calibrate MREL the buffer of either the banking group or largest entity constituting the resolution group, whichever is the closest in size.

Consultation paper on draft ITS on reporting decisions on MREL

- **Templates**. The draft ITS set out in this CP substitute the previous ITS on MREL reporting, in order to properly reflect the changes introduced in the BRRD. These draft ITS specify uniform formats, templates and definitions that must be used by resolution authorities when transmitting the information regarding MREL requirements to the EBA. These ITS:
    - Covers the essential components of MREL decisions, in particular the structuring of the decision around a loss absorption amount and a recapitalisation amount and the corresponding adjustments.
    - Contains the minimum basic information to be filled for all institutions, laying down the legal entity to which the decision is addressed, the consolidated or individual basis of the decision and its date. Where the MREL requirement has been waived in line with the BRRD, no additional information is necessary. If on the other hand, the MREL has not been waived but the recapitalisation amount has been set to zero, a simplified reporting is allowed.

2. Main points (cont.)

Consultation paper on draft RTS on indirect subscription of MREL instruments within groups

- **Indirect subscription of MREL instruments within groups**. The BRRD2 calls for methods that avoid that indirectly issued instruments hamper the smooth implementation of the resolution strategy. To fulfill this mandate, the CP proposes draft RTS where a general deduction framework applies in the general case, and a “fall-back” solution applies where the deduction approach cannot apply:
    - The deduction approach is a ‘full holding-based deduction method’, where the eligible instruments deduction for internal MRELL (iMREL) at intermediate subsidiary level amounts to the full amount of the intermediate subsidiaries’ holdings of iMREL eligible instruments of the lower subsidiaries, and a risk weight of 0% is applied to these holdings.
    - Fall-back solution. Where the general deduction framework is not practicable, the resolution authority assesses whether indirectly issued instruments hamper the smooth implementation of the resolution strategy, and may apply the measures of BRRD2 on the breach of MREL, including the removal of a substantive impediment to resolvability.

3. Next steps

- Comments to the CP on draft RTS methodology to estimate P2 and CBR for setting MREL requirements and CP on draft ITS on reporting decisions on MREL shall be submitted by **24th October 2020**.
- Comments to the CP on draft RTS on indirect subscription of MREL instruments within groups shall be submitted by **27nd October 2020**.

03/08/2020
Consultation paper on impracticability of contractual recognition of bail-in

1. Context

The bank recovery and resolution directive (BRRD) adopted in 2014 establish that Member States shall require institutions to include a contractual term by which the creditor or the party to the agreement or instrument creating a relevant liability recognises that that liability may be subject to the write down and conversion powers and agrees to be bound by any reduction of the principal or outstanding amount due, conversion or cancellation that is effected by the exercise of those powers by a resolution authority (RA). Furthermore, the BRRD requires EBA to regulate the situations where it is legally or impracticable to include in the contractual provisions governing a relevant liability the term for the recognition of the bail-in.

In this context, the EBA has published the **Consultation paper (CP) on draft Regulatory Technical Standards (RTS) and draft Implementing Technical Standards (ITS) on the impracticability of contractual recognition of write-down and conversion powers and related notifications** with the aim to promote the effective application of resolution powers to banks and banking groups and to foster convergence of practices between relevant authorities and institutions across the EU. In particular, the draft RTS define, among others, the conditions under which it would be legally or otherwise impracticable for an institution to include the contractual term for the recognition of the bail-in. For its part, the draft ITS specify uniform formats and templates for the notification to RAs of contracts meeting the conditions of impracticability defined in the draft RTS

2. Main points

- **Conditions of impracticability**. This draft RTS sets out five conditions of impracticability to include the term for contractual recognition of the powers to write-down or covert relevant capital instruments. These conditions are met when:
    - The inclusion of the contractual term would be <u>in breach of the law of the third country governing the liability</u>.
    - The inclusion of the contractual term would be <u>contrary to an explicit and binding instruction from a relevant third country authority</u> of the third country the law of which governs the liability.
    - The liability arises out of instruments or agreements concluded <u>in accordance with and governed by internationally standardised terms or protocols</u> which the institution is unable to amend.
    - The liability is governed by <u>contractual terms to which the institution is bound pursuant to its membership of, or participation</u> in, a non-Union body, including financial market infrastructures, and which the institution is in practice unable to amend.
    - The liability is <u>owed either to a commercial or trade creditor and relates to goods or services</u> that, while not critical, are used for daily operational functioning and where the institution or is in practice unable to amend the terms of the agreement concluded on standard terms.
- **Conditions for the RA to require inclusion**. The draft RTS specify the conditions for the RA to require the inclusion of the contractual term if it disagrees with the institution’s determination of impracticability:
    - The <u>RA disagrees with the institution’s determination</u> based on the conditions of impracticability notified.
    - The assessment of the <u>criteria that the RA should take into account when considering the need to ensure resolvability</u>. This only applies if none of the conditions of impracticability notified are met.
    - <u>Thresholds</u> above which incorporation is mandatory are defined, while below the thresholds the RA has flexibility to require or refrain from requiring the inclusion.
- **Timeframe for the RA to require inclusion**. The timeframe for the RA to require the inclusion of a contractual term is set at 3 months, starting from the moment the application is considered complete. This timeframe can be extended, in exceptional circumstances, by the RA of another 3 months.
- **Formats and templates for the notification**. The draft ITS defines the data required in a notification and the definition of these data points. Furthermore, it requires institutions making the notification to distinguish between contracts creating new liabilities and contracts amending existing liabilities and proposes the possibility to notify categories of liabilities that meet conditions of impracticability

3. Next steps

- Comments on this consultation can be submitted until **October 24th 2020.**

28/09/2020
Autumn 2020 EU-wide transparency exercise

1. Context

Since 2011, the EBA has been conducting transparency exercises at the EU-wide level on an annual basis. The transparency exercise is part of the EBA's ongoing efforts to foster transparency and market discipline in the EU financial market, and complements banks' own Pillar 3 disclosures, as laid down in Capital Requirements Directive (CRD). In 2020, following the postponement of the EU-wide stress test exercise, the EBA decided to release two Transparency exercises, one in late Spring and one in late Autumn, with the aim to inform the public on the conditions of the EU banking sector at the start of the COVID-19 crisis and the impact of the crisis in the first half of 2020. In June, the EBA published the Spring 2020 EU-wide transparency exercise with the aim of providing market participants with updated information on banks' exposures and asset quality as of 31 December 2019, prior to the start of the crisis.

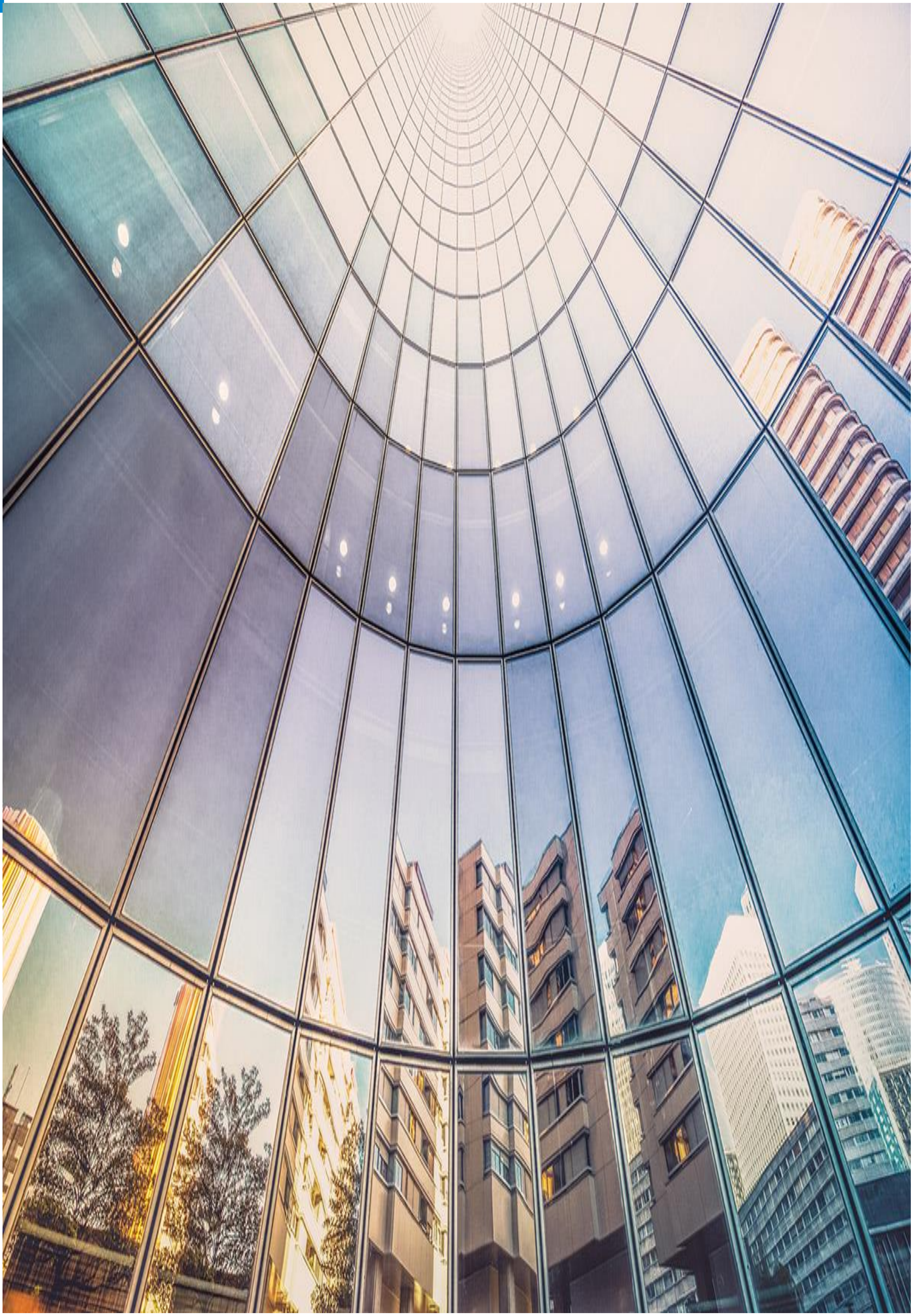
In this context, the EBA has launched the **7th annual EU-wide transparency exercise**, with the objective of providing market participants with updated information on the financial conditions of EU banks as of June 2020, thus assessing the preliminary impact of the COVID-19 crisis on the sector.

2. Main points

- **General aspects**. The EBA will release about one million data points, on average more than 7,000 data points for about 130 participating banks from 27 countries, including the United Kingdom. The data will cover banks' capital positions, financial assets, financial liabilities, risk exposure amounts, sovereign exposures and asset quality. The exercise will also include data on loans and advances subject to legislative and non-legislative moratoria, following the EBA Guidelines on COVID-19 measures reporting and disclosure.

3. Next steps

- The EBA expects to publish the results of this exercise at the **beginning of December**, along with the Risk Assessment Report.



Publications of the quarter
Local publications

BANCO DE ESPAÑA
Eurosistema

07/07/2020
Proyecto de Circular sobre normas de información financiera y modelos EEFF

1. Context

In June 2020, given the obligation of payment institutions (PIs) and electronic money institutions (EMIs) to report separately the activities of providing payment services or issuing electronic money, the activities of providing other closely related operational or ancillary services and the other economic activities performed, and taking as a reference the current accounting regulations of credit institutions on public and private financial reporting standards and model financial statements, a simplified regime of public and private financial statement requirements is established.

In this context, the BoS has published the **Draft Circular to payment institutions and electronic money institutions, on public and private financial reporting standards and model financial statements**, with the aim of establishing new specific regulations on the accounting regime to be prepared by these institutions, ceasing to apply the generic accounting standard. The differences in the nature, scale and complexity of the activities of PIs and EMIs with respect to credit institutions result in a simplified regime of public and private reporting requirements, including new models designed to capture the specific activity of these institutions.

2. Main points

- **General Provisions**. The circular shall apply, among others, to payment institutions, electronic money institutions, some institutions providing payment services (if these meet certain requirements), or hybrid credit institutions.
- **Public financial information**.
  - Content of public financial information. The PIs and EMIs must publish the documents (individual annual accounts, consolidated annual accounts, management report and audit report) and general requirements regarding the content of the individual and consolidated annual accounts, that give a true and fair view of the wealth, financial position, results and cash flows of the entity or the group. Regardless of their obligations to prepare annual accounts, entities must periodically publish the individual and consolidated public financial statements stipulated in this circular, which include among other the balance sheet, profit and loss accounts, recognised income and expense account, total changes in equity, etc.
  - Criteria for recognition, assessment, layout and information to be included in the financial report. Contains a reference to Circular 4/2017 of November 27th , where the annual accounts and other public financial statements must comply with the characteristics and criteria of recognition, valuation, layout and information to be included in the financial report. In addition, specific reporting requirements are stablished to include in the financial report of the annual accounts of activities for the provision of payment services or the issuance of electronic money, activities for the provision of other closely related operational or ancillary services and other economic activities carried out.
- **Private financial information**.
  - Processing criteria. Entities will prepare the reserved, individual and consolidated financial statements following the specifications included in this title, regardless of whether the accounting criteria of this circular apply or directly the EU-IFRSs.
  - Restricted statements to be submitted to the Bank of Spain. Entities shall submit to the BoS the specifications of the restricted statements in terms of models, breakdowns, frequency and time of submission.
- **Internal accounting procedures and management control**. Entities must comply with the requirements of internal accounting development, management control and registrations in accordance with Circular 4/2017 of November 27.
- **Presentation of financial information to the Bank of Spain**. Entities must send the annual accounts, the management report and the audit report, as well as the public and reserved statements in accordance with Circular 4/2017 of November 27.

3. Next steps

- The Circular will enter into force on **January 1st 2021.**

BANCO DE ESPAÑA
Eurosistema

07/07/2020
Consulta pública previa del proyecto de circular sobre información reservada en materia de conducta

1. Context

The BoS is entitled to request information on conduct, transparency and customer protection from all supervised institutions. In particular, natural or legal persons subject to the supervision of the BoS must submit, in the form and at the intervals required by the BoS, the statements and information it considers necessary to fulfil the function of supervising the rules of conduct, transparency and customer protection required of such entities. These statements and information may be of a public or confidential nature, as established by the BoS.

In this context, the BoS has published the preliminary public consultation on the draft circular on confidential conduct of business information which responds to the need for a comprehensive and standardised conduct of business information framework with a greater breakdown of the information available from institutions, in order to ensure the proper exercise of the institutions' supervisory activity regarding the rules of conduct, transparency and protection of customers required of institutions by the BoS.

2. Main points

- **Scope of application**. The new circular will apply to credit institutions, financial credit establishments, electronic money institutions, payment institutions, account information service providers, holders of foreign currency purchase and sale establishments, real estate lenders, real estate credit intermediaries and foreign branches operating in Spain of the aforementioned institutions.
- **Behavioural information**. The purpose of the circular is to determine the information that the supervised institutions have to prepare on conduct matters, which includes both the model statements reserved, for which their content is defined and the periodicity with which they should be sent to the BoS, and the information that should be available to the BoS. The information refers to financial activity with individuals (residents and non-residents) and micro-enterprises carried out in Spain by the entities included in the scope of the circular.
- **Behavioural statements**. This draft circular aims to request a series of behavioral statements, structured in three different areas:
    - Types of banking products and services, including payment services, marketed by the institutions
    - Source of income from interest and commissions.
    - Complaints filed with the entity.
    - The circular will also include the need for institutions to have a complaints register available to the BoS with a predefined content. In application of the principle of proportionality, the circular recognises a simplified regime of information requirements depending on the type of institution, its size and the type of customer it serves.

3. Next steps

- Comments on this preliminary public consultation can be submitted until **17 July 2020.**

01/07/2020

- **Dodd-Frank Act Stress Test 2020: Supervisory Stress Test Results**
- **Assessment of Bank Capital during the Recent Coronavirus Event**

1. Context

The Fed conducts supervisory stress tests to effectively assess whether firms have sufficient capital to continue operating and lending to households and businesses, even during times of economic and financial market stress. In particular, the Fed's stress testing program examines large Bank Holding Companies (BHCs) and US Intermediate Holding Companies (IHCs) of foreign banks (together, the firms). Furthermore, on October 10th, 2019, the Board (Fed, FDIC and OCC) finalized a rule to amend its prudential standards to exempt firms with total consolidated assets of less than $100 bn from the supervisory stress test and to subject certain firms with total consolidated assets between $100 bn and $250 bn to the supervisory stress test requirements on a two-year cycle.

In this context, the Fed has published the **results for the Dodd-Frank Act Stress Test 2020** (DFAST 2020), in which 33 firms have participated, 18 firms subject to annual supervisory stress test requirements and 15 firms subject to the two-year supervisory stress test cycle. In conducting its supervisory stress test, the Fed calculates its projections of each firm's balance sheet, risk-weighted assets (RWAs), net income, and resulting regulatory capital ratios under the severely adverse scenarios. For DFAST 2020, key components of stress test projections, such as losses and revenue, are broadly similar to those of prior years' exercises. However, the Fed has amended its stress testing requirements to remove the adverse scenario, in accordance with changes to the Dodd-Frank Act. The results of the DFAST 2020 suggest that, in the aggregate, the firms subject to the supervisory stress test would experience substantial losses under the severely adverse scenario but could continue lending to businesses and households, due to the substantial buildup of capital since the financial crisis.

In addition to its normal stress test, the Fed conducted a **sensitivity analysis to assess the resiliency of large banks** under three hypothetical recessions, or downside scenarios, which could result from the coronavirus event. The scenarios included a V-shaped recession and recovery; a slower, U-shaped recession and recovery; and a W-shaped, double-dip recession.

2. Main points

Dodd-Frank Act Stress Test 2020: Supervisory Stress Test Results

- **Severely adverse scenario**. The severely adverse scenario is characterized by a severe global recession accompanied by a period of heightened stress in commercial real estate and corporate debt markets:
  - The aggregate CET1 capital ratio would fall from an actual 12% in the Q4 2019 to its minimum of 9.9%, before rising to 10.3% at the end of nine quarters. The declines in capital ratios, both in the aggregate and for individual firms, are not comparable to the aggregate ratio decline disclosed last year because this year's ratios do not include the effect of common dividend distributions.
  - Aggregate losses at the 33 firms are projected to be $552 billion. For the 18 firms for which stress test results were disclosed both last year and this year, total losses under the severely adverse scenario are $433 billion in DFAST 2020, compared to $410 billion for the same 18 firms in DFAST 2019.

Assessment of Bank Capital during the Recent Coronavirus Event

- **Sensitivity analysis**. To assess the resiliency of large banks in an environment of high uncertainty, the Fed considered three alternative downside scenarios beyond the severely adverse scenario published in February 2020. The alternative downside scenarios were designed in early April and span the wide range of projections made at that time by professional forecasters for key macroeconomic indicators, such as the unemployment rate and GDP. The alternative downside scenarios also include different paths for the yield on 10-year Treasuries. The three scenarios are:
  - A rapid V-shaped recovery that regains much of the output and employment lost by the end of this year.
  - A slower, more U-shaped recovery in which only a small share of lost output and employment is regained in 2020.
  - A W-shaped double dip recession with a short-lived recovery followed by a severe drop in activity later this year due to a second COVID event.

Under the V-shaped alternative downside scenario, firms remain well above their regulatory minimum ratios with post-stress capital at a similar level as under the February 2020 scenario. Under the U-shaped and W-shaped alternative downside scenarios, several firms would approach minimum capital ratios. As a result of their strong current capital levels, the large majority of banks remain sufficiently capitalized over the entirety of the projection horizon in all scenarios.

3. Next steps

- In light of these results, the Fed will take **several actions** following its stress tests to ensure large banks remain resilient. In particular, the Fed will apply for the third quarter of 2020 and may be extended by the Fed quarter-by-quarter, as the economic situation continues to evolve:
    - Suspend share repurchases.
    - Cap the growth of dividends and impose a limit that does not exceed recent income.
    - Require banks to re-assess their capital needs and resubmit their capital plans later this year.
    - Conduct additional stress analyses later this year as data from banks become available and economic conditions evolve.

21/08/2020

Supervisory Scenarios for the Resubmission of Capital Plans in the Fourth Quarter of 2020

1. Context

During the first half of 2020 the Fed released the results of its 2020 stress tests and an additional sensitivity analysis conducted to explore vulnerabilities of banks to the COVID-19 outbreak and response. While that analysis indicated that all large banks were sufficiently capitalized, the Fed took actions to preserve capital at banks in light of the heightened uncertainty associated with the event. Among those actions, the Fed required banks to re-assess their capital needs and resubmit their capital plans. The Fed further stated that it would conduct additional stress analyses later in the year to consider incoming data from banks and evolving economic conditions.

In this context, the Fed has published the **Supervisory Scenarios for the Resubmission of Capital Plans in the Fourth Quarter of 2020** which describes three supervisory scenarios (baseline, severely adverse, and alternative severe) that the Fed will use to conduct its updated stress analyses and that each firm must use to estimate projected revenues, losses, reserves, and pro forma capital levels as part of its 2020 capital plan resubmission. This publication also details additional components (e.g. the global market shock component and the counterparty default component) that the largest and most complex firms must incorporate into the supervisory scenarios.

2. Main points

- **General aspects**. The scenarios start in the third quarter of 2020 and extend through the third quarter of 2023. Each scenario includes 28 variables which are the same as the set of variables provided in the February 2020 supervisory scenarios. The variables describing economic developments within the US include:
  - Six measures of <u>economic activity and prices</u> (e.g percent changes in real and nominal GDP).
  - Four aggregate measures of <u>asset prices or financial conditions</u> (e.g. indexes of house prices).
  - Six measures of <u>interest rates</u> (e.g. the rate on 3-month Treasury bills).
- **Baseline Scenario**. The baseline scenario for the US is a sharp increase in economic activity in the second half of 2020, followed by continued but more moderate improvement in economic conditions over the remainder of the 13-quarter stress test period. The real GDP growth rises sharply at an annualized rate of 14% in the second half of 2020. The unemployment rate declines throughout the scenario period, falling to almost 8.75% by the end of 2020 and to about 5.25% in the third quarter of 2023. Accompanying the economic recovery, short-term Treasury rates are assumed to remain near zero through the end of 2021, and then to gradually rise to slightly above 1% by the end of the stress test period. Equity prices rise 0.75% from the third to the fourth quarter of 2020 and about 3.5% per year in 2021 and 2022.
- **Severely Adverse Scenario**. The Severely Adverse Scenario is characterized by a severe decline in global economic activity accompanied by financial market distress. In this scenario the US unemployment rate climbs to a peak of 12.5% in the fourth quarter of 2021 and the real GDP falls 3.5% from the third quarter of 2020 to its trough in the fourth quarter of 2021. In line with the severe decline in real activity, the interest rate for 3-month Treasury bills remains near zero throughout the scenario period. Asset prices drop sharply in this scenario as equity prices decline more than 30% from the third to the fourth quarter of 2020, as the economy contracts sharply.
- **Alternative Severe Scenario**. This alternative scenario is consistent with a number of adverse events, including a series of second waves of the COVID-19 event that are not synchronized across different regions of the US and the rest of the world, and related structural changes in labor markets. Accordingly, the alternative severe scenario is characterized by a less-severe initial drop in global economic activity relative to the severely adverse scenario, and a subsequent recovery that is more sluggish. Under the alternative severe scenario, the US unemployment rate climbs to a peak of about 11% and the real GDP falls at an annualized rate of 9% in the fourth quarter of 2020. In line with the prolonged weakness in real activity, the interest rate for 3-month Treasury bills remains near zero throughout the scenario. Asset prices drop sharply in this scenario. Equity prices remain depressed longer than in the severely adverse scenario, bottoming out at the end, rather than the middle, of 2021.
- **Global Market Shock Component**. The global market shock is a set of hypothetical shocks to a large set of risk factors reflecting general market distress and heightened uncertainty. Firms with significant trading activity must consider the global market shock as part of the supervisory severely adverse and alternative severe scenarios, and recognize associated losses in the first quarter of the planning period.
- **Counterparty Default Component**. Firms with substantial trading or custodial operations will be required to incorporate a counterparty default scenario component into their supervisory severely adverse and alternative severe stress scenarios for the resubmission of capital plans in the fourth quarter of 2020. The counterparty default scenario component involves the instantaneous and unexpected default of the firm's largest counterparty.

30/09/2020

- **Final Rule on Real Estate Appraisals**
- **Final Rule on the Treatment of Certain Emergency Facilities in the Regulatory Capital Rule and the Liquidity Coverage Ratio Rule**

1. Context

In March 2020, the Board of Governors, with approval of the Secretary of the Treasury, authorized the Federal Reserve Bank of Boston (FRBB) to establish the Money Market Mutual Fund Liquidity Facility (MMLF) to prevent the disruption in the money markets from destabilizing the financial system. One month later on April 2020, the two institutions authorized each of the Federal Reserve Banks to extend credit under the Paycheck Protection Program Liquidity Facility (PPPLF) providing liquidity to small business lenders and the broader credit markets, and helping stabilize the financial system. To facilitate use of the MMLF and PPPLF, the Fed, FDIC and OCC (the Agencies) adopted interim final rules to allow banking organizations neutralize the regulatory capital effects of purchasing assets under the MMLF program and loans pledged to the PPPLF.

In this context, the Fed, FDIC and OCC have published the **Final Rule on Real Estate Appraisals** that temporarily defers appraisal and evaluation requirements for up to 120 days after the closing of certain residential and commercial real estate transactions. In addition, the agencies have also published **Final Rule on the Treatment of Certain Emergency Facilities in the Regulatory Capital Rule and the Liquidity Coverage Ratio (LCR) Rule** that neutralizes, due to the lack of credit and market risk, the regulatory capital and liquidity effects for banks that participate in certain Fed liquidity facilities.

2. Main points

Final Rule on Real Estate Appraisals

- **Temporary deferral**. The final rule adopts the deferral of the requirement to obtain an appraisal or evaluation for up to 120 days following the closing of certain residential and commercial real estate transactions, excluding transactions for acquisition, development, and construction of real estate. Regulated institutions should make best efforts to obtain a credible estimate of the value of real property collateral before closing the loan and otherwise underwrite loans consistent with the principles in the Standards for Safety and Soundness and Real Estate Lending Standards.

Final Rule on the Treatment of Certain Emergency Facilities in the Regulatory Capital Rule and the Liquidity Coverage Ratio Rule

- **Revisions to the capital and LCR rules**. A banking organization may continue to exclude assets acquired as part of the MMLF and PPP covered loans pledged under the PPPLF from its total leverage exposure, average total consolidated assets, advanced approaches total risk-weighted assets, and standardized total risk-weighted assets, as applicable. Further a banking organization must continue to apply a zero percent risk weight to all PPP covered loans that are not pledged to the PPPLF. In addition, a banking organization subject to the LCR rule is required to continue excluding from its total net cash outflow amount outflow amounts associated with advances from the MMLF and PPPLF and inflow amounts associated with collateral securing the advances.

3. Next steps

- The Final Rule on Real Estate Appraisals **is effective upon publication in the Federal Register** and will expire on **December 31, 2020**.
- The Final Rule on Final Rule on the Treatment of Certain Emergency Facilities will be effective **60 days** after the date of publication in the Federal Register.

01/07/2020

Final Rule on prohibitions and restrictions on proprietary trading and certain interests in, and relationships with, hedge funds and private equity funds

1. Context

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

In this context, and after the publication of the proposed rule on February 2020, the Fed, the OCC, the FDIC, the SEC and the CFT (the agencies) have published a **Final Rule on revisions to prohibitions and restrictions on proprietary trading and certain interests in, and relationships with, hedge funds and private equity funds**, which is intended to improve and streamline the covered fund provisions and provide clarity to banking entities so that they can offer financial services and engage in other permissible activities in a manner that is consistent with the requirements of the Volcker Rule.

The agencies received comments on the proposed rule from a diverse set of commenters (e.g. banking entities, financial services industry trade groups) and finally they have adopted many of the initially proposed changes to the implementing regulations, with certain targeted adjustments due to the comments received by the stakeholders.

2. Main points

- **Qualifying foreign excluded funds**. This Final Rule exempts the activities of certain funds that are organized outside of the USA and offered to foreign investors from the restrictions of the implementing regulations.
- **Modifications to existing covered fund exclusions**. This Final Rule makes modifications to several existing exclusions from the covered fund provisions, to provide clarity and simplify compliance with the requirements of the implementing regulations:
    - The Final Rule revises certain restrictions in the foreign public funds exclusion to more closely align the provision with the exclusion for similarly-situated US registered investment companies.
    - The Final Rule permits loan securitizations excluded from the rule to hold a small amount of non-loan assets.
    - The Final Rule revises the exclusion for small business investment companies to account for the life cycle of those companies and clarify the scope of the exclusion for public welfare investments.
- **Additional covered fund exclusions**. This Final Rule adds several new exclusions from the covered fund provisions to address the potential over-breadth of the covered fund definition and related requirements.
    - The Final Rule permits banking entities to invest in and have certain relationships with credit funds that extend the type of credit that a banking entity may provide directly.
    - The Final Rule establishes an exclusion from the definition of covered fund for venture capital funds.
    - The Final Rule excludes from the covered fund definition wealth management vehicles that manage the investment portfolio of a family.
    - The Final Rule excludes from the definition of covered fund an entity created and used to facilitate a customer's exposures to a transaction, investment strategy, or other service.
- **Limitations on relationships with a covered fund**. This Final Rule permits a banking entity to engage in a limited set of covered transactions with a covered fund, the banking entity sponsors or advises or with which the banking entity has certain other relationships.
- **Ownership interest**. This Final Rule clarifies certain aspects of the definition of ownership interest and provide clarity about the types of credit rights that would be considered within the scope of the definition of ownership interest.
- **Parallel investments**. This Final Rule adds new provisions that clarify that banking entities are not required to treat these investments made by banking entities alongside covered funds as an investment in the covered fund as long as certain conditions are met.
- **Technical amendments**. This Final Rule simplifies compliance efforts by tailoring the calculation of a banking entity's compliance and provide clarity to banking entities regarding their permissible investments made alongside covered funds.

3. Next steps

- The final rule will be effective on **October 1, 2020.**

Management Solutions' Alert System on Regulation

Management Solutions promotes immediate knowledge of regulatory developments among its professionals and customers through FinRegAlerts App

Alert System on Regulation

- The R&D department in Management Solutions monitors on a daily basis the regulatory publications from more than 20 financial regulators and supervisors.
- For those publications which are more likely to give rise to significant effects upon MS clients, the R&D department has been sending out publication alerts since the beginning of 2013
- Alerts are published in Spanish and English in around 24 hours since the publication by the regulatory body.
- Moreover, quarterly MS publishes the Regulation Outlook, a report that collects the alerts of the period and anticipates the main upcoming regulatory changes.
- Management Solutions' service on financial regulatory alerts is provided through the FinRegAlerts App for mobile devices, which is available for free download in the main app stores:

Download on the App Store

ANDROID APP ON Google play

Regulators

Global	FSB, BCBS, IASB
EU	EC, EP, Council, EBA, ESMA, EIOPA, ECB, SRB
USA	Congress, Fed, OCC, FDIC
UK	BoE, PRA, FCA
Spain	BdE, Spanish Government, Cortes Generales

Management**Solutions**

Making things happen

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 2,500 professionals, Management Solutions operates through 31 offices across Europe (15), the Americas (15) and Asia (1).

To meet these requirements, Management Solutions structures its activities by industry (Financial Institutions, Energy, Telecommunications, Consumer Products and Industry, Government and Construction), grouping together a wide range of areas of specialization, including Strategy, Sales and Marketing Management, Organization and Processes, Risk Management and Control, Management and Financial Reporting and New Technologies.

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

Manuel Ángel Guzmán Caba
Partner in Management Solutions
manuel.guzman@msspain.com

Marta Hierro Triviño
Director in Management Solutions
marta.hierro@msspain.com

Mikel Pedrosa Dorronsoro
R&D Consultant in Management Solutions
mikel.pedrosa.dorronsoro@msspain.com

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

Confidentiality clause

The information contained on this publication is of a general nature and does not constitute a professional opinion or an advisory service. The data used in this publication come from public sources. GMS Management Solutions, SL assumes no liability for the veracity or accuracy of such data.

Management Solutions, Professional Consulting Services

Management Solutions is an international consulting firm whose core mission is to deliver business, risk, financial, organisation, technology and process-related advisory services.

For further information please visit **www.managementsolutions.com**

Follow us at:

www.managementsolutions.com

Madrid Barcelona Bilbao Coruña London Frankfurt Paris Amsterdam Copenhagen Oslo Warszawa Zürich Milano Roma Lisboa Beijing New York Boston Atlanta Birmingham Houston SJ de Puerto Rico San José Ciudad de México Medellín Bogotá Quito São Paulo Lima Santiago de Chile Buenos Aires