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Regulation Outlook

4Q15

Design and Layout:

Marketing and Communication Department
Management Solutions

Photographs:

Management Solutions' picture library,
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Executive summary

The FSB has published the final rule on the Total Loss-Absorbing Capacity (TLAC). Moreover, the BCBS has issued the second consultative document on the revision to the standardised approach for credit risk. In the EU, the EBA has issued the stress test 2016 draft methodology, and two sets of draft guidelines regarding stress test and information on the ICAAP and ILAAP.

Global publications

- The FSB has issued the final **TLAC** standard for global systemically important banks (G-SIBs).
- The FSB has also updated the **list of G-SIBs**, comprising now a total of 30 banks; and the list of global systemically important insurers **(G-SIIs)**, including 9 insurers.
- The BCBS has published the second consultation paper to revise the **standardised approach (SA) for credit risk**. Moreover, it has issued final guidelines to set out supervisory guidance on sound credit risk practices associated with the implementation of **expected credit loss (ECL) accounting frameworks**.
- The BCBS has also published a consultative document proposing a framework for identifying and assessing **step-in risk**.
- Finally, the BCBS has published the third progress report on banks' adoption of the **Risk Data Aggregation and Risk Reporting principles (RDA&RR)**.

European publications

- The EBA has published for discussion the **stress test 2016 draft methodology**, including the list of institutions participating in the exercise. Moreover, the EBA has issued a consultation paper on guidelines with regard to **stress tests**.
- The EBA has published the outcome of its **2015 EU-wide transparency exercise**. The results show that banks have strengthened their capital positions although they need to continue addressing the level of non-performing loans.
- The EBA has issued consultative guidelines specifying the information to be collected by competent authorities with regard to the internal capital and liquidity adequacy assessment processes **(ICAAP and ILAAP)** under the supervisory review and evaluation process **(SREP)**.

European publications (continuation)

- Regarding market risk, the EBA has launched a consultation paper on the methodology for competent authorities to assess compliance by institutions with the requirements to use an **Internal Model Approach (IMA)**.
- The EBA has published a consultation paper to amend the ITS on supervisory reporting with regard to **FINREP** following the issuance of the new **IFRS 9** standard.
- The EBA has issued guidelines specifying the criteria that financial institutions should consider when setting limits on exposures to **shadow banking entities**.
- The EBA has published a report on the impact assessment of introducing the net stable funding ratio **(NSFR)** requirement in the EU, and recommending its adoption.
- The ECB has published a draft regulation defining the **national options** set out in the CRR.

Local publications

- In Spain, the Consejo de Ministros has issued a Real Decreto (RD) which develops the law on **recovery and resolution**; and a RD completing the transposition of **Solvency II** into the Spanish law.
- In the UK, the Bank of England has published the results of the second **stress test**. The results reveal capital adequacies for five out of the seven participating banks, whereas the other two banks only pass this exercise after taking strategic management action over the course of 2015.
- In the US, the Fed has made amendments to its **capital plan and stress test rules**; and it has proposed the application of a long-term debt requirement **(LTD)** and the **TLAC**.

Regulatory projections

As of January 2016, G-SIBs will be required to comply with the RDA&RR principles. In the EU, the guidelines on the SREP are applicable as of January, and the final methodology for the stress test will be published in February.

Regulatory projections

1. Next quarter

- **(Global) January 2016**: G-SIBs will be required to comply with the RDA&RR principles.
- **(Global) January 2016**: G-SIBs will be required to comply with the HLA (Higher Loss Absorbency) requirement.
- **(Global) January 2016**: the FSB will publish the second review of the Key Attributes of Effective Resolution Regimes for Financial Institutions.
- **(Europe) January 2016**: the EBA guidelines on the SREP will be applicable.
- **(Europe) January 2016**: the minimum requirement for own funds and eligible liabilities (MREL) will be applicable, in accordance with national laws.
- **(Europe) January 2016**: the EBA guidelines on the management of the Interest Rate Risk in the Banking Book (IRRBB) will be applicable.
- **(Spain) January 2016**: the capital buffers and the restrictions on the distribution of dividends established within the Ley 10/2014 framework will be applicable.
- **(Spain) January 2016**: the Ley de Ordenación, Supervisión y Solvencia de las Entidades Aseguradoras y Reaseguradoras will enter into force.
- **(Spain) January 2016**: the provisions on the bail-in included within the Ley de Recuperación y Resolución de entidades de crédito y empresas de servicios de inversión will be applicable.
- **(USA) January 2016**: the capital surcharges upon Bank Holding Companies identified as G-SIBs will be applicable.
- **(USA) January 2016**: amendments to the capital planning and stress test rules will be applicable.
- **(Europe) February 2016**: the EBA will publish the final methodology, templates and scenarios for the 2016 EU-wide stress test.

2. Next year

- **(Europe) April 2016**: significant institutions shall submit information on the ICAAP and the ILAAP to the ECB.
- **(Europe) June 2016**: the Markets in Financial Instruments Directive (MiFID II) shall be transposed into national law.
- **(Europe) June 2016**: the EBA guidelines on the information to be collected by competent authorities with regard to the ICAAP and the ILAAP under the SREP will be applicable.
- **(Spain) June 2016**: the Ley de Auditoría de Cuentas will enter into force.
- **(Global) July 2016**: the BCBS will start a Quantitative Impact Study of the revision of the standardized approach for credit risk.
- **(Europe) July 2016**: the EBA will publish the outcome of the 2016 EU-wide stress test.
- **(Global) December 2016**: the new Pillar 3 disclosure framework will be applicable.

3. More than a year

- **(Europe) January 2017**: the EBA guidelines regarding limits on exposures to shadow banking entities will be applicable.
- **(Global) January 2018**: the IFRS 9 will have to be implemented.
- **(Global) January 2018**: the NSFR and its disclosure requirements will be applicable.
- **(Global) January 2018**: the revised securitisation framework will come into force.
- **(Global) January 2018**: the LR will migrate to a Pillar 1 minimum capital requirement.
- **(Global) January 2019**: G-SIBs not headquartered in an emerging market economy will be required to comply with a minimum TLAC requirement of 16% of risk-weighted assets and 6% of the leverage ratio exposure.
- **(Global) January 2019**: the revised market risk framework of the BCBS will come into effect .

Publications of this quarter

Summary of outstanding publications of this quarter.

Topic	Title	Date	Page
Financial Stability Board			
Resolution	• Principles for Cross-border Effectiveness of Resolution Actions. • Guidance on Cooperation and information Sharing with Host Authorities of Jurisdictions where a G-SIFI has a systemic Presence that are Not Represented on its CMG. • CP Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank (G-SIB). • CP Guidance on Arrangements to Support Operational Continuity in Resolution. • CP Developing Effective Resolution Strategies and Plans for Systemically Important Insurers.	04/11/2015	10
Disclosure	• 2015 Progress Report on Implementation of the EDTF Principles and Recommendations. • Impact of expected credit loss approaches on bank risk disclosures.	10/12/2015	11
Basel Committee on Banking Supervision			
Counterparty credit risk	• Report on risk-weighted assets for counterparty credit risk (CCR).	01/10/2015	12
Market risk	• Interim impact analysis on the fundamental review of the trading book.	18/11/2015	13
Credit risk	• Second consultative document on Revisions to the Standardised Approach for credit risk.	11/12/2015	14
RDA&RR	• Progress in adopting the principles for effective risk data aggregation and risk reporting.	16/12/2015	15
Step-in risk	• Consultative Document on identification and measurement of step-in risk.	17/12/2015	16
Credit risk	• Guidance on credit risk and accounting for expected credit losses.	18/12/2015	17
Financial Stability Board / Basel Committee on Banking Supervision			
G-SIBs / G-SIIs	• 2015 update of the global systemically important banks (G-SIB) list. • 2015 update of the global systemically important insurers (G-SII) list. • Information on global systemically important banks.	03/11/2015	18
TLAC	• Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution and Total Loss-absorbing Capacity (TLAC) Term Sheet. • Consultative Document on TLAC Holdings. • TLAC Quantitative Impact Study (QIS). • Report assessing the economic costs and benefits of TLAC implementation.	10/11/2015	19
International Association of Insurance Supervisors			
G-SIIs	• Higher Loss Absorbency Requirement for Global Systemically Important Insurers (G-SIIs).	06/10/2015	21

CP: consultation paper.

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

RD: Real Decreto

FSB

04/11/2015

- **Principles for Cross-border Effectiveness of Resolution Actions.**
- **Guidance on Cooperation and information Sharing with Host Authorities of Jurisdictions where a G-SIFI has a systemic Presence that are Not Represented on its CMG.**
- **CP- Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank (G-SIB).**
- **CP- Guidance on Arrangements to Support Operational Continuity in Resolution.**
- **CP- Developing Effective Resolution Strategies and Plans for Systemically Important Insurers.**

1. Context

In November 2011, the FSB released The Key Attributes of Effective Resolution Regimes for Financial Institutions, which are the international standards for resolution regimes for financial institutions. They are a key component of the FSB policy framework to address the moral hazard and systemic risks associated with institutions that are "too-big-to-fail" (TBTF).

As part of the FSB policy agenda, it has now published **two finalized guidance papers and three consultative papers** to end TBTF and promote the resolvability of all financial institutions that could be systemic in failure.

2. Main points

Principles for Cross-border Effectiveness of Resolution Actions

- It sets out statutory and contractual mechanisms that jurisdictions should consider including in their legal frameworks **to give cross-border effect to resolution actions.**
- It also sets out contractual approaches to cross-border recognition that are critical **pending the adoption of a statutory framework** and which may also complement such regimes one they are in place.

Guidance on Cooperation and Information Sharing with Host Authorities of Jurisdictions where a G-SIFI has a Systemic Presence that are Not Represented on its CMG

- It promotes **cooperation and information sharing** between Crisis Management Group (CMG) for global systemically important financial institutions (G-SIFIs) and authorities from jurisdictions not represented on the CMG where the firm is systemic for their market.

CP - Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank ("G-SIB")

- It addresses the risk of banks having **insufficient liquidity to maintain critical operations** during a resolution.
- It intends to ensure the effective resolution of G-SIBs without bail-out by the public sector and in a way that reduces moral hazard, with a preference for **private sector provision of liquidity**.

CP - Guidance on Arrangements to Support Operational Continuity in Resolution

- It sets out **arrangements to ensure continuity of critical shared services** (e.g. IT infrastructures and software-related services) that are necessary to maintain the continued provision, or facilitate the orderly wind down, of a firm´s critical functions in resolution.

CP - Developing Effective Resolution Strategies and Plans for Systemically Important Insurers

- It assists authorities in developing **effective resolution strategies and plans for G-SIIs** as well as the CMGs of G-SIIs in their **resolution planning work**.
- It also incorporates guidance on the **identification of critical insurance functions**.

3. Next steps

- Comments to the three consultation papers shall be submitted by **4 January 2016**.

FSB

10/12/2015

- **2015 Progress Report on Implementation of the EDTF Principles and Recommendations.**
- **Impact of expected credit loss approaches on bank risk disclosures.**

1. Context

In October 2012, the Enhanced Disclosure Task Force (EDTF), a body established by the FSB, released a report that included 32 recommendations for improving bank risk disclosures. In this regard, the EDTF has published now a report on the implementation of those recommendations.

Moreover, the introduction of the expected credit loss (ECL) approach by the IASB and the new approach expected to be announced by the FASB will have a significant impact on bank reporting.

In this context, the EDTF has published a report which, among others, seeks to provide guidance on **additional considerations** regarding the application of the existing disclosure recommendations in the context of an ECL framework. It also provides guidance on further application of these additional considerations specifically to IFRS 9.

2. Main points

2015 Progress Report on Implementation of the EDTF Principles and Recommendations

- **Sample**: the EDTF conducted a survey of G-SIBs and other domestic systemically important banks in Europe, North America, Asia and Australia. The EDTF received responses from 40 banks, including 28 of the 30 G-SIBs within the 2014 FSB list.
- **Highlights**:
  - Banks reported an 82% overall implementation rate of the principles and recommendations in 2014, up 7% from 2013.
  - 9 banks reported full implementation of all recommendations and 13 reported full implementation of over 85% of the recommendations in 2014.
  - Progress on quantitative disclosures outpaced progress on qualitative disclosures for the second consecutive year.

Impact of expected credit loss approaches on bank risk disclosures

- **Additional considerations** are made to the existing disclosure recommendations in the following areas:
  - General recommendations: e.g. describe how the bank interprets and applies the key concepts within an ECL approach; disclose the credit loss modelling techniques developed to implement the ECL approach; etc.
  - Risk governance and risk management/business model recommendations: e.g. describe the relationship between the stress testing programs and the implementation of ECL accounting requirements; disclose how the risk management organisation, processes and key functions have been organised to run the ECL methodology; etc.
  - Capital adequacy and RWA recommendations: e.g. consider explaining how ECL requirements are anticipated to have an impact on capital planning; consider whether credit quality disclosures can be made that are similar to those used for regulatory capital purposes; etc.
  - Credit risk recommendations: e.g. consider whether existing segmentation for disclosure purposes is sufficiently granular to appropriately understand credit risk under an ECL approach; etc.
- Additional considerations are either **temporary**, which will cease to apply following the transition to an ECL framework; or **permanent**, which will continue to apply following the adoption of the new accounting standards. Appendix A includes a table specifying whether considerations are temporary or permanent.
- Additional considerations which are **IFRS 9 specific** are included (e.g. where concepts exist in IAS 39 which are similar to those in IFRS9, explain if and how they differ from IFRS 9 and the impact of these differences).

3. Next steps

- The report provides an **indicative timeline** that banks should consider for implementing the existing EDTF recommendations in light of ECL approaches: banks should implement considerations consisting on general concepts in 2015, considerations with regard to risk management organisation and capital planning impact in 2016, quantitative disclosures in 2017, and consider all EDTF recommendations in 2018.
- The FASB has not yet determined an effective date, but it expects to issue a final standard in the **first quarter of 2016**.

01/10/2015
Report on risk-weighted assets for counterparty credit risk (CCR).

1. Context

Consistent implementation of the Basel framework is fundamental to raising the resilience of the global banking system, maintaining market confidence in regulatory ratios, and providing a level playing field for internationally active banks. Against this background, at the end of 2014 the BCBS conducted a Hypothetical test Portfolio Exercise (HPE), focused on Counterparty Credit Risk (CCR).

In this regard, the BCBS has published the report that presents the findings from the HPE. Its objective is to analyse the **variability of RWAs**, to highlight **good practices** and to identify **areas for further attention**. The report focuses on the internal models method (**IMM**) and the advanced credit valuation adjustments (**CVA**) risk capital charge for OTC derivative trades. In the exercise 19 banks from 10 jurisdictions participated.

2. Main points

- **IMM**
  - Key findings on variability: overall, the variability appears to be considerable and comparable to the variability observed in previous studies for market risk models. The BCBS identifies key drivers of variability, such as:
    - **Risk factor calibration**: the choice of calibration approach (e.g. use of historical vs implied volatilities) can be an important driver.
    - **Determination of the stressed period to calibrate the effective expected positive exposure (EEPE)**: in general, banks that select the 2008–09 stress period show the most conservative stress exposure.
    - **Number of scenarios**: dispersion is typically lower when the number of scenarios is 5,000 or higher.
    - **Regulatory multiplier alpha**: three banks are subject to a higher alpha.
  - Observed good practices: consistency between front office pricing and IMM pricing; the stressed period used to calibrate the stressed EEPE measure coincides with a period of increased CDS or other credit spreads for a representative selection of the bank's counterparties with traded credit spreads; banks demonstrate that the selection of time steps results in appropriate exposure estimates.
  - Areas for further attention: increasing the recalibration frequency will result in better data quality, more exposure stability and less variability; it is recommended that banks using fewer than 5,000 scenarios to demonstrate that fewer scenarios do not alter the convergence of the EEPE measure; the BCBS is examining if additional specification can be developed concerning the modelling of the Margin Period of Risk (MPoR) and the associated potential cash flows; and the BCBS is considering removing the discretion to model alpha.
- **CVA**
  - Key findings on variability: overall, it appears to be considerable and generally somewhat higher across banks than for IMM. The BCBS identifies key drivers, such as:
    - **Choice of stress period for stressed CVA**: banks using 2008–09 stress period reported generally more conservative stressed CVA VaR numbers.
    - **Differences in VaR modelling**: for instance, partial vs full repricing, historical simulation vs Monte Carlo, etc.
  - Good practices and areas for attention: supervisors should request that banks provide adequate information on the methodology by which the stressed period is chosen; the BCBS intends to review if further guidance and/or additional regulatory requirements are needed to harmonise approaches across banks with regard to the usage and derivation of proxy spreads; as for modelling basis spread, it is recommended that banks model an idiosyncratic factor in the time series for each counterparty when spreads are proxied.

3. Next steps

- The BCBS is considering whether it may be necessary to narrow down certain modelling choices for banks and harmonise supervisory practices to enhance consistency. In this regard, it is expected that the Fundamental Review of the Trading Book and in particular the review of the CVA risk capital charge, will mitigate some of the observed variability in regulatory outcomes for CCR.

18/11/2015
Interim impact analysis on the fundamental review of the trading book.

1. Context

The BCBS has the commitment to improve trading book requirements and to promote consistent implementation of the rules so that they produce comparable level of capital across jurisdictions. In undertaking it, the BCBS published two consultation papers on the Fundamental Review of the Trading Book (FRTB) in October 2013 and December 2014.

The BCBS has conducted a trading book quantitative impact study (QIS) which analyses changes related to the overall Basel III capital requirements, changes in bank capital ratios under the proposed internally-modelled approaches (IMA) and the proposed standardised approach (SA) compared to the current market risk framework, as well as banks´ performance against the proposed profit and loss (P&L) attribution measure for assessing internal model robustness.

2. Main points

- **Sample of banks**: 78 banks participated in this QIS, comprising 66 Group 1 banks (internationally active banks that have €3,000 M or more of Tier 1 capital) and 12 Group 2 banks (all other).
    - Only 31 out of 78 banks were able to provide good quality data (e.g performed accurate calculations for bucket and risk class level capital charges under the proposed standardised approach).
- **Capital impact on Basel III minimum capital requirement (MCR)**: the change in market risk capital charges would be equivalent to a 4.7% share in the overall Basel III MCR (i.e. for credit risk, operational risk, market risk, etc.). However, when the bank with the largest value of market RWAs is excluded from the sample, the change in total market risk capital charges translates to a 2.3% share of overall Basel III minimum regulatory capital.
- **Capital impact on the proposed market risk framework**: it would result in a weighted average increase of 74% in aggregate market risk capital charges, compared to the current market risk framework. When measured as a simple average (i.e. less emphasis on banks with the largest amount of market risk weighted assets) the increase is 41%.
    - In the proposed standardised approach the capital requirement is 128% higher compared to the current SA.
    - In the proposed internally-modelled approaches the capital requirement is 54% higher than under the current IMA.
- **P&L attribution measure**: based on a sample of 16 banks, 88% or 14 banks passed the P&L measure. This test indicates potential weaknesses in risk measurement models if the risk measure values differ significantly between the P&L based on front office pricing systems and the P&L based on internal risk models.

3. Next steps

- The BCBS expects to finalise the standard on the Fundamental Review of the Trading Book around **year-end**.

11/12/2015
Second consultative document on Revisions to the Standardised Approach for credit risk.

1. Context

In December 2014, the BCBS issued a consultation document to revise the Standardised Approach (SA) for credit risk with the objective of removing all references to external credit ratings and assigning credit risk weights based on a limited number of alternative risk drivers.

The new proposal published by the BCBS has significantly changed compared to the previous one, due to concerns expressed by respondents to the initial proposal. An important change is the reintroduction of the use of external ratings for banks and corporates, among other changes.

2. Main points

<u>Revisions to the SA for credit risk</u>

- **Exposures to banks** are risk weighted based on the following hierarchy of approaches:
    - <u>External credit risk assessment approach (ECRA)</u>: for rated exposures of banks from jurisdictions that allow the use of external ratings. Banks would use external ratings as a primary basis to determine risk weights for regulatory purposes.
    - <u>Standardised credit risk assessment approach (SCRA)</u>: for unrated exposures of banks from jurisdictions that allow the use of external ratings and for all exposures of banks from jurisdictions that do not allow the use of external ratings. Banks would classify their exposures into three different buckets (A, B and C) from less to higher credit risk, considering capital and liquidity regulatory requirements and capital buffers.
- **Exposures to corporates**:
    - In <u>jurisdictions that allow the use of ratings for regulatory purposes</u>, it is proposed to establish minimum weights based on these ratings. Unrated exposures would be risk weighted at 100% and the criteria for eligibility of guarantors and financial collateral would be based on external ratings.
    - In <u>jurisdictions that do not allow the use of ratings for regulatory purposes</u>, a lower risk weight of 75% would apply to certain corporates deemed to be investment grade. Other exposures would receive a 100% risk weight.
    - In <u>all jurisdictions</u>, exposures to small and medium entities (SMEs) would receive an 85% risk weight.
    - For <u>specialised lending exposures</u> to corporates that are rated and are incorporated in jurisdictions that allow the use of ratings, it is proposed to establish minimum weights based on the ratings. Non rated exposures or exposures within jurisdictions that do not allow the use of ratings shall be risk weighted based on the type of specialised lending.
- **Exposures secured by real estate**: it is proposed to use the loan-to-value (LTV) ratio as the main risk driver for risk weighting purposes. The proposal sets a differentiated treatment for exposures where repayment is materially dependent on cash flows generated by the property and for specialised lending real estate exposures defined as land acquisition, development and construction (e.g. loans to companies or SPVs).
- Moreover, the revision also includes proposals for exposures to subordinated debt and capital instruments, exposures to multilateral development banks, retail and defaulted exposures, as well as off-balance sheets items and other assets.
- The treatment **for sovereigns, central banks and public sector entities** are not within the scope of this revision. The Committee is considering these exposures as part of a broader and holistic review of sovereign-related risks.

<u>Revisions to the CRM framework</u>

- **Revised methodology for repo-style transactions**: it is proposed to revise the current formula under the comprehensive approach to better account for diversification and correlation.
- **Reintroduction of external ratings in the CRM framework**: it is proposed to retain external ratings for the treatment of collateral and guarantees. The proposal also includes an alternative approach for jurisdictions that do not reference external ratings in their regulations.

3. Next steps

- Comments to this consultation paper shall be submitted by **11 March 2016**.
- The BCBS will conduct a comprehensive QIS in 2016 as part of the Basel III monitoring exercise collecting data as of **end-December 2015**.

16/12/2015

Progress in adopting the principles for effective risk data aggregation and risk reporting.

1. Context

In January 2013, the BCBS issued the principles for effective risk data aggregation and risk reporting (RDA&RR) to improve risk management practices and decision-making processes by strengthening banks' risk data aggregation and risk reporting practices. Bank´s progress in adopting the RDA&RR principles has been monitored and assessed at least on an annual basis from the end of 2013.

Therefore, the BCBS has now published a third progress report on bank´s adoption of the RDA&RR principles. However, it does not cover a compliance assessment although it shows the implementation progress made based on the 2014. This report highlights some core **challenges** that banks face to achieve full compliance with the principles as well as some **recommendations** in order to promote adoption.

2. Main points

- **Scope**: global systemically important banks (G-SIBs). However, the BCBS suggests that supervisors also apply the principles to domestic systemically important banks (D-SIBs).
- **Bank progress**: based on the 2014 progress report and supervisory monitoring, expected dates for full compliance with all principles ranged from sometime in 2016 to as far out as 2018.
- **Challenges**. The industry and supervisory oversight showed challenges to fully comply with the principles regarding the following topics:
  - Defining key terminology: there is a desire for more uniform and objective thresholds relative to the concept of materiality.
  - Data architecture and IT projects: completing large-scale infrastructure projects on time continues to be seen as the significant obstacle to full compliance.
  - Accuracy and adaptability of risk data: three areas require further advances, such as balance between automated and manual systems; process documentation; and data process adaptation to ad hoc request.
  - Risk reporting: despite banks rated themselves quite highly on their risk reporting capabilities, the identified weakness in data accuracy mean that risk reports themselves will be inaccurate.
- **Recommendations**:
  - Supervisors should conduct more indepth/specialized examinations on data aggregation requirements to evaluate weaknesses
  - Banks and supervisors should continue to promote understanding of the Principles.
  - Banks should clearly articulate RDA&RR expectations, in line with their risk appetite in both normal and stress periods.
  - Banks should have governance arrangements in place for manual processes.
  - Banks should critically examine their data architecture and data adaptability capabilities.
  - Banks' compliance with the Principles should be subject to an independent evaluation in early 2016.
  - In cases of non-compliance at the implementation deadline, banks should provide a remedial plan that is agreeable to supervisors.

3. Next steps

- G-SIBs are required to comply with the principles by **1 January 2016**.

17/12/2015
Consultative Document on identification and measurement of step-in risk.

1. Context

During the financial crisis, banks preferred to support certain shadow banking entities in financial distress, rather than allowing them to fail and facing a loss of reputation, even though they had neither ownership interests in such entities nor any contractual obligations to support them.

In this regard, the BCBS has published a consultative document proposing a conceptual framework for identifying and assessing **step-in risk**, which is defined as the risk that banks would provide financial support to certain shadow banking entities or other non-bank financial entities in times of market stress, beyond or in the absence of any contractual obligations to do so. The proposal only applies to **unconsolidated entities**, which are those out of the regulatory scope of consolidation.

The proposals herein are preliminary and the Committee has yet to decide how the proposals will fall within the regulatory framework, including whether they fall within Pillar 1 and/or Pillar 2.

2. Main points

- **Identification of step-in risk**. Banks would assess their relationships with the unconsolidated entities against the primary indicators. If one of these indicators is met, it would be presumed that significant step-in risk exists, although banks could argue that the risk towards an entity has been partially or fully mitigated. Supervisors could use secondary indicators when considering whether a bank's argument that a particular indicator of step-in risk has been mitigated is reasonable.
    - The proposal provides a non-exhaustive <u>list of primary indicators</u>, such as:
        - Sponsoring relationship.
        - Entities for which the bank is able to appoint or remove the majority of their members of the governing body.
        - Entities that provide critical services exclusively to a bank.
    - The proposal provides <u>secondary indicators</u>, such as:
        - An entity that carries the bank's brand (e.g. corporate name, logotype, etc.).
        - Entity whose financial instruments have been tailored for certain customers with whom a bank has a close commercial relationship.
- **Measurement approaches for step-in risk**. The proposal includes potential approaches that could be used to reflect step-in risk in banks' prudential measures and it provides a mapping of primary indicators with measurement approaches.
    - <u>Full or proportionate consolidation approach</u>: full or proportionate consolidation-like techniques would allow banks to have a comprehensive view of the risks posed by the entity itself. These techniques are not specified in the document.
    - <u>Conversion approach</u>: the entity would remain a third party to a bank but the step-in risk would be captured using quantitative requirements. A bank would determine the amount of a potential commitment that could materialise, using credit conversion factors (the BCBS does not include proposals for specific conversion rates, the factor applied will be set based on a bank's assessment of specific circumstances).
- **Other issues and consideration of specific cases**. The proposal also discusses collective rebuttals and includes provisions on the specific cases of joint-ventures, asset managers and assets under management.

3. Next steps

- Comments to this consultative document shall be submitted by **17 March 2016**.

18/12/2015
Guidance on credit risk and accounting for expected credit losses.

1. Context

In June 2006, the BCBS issued supervisory guidance on Sound Credit Risk Assessment and Valuation for Loans. This document was based on the incurred-loss model of accounting, which was implemented with significant differences from jurisdiction to jurisdiction, and amongst banks within the same jurisdiction.

In this regard, the BCBS has published a document with new guidelines. In particular, the objective of this paper is to set out supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss (ECL) accounting frameworks.

This supervisory guidance is structured around **11 principles** on supervisory guidance for credit risk and accounting for ECL; and supervisory evaluation of credit risk practices, accounting for ECL and capital adequacy. The document includes an appendix that describes supervisory requirements specific to jurisdictions applying the IFRS ECL requirements.

2. Main points

- **Scope and application**:
  - The BCBS expects that a bank will estimate ECL for all lending exposures (i.e. loans, loan commitments and financial guarantee contracts).
  - The BCBS has heightened supervisory expectations that internationally active banks will have a high-quality implementation of an ECL accounting framework.
  - The BCBS recognises that supervisors may adopt a proportionate approach, commensurate with the size, complexity and risk profile of the bank.
- **Supervisory guidance for credit risk and accounting for expected credit losses**:
  - Development of appropriate credit risk practices to determine allowances.
  - Adoption and documentation of sound methodologies for assessing and measuring credit risk on all lending exposures.
  - Establishment of a credit risk rating process to appropriately group lending exposures on the basis of shared credit risk characteristics.
  - Determination of an aggregate amount of allowances which should be adequate and consistent with the objectives of the applicable accounting framework.
  - Definition of policies and procedures to validate models used to assess and measure expected credit losses.
  - Use of experienced credit judgment in the assessment and measurement of ECL, especially in the consideration of forward-looking information.
  - Establishment of a credit risk assessment process that provides a strong basis for common systems, tools and data to assess credit risk, and account for ECL.
  - Promotion of transparency and comparability through public disclosures.
- **Supervisory evaluation of credit risk practices, accounting for expected credit losses and capital adequacy**:
  - Periodic evaluation of the effectiveness of a bank's credit risk practices.
  - Assessment of the methods employed by a bank to determine allowances and their measurement of ECL under the applicable accounting framework.
  - Consideration of a bank's credit risk practices when assessing a bank's capital adequacy.

03/11/2015

- **2015 update of the global systemically important banks (G-SIB) list.**
- **2015 update of the global systemically important insurers (G-SII) list.**
- **Information on global systemically important banks.**

1. Context

In 2011 the FSB published an integrated set of policy measures to address the systemic and moral hazard risks associated with systemically important financial institutions (SIFIs). In that publication the FSB identified an initial group of global systemically important banks (G-SIBs) that were allocated to buckets corresponding to the higher loss absorbency requirements that the BCBS required them to hold. Furthermore, in 2013 the FSB identified an initial list of global systemically important insurers (G-SIIs).

Under the specific mandate of annual updates, the FSB has now published an **updated list of G-SIBs** and an **updated list of G-SIIs**. In conjunction with these two lists, the BCBS has released **further information** on the assessment methodology used in this updated list of G-SIBs.

2. Main points

<u>FSB - 2015 update of the G-SIB list</u>

- The updated list comprises a total of **30 banks** with one new bank, China Construction Bank, being added and one bank, BBVA, being removed from the list. Moreover, Royal Bank of Scotland has been moved down into the 1% bucket for required loss absorbency.
- The inclusion of a bank in the G-SIBs list means that the entity is **subject** to:
    - A global standard for **Total-Loss Absorbing Capacity** (TLAC).
    - A **Higher Loss Absorbency** (HLA) requirement identified in the annual update.
    - Requirements for **group-wide resolution planning** and regular **resolvability assessments** (also reviewed in a high-level FSB Resolvability Assessment Process (RAP)).
    - Higher supervisory expectations for **risk management functions**, **data aggregation capabilities**, **risk governance** and **internal controls**.

<u>FSB - 2015 update of the G-SII list</u>

- The updated list comprises a total of **9 insurers** with one new insurer, Aegon, being added and with Generali being removed.
- The inclusion of a insurer in the G-SII list means that the insurer is subject to:
    - A **Higher Loss Absorbency** (HLA) Requirement, which is still under development.
    - Requirements for **enhanced group-wide supervision**, including for the group-wide supervisor to have direct powers over holding companies and to oversee the development and implementation of a Systemic Risk Management Plan and a Liquidity Management Plan.
    - Requirements for **group-wide resolution planning** and **resolvability assessments** (also reviewed in a high-level FSB Resolvability Assessment Process (RAP)).

<u>BCBS - Information on global systemically important banks</u>

- The BCBS has included the following information:
    - A **list of all banks** in the assessment sample.
    - The **denominators** used to calculate the scores for banks in the exercise.
    - The **cut-off score** that was used to identify the updated list of G-SIBs.
    - The **threshold** used to allocate G-SIBs to buckets for the purposes of calculating the specific higher loss absorbency requirements for each institution.
    - **Links to the disclosures** of all the banks in the assessment sample in 2015.

3. Next steps

- The TLAC final standard is expected to be released on **9 November 2015.**
- Both lists of G-SIBs and G-SIIs will be next updated in **November 2016.**
- The HLA requirement for G-SIBs will be phased in from **1 January 2016,** with full implementation by **1 January 2019.**
- The HLA requirement for G-SIIs will be revised before its implementation in **2019.**
- By end **November 2015**, the International Association of Insurance Supervisors (IAIS) will publish two consultations, one to update the G-SII methodology and the other on the definition and characteristics of activities considered “Non-Traditional Non-Insurance”.

10/11/2015

- **Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution and Total Loss-absorbing Capacity (TLAC) Term Sheet.**
- **Consultative Document on TLAC Holdings.**
- **TLAC Quantitative Impact Study (QIS).**
- **Report assessing the economic costs and benefits of TLAC implementation.**

1. Context

In 2013, the G20 Leaders called for the development of proposals on the adequacy of loss-absorbing and recapitalisation capacity of global systemically important banks (G-SIBs). In response to this request, the FSB in consultation with the BCBS published on November 2014 its proposed minimum standard for Total Loss-Absorbing Capacity (TLAC).

In this regard, the FSB has issued now the **final TLAC standard** for G-SIBs. Moreover, the BCBS has published the **TLAC Quantitative Impact Study** (QIS) Report, which analyses the TLAC levels and shortfalls, and also a report including the findings of an assessment on **impact of TLAC** implementation. Further, the BCBS has published a consultative document setting out its proposed deduction treatment for banks' **investments in TLAC**.

2. Main points

<u>Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution and Total Loss-absorbing Capacity (TLAC) Term Sheet</u>

- **Minimum external TLAC requirement**:
  - <u>Application</u>: it will be applied to each resolution entity within each G-SIB.
  - <u>Composition</u>:
    - **TLAC RWA Minimum**: at least 16% of the resolution group's RWAs as from 1 January 2019 (2025 for G-SIBs headquartered in an emerging market economy (EME)) and at least 18% as from 1 January 2022 (2028 for G-SIBs headquartered in an EME).
    - **TLAC LRE (leverage ratio exposure) Minimum**: at least 6% of the Basel III leverage ratio denominator as from 1 January 2019 (2025 for G-SIBs headquartered in an EME) and at least 6.75% as from 1 January 2022 (2028 for G-SIBs headquartered in an EME).
  - <u>Eligible instruments</u>: instruments must be issued and maintained directly by resolution entities with a residual maturity of at least a year. Regulatory capital can be used for TLAC, but subject to many restrictions (e.g. CET1 capital can only be used for TLAC if it is not used as part of regulatory capital buffers).
- **Minimum internal TLAC requirement**:
  - <u>Application</u>: it will be applied to material sub-groups (subsidiaries of a resolution entity that have more than 5% of the consolidated RWAs of the G-SIB group; or generate more than 5% of the total operating income of the G-SIB group; or have a total leverage exposure measure larger than 5% of the G-SIB group's measure; or have been identified as such by the firm's CMG (Crisis Management Group)).
  - <u>Size of the requirement</u>: 75% to 90% of the external Minimum TLAC requirement that would apply to the material subgroup if it were a resolution group, as calculated by the host authority.
  - <u>Eligible instruments</u>: the same rules apply as those for eligible external TLAC (except with regard to the issuing entity and permitted holders).

TLAC Quantitative Impact Study (QIS) Report

- The QIS analysed the impact of external and internal TLAC on the 30 G-SIBs included in the November 2014 FSB list, and of Holdings of TLAC on 54 Group 1 banks and 80 Group 2 banks. The data used in the assessment is year-end 2014 and regulatory capital instruments are reported on a Basel III fully loaded basis.
- The following findings were obtained:
    - **External TLAC**: instruments issued by G-SIBs that currently meet all the requirements of the TLAC term sheet are limited, with the exception of instruments that qualify as regulatory capital.
    - **Internal TLAC**: most of the material subsidiaries reported already meet the internal TLAC requirements in the majority of cases. This is mainly driven by surplus capital, typically CET1, of material subsidiaries.
    - **Holdings of TLAC**: neither G-SIBs nor non-G-SIBs hold significant amounts of G-SIB-issued TLAC liabilities. This is partly because few instruments other than regulatory capital instruments currently meet the term sheet criteria.
    - **Threshold deduction of TLAC holdings from Tier 2**: given the relatively low level of TLAC holdings, the impacts of the threshold deduction are small on average for G-SIBs and non-G-SIBs although there is variability among banks and the impacts could be material for some individual banks.

Report assessing the economic costs and benefits of TLAC implementation

- The report is based on data submitted by the **30 banks on the G-SIB list** as of end-2014.
- Since the final TLAC requirement values were unknown, the analysis examines **four combinations** of the required ratio of TLAC to banks' RWAs and the LRE.
- For example, the following **results** have been obtained for calibration 1 (i.e. minimum TLAC of 16% of RWA and 6% of the exposure measure):
    - Shortfalls. The median shortfall (i.e. difference between required TLAC and available eligible liabilities) is €14.3 billion, and the collective shortfall is €767.4 billion.
    - Microeconomic costs. Institutions will have to replace existing securities with more expensive TLAC eligible securities until they fill their shortfall. In this regard:
        - The median increase of the weighted average cost of funds is 42.7 bps and the total annual cost aggregated across all G-SIBs is €11.7 billion
        - The median increase in interest costs is about 1.6% of net interest income.
    - Macroeconomic costs. It is assumed that G-SIBs will pass the additional funding costs to their clients in the form of higher loan rates:
        - The median rise in loan rates is 5.4 bps.
        - The cost in terms of the reduction in long-run GDP is less than 5 bps.
- The report highlights **microeconomic benefits** (i.e. neutralization of the distortions that stem from the expectation of public sector bail-outs) and macroeconomic benefits (i.e. reduced likelihood and cost of crises).

Consultative Document on TLAC Holdings

- Internationally active banks, both G-SIBs and non-G-SIBs, will be required to **deduct their net TLAC holdings** (including holdings of own TLAC and reciprocal cross holdings) that do not otherwise qualify as Basel III capital from their own **Tier 2 capital**.
    - Where a bank owns more than 10% of the common shares of the issuer, holdings of TLAC would be fully deducted. Otherwise, holdings would be deducted subject to a threshold.
- The BCBS **defines what constitutes a TLAC holding** (e.g. it includes all holdings of instruments that are eligible to be recognised as TLAC; excludes all holdings of instruments listed in the Excluded Liabilities section of the TLAC term sheet; etc.).

3. Next steps

- The conformance period given to G-SIBs in EME will accelerate if in 2020 the aggregate amount of the EME's financial and nonfinancial corporate debt securities or bonds outstanding exceeds 55% of the EME's GDP. This metric will be measured each November until **November 2020** and the threshold will be reviewed in **2019**.
- Firms that are designated as G-SIBs after 2018 must meet Minimum TLAC requirements within **36 months** from their date of designation.
- TLAC positions should be disclosed and monitored as from **1 January 2019**. For EME headquartered G-SIBs, disclosure and monitoring should begin at the start of their conformance period.
- The FSB will undertake a review of the technical implementation of this standard by the end of **2019**.
- Comments to the CP on TLAC Holdings shall be submitted by **12 February 2016**. The proposed implementation date for the approach described in the CP is **1 January 2019**.

06/10/2015

Higher Loss Absorbency Requirement for Global Systemically Important Insurers (G-SIIs).

1. Context

The International Association of Insurance Supervisors (IAIS) has developed a framework of policy measures for global systemically important insurers (G-SIIs) which is line with the FSB framework for addressing the systemic and moral hazard risks. For this purpose, the IAIS has concluded the initial development of **the Higher Loss Absorbency (HLA) requirement for G-SIIs** which is founded in the **Basic Capital Requirement (BCR)** and other additional capital requirements published in October 2014.

In this regard, this document **describes the HLA requirement**, which is an additional requirement of the BCR, and **the components** of the capital required in both the BCR and HLA requirement.

2. Main points

- **HLA scope:** all group activities of G-SIIs, including the non-insurance subsidiaries.
- **HLA construction process:** it separates BCR required capital exposures by different categories (traditional insurance, assets, non-traditional insurance, and non-insurance).
- **Components considered in the required capital fot the BCR + HLA**. The following components will be considered for both insurance and non-insurance business.
    - **BCR_{2014}:** this is as specified in the BCR Document published in October 2014.
    - **BCR_{Uplift}:** it will increase the BCR_{2014} for both insurance and non-insurance to reduce the expected gap between the BCR and the future insurance capital standard (ICS) that is under development. Therefore, the recalibrated BCR_{2015} is the sum of the BCR_{2014} and its increase, BCR_{Uplift}.
    - **HLA:** the required capital amount is calculated using a "factor-based" approach. It will be determined based on the bucket in which a G-SII is placed and then by the HLA factors that pertain to each bucket as applied to BCR required capital exposures.

3. Next steps

- It is expected that the IAIS will formally adopt the HLA requirement in **November 2015**, and it will be reviewed on an annual basis, which will commence in **2016**.
- The **final HLA** is estimated to be implemented by G-SIIs in **2019.**

22/10/2015
Updated list of Common Equity Tier (CET1) capital instruments.

1. Context

The EBA is mandated to monitor de quality of new instruments issued by Competent Supervisory Authorities (CAs) and assess their compliance with the eligibility criteria laid down in the CRR.

Therefore, following the publication of an updated list of CET1 capital instruments on 23 December 2014, the EBA has now published a second update where **two new instruments** have been evaluated as **compliant with the CRR**.

2. Main points

- The list includes the following **information**:
    - Name of the instrument.
    - Governing law of the instrument.
    - Whether the instrument can be issued in addition to other CET1 instruments.
    - Instrument with voting or non-voting rights.
    - Whether the instrument is a grandfathered state aid instrument.
    - Whether the instrument is a grandfathered non state aid instrument.
    - Whether the instrument is fully eligible as CET1 instruments under the CRR.
- **The new instruments** compliant with the CRR **belong to Austria and the Netherlands.**
- As the list provided does not yet take into account the **RTS for own funds requirements**, it is recommended to notice the list of caveats described at the beginning of the list.

3. Next steps

- The EBA will continue monitoring and assessing the CET1 capital instruments issued by the CAs.

05/11/2015

- **Draft Methodological Note of the EU-wide Stress Test 2016.**
- **Draft 2016 EU-wide Stress Test templates.**

1. Context

The objective of the 2016 EU-wide stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks and the EU banking system to shocks. In particular, this exercise is designed to inform the Supervisory Review and Evaluation Process (SREP) that competent authorities will carry out in 2016.

In this regard, the EBA has published the stress test draft **methodology** for discussion, describing how banks should calculate the stress impact of the common scenarios. The **list of institutions** participating in the exercise is also included.

2. Main points

- **Sample of banks**:
    - 53 EU banks will participate in the exercise (124 EU banks participated in 2014), covering broadly 70% of the national banking sector in each EU Member State and Norway.
    - To be included in the sample, banks have to hold a minimum of €30 billion in assets. Nonetheless, competent authorities (CAs) could request to include additional institutions in their jurisdiction provided that they have a minimum of €100 billion in assets.
    - The scope of consolidation is the perimeter of the banking group as defined by the CRDIV/CRR.
- **Reference date**: the exercise is carried out on the basis of year-end 2015 figures.
- **Macroeconomic scenarios**: the stress test includes a baseline scenario and an adverse scenario, which cover the period of 2015 to 2018.
    - The exercise is conducted on the assumption of static balance sheet, which applies for both the baseline and the adverse scenario.
- **Risk coverage**:
    - Banks are required to stress test the following common set of risks:
        - Credit risk, including securitisation.
        - Market risk and counterparty credit risk.
        - Operational risk and conduct risk.
    - Banks are also requested to project the effect of the scenarios on net interest income and to stress P&L and capital items not covered by other risk types.
    - The risks arising from sovereign exposures are covered in credit risk as well as in market risk depending on their accounting treatment.
- **Results**:
    - The impact on capital will be reported in terms of CET1, Tier 1 capital ratio and total capital ratio. Unlike in the previous exercise, a leverage ratio will be reported as well.
    - Unlike in the 2014 stress test, no hurdle rates or capital thresholds are defined for the purpose of the exercise. However, CAs will apply the results as an input to the SREP.
- **Process**: it involves close cooperation between the EBA, the CAs and the ECB, as well as the ESRB and the European Commission.
    - The CAs are responsible for the quality assurance process.

3. Next steps

- The 2016 EU-wide stress test will be launched at the **end of February 2016**, with a publication of the final methodology and templates as well as the scenarios.
- The outcomes of the exercise, including banks' individual results, are expected to be published at the beginning of **Q3 2016**.

13/11/2015

- **Consultation Paper on Guidelines on the treatment of CVA risk under the SREP.**
- **Instructions for QIS on CVA SREP GLs.**
- **QIS Template.**

1. Context

The CRR mandates the EBA to monitor the own funds requirements for Credit Valuation Adjustment (CVA) risk. To this end, the EBA published in February 2015 the CVA Report, in which committed to developing guidance addressed to competent authorities (CAs) and institutions on how to treat CVA risk under the supervisory review and evaluation process (SREP).

In this regard, the EBA has published a CP on Guidelines (GL) which provide a common approach to the determination of materiality of the CVA risk, its SREP assessment, and the determination of additional own funds requirements to cover CVA risk. Moreover, in order to ensure an appropriate calibration of the threshold values specified in the GL, the EBA has launched a data collection exercise for a Quantitative Impact Study (QIS).

2. Main points

- **Materiality of the CVA risk**.
    - All institutions should determine their CVA risk as relevant if the exposure value for derivative transactions, excluding those with a qualifying central counterparty, exceeds a certain threshold (yet to be specified by the EBA).
    - Institutions with a relevant CVA risk should determine whether they exceed the materiality threshold, by calculating the hypothetical own funds requirement for CVA risk as a ratio of the hypothetical total risk exposure (yet to be specified by the EBA).
- **SREP assessment of material CVA risk**.
    - When an institution meets the materiality threshold, CAs should assess the CVA risk independently from market risk, and assess:
        - The level of CVA risk: CAs should apply the principles set forward in the SREP GL (e.g. assessing types of counterparties, the degree of concentration of counterparties and specific products, etc.).
        - CVA risk management and controls: this assessment should be based also on the requirements stipulated in the SREP GL.
    - CAs should form a view on the institutions' overall CVA risk, including a risk score.
- **Additional own funds requirements**.
    - In case CAs identify deficiencies, they should consider applying supervisory measures (e.g. restricting or prohibiting distributions to shareholders).
    - CAs should assess how an institution is taking material CVA risk into account in its ICAAP, for the determination of possible additional own funds requirements.
        - For this purpose, CAs should determine a value of supervisory benchmark as the proportion of the hypothetical own funds requirements for CVA risk (threshold yet to be specified by the EBA).
- **Quantitative Impact Study**.
    - The QIS will be used for the calibration of the threshold values.
    - Unless noted otherwise, data should be reported as of 30 September 2015.

3. Next steps

- Comments to the consultative document shall be submitted by **12 February 2016**.
- The data collection exercise for the QIS shall be completed by **28 January 2016**.
- The EBA will publish the discussion of results and policy options in the **1st semester of 2016**.

25/11/2015
2015 EU-wide transparency exercise report.

1. Context

The EBA has been conducting transparency exercises at EU-wide level on an annual basis since 2011, either linked to concurrent stress test exercises or to specific sole transparency exercises like the current one. However, unlike the stress tests, transparency exercises are purely disclosure exercises where only bank-by-bank data are published and no shocks are applied to the actual data.

In this regard, the EBA has published the outcome of its 2015 EU-wide transparency exercise including detailed bank-by-bank data and aggregate results on capital positions, non-performing loans ratio, coverage ratio of non-performing loans, leverage ratio and sovereign exposures.

2. Main points

- **Sample of banks**: 105 banking groups from 21 countries across the EU and Norway, with a total of about EUR 30 trillion assets covering more than 67% of total EU banking assets.
- **Reference date**: the detailed bank-by-bank data are being published for two dates, i.e. 31 December 2014 and 30 June 2015.
- **Data**:
  - For the first time, this exercise has been conducted relying on existing supervisory reporting data which is submitted to the EBA on a regular basis: COREP and FINREP.
  - Only in the case of two topics, i.e. sovereign exposures and leverage ratio, the data has been collected ad hoc from banks as in previous exercises.
- **Results**: banks have strengthened their capital positions although they need to continue addressing the level of non-performing loans which remains a drag on profitability.
  - Capital positions: the aggregate CET1 capital ratio for the 105 banks is 12.8% (12% fully loaded), with the Tier 1 capital ratio at 14.0% and the total capital ratio reaching 16.7%.
  - Return on regulatory capital (RoRC): the aggregate weighted average RoRC is 9.1% as of June 2015, and 4.65% as of December 2014.
  - Non-performing loans ratio: the aggregate weighted non-performing exposure (NPE) ratio is 5.6% when considering only loans and advances although, for all on-balance-sheet debt instruments, this ratio is close to 5%.
  - Coverage ratio of non-perfoming loans: the aggregate weighted EU level coverage ratio of non-performing loans is 43.3%.
  - Leverage ratio: the aggregate leverage ratio is 4.9%. However, the distribution across banks showed that 7% of the banks (representing only 1% of total exposure) reported a leverage ratio below 3% whereas a 53% of banks enjoyed a leverage ratio above 5%.
  - Sovereign exposures: the home bias when investing in sovereign debt is still relevant although it is gradually improving as banks have increased their holdings of non-domestic sovereign debt.

Ratio CET1 (transitorio)	RoRC	Ratio de morosidad	Ratio de cobertura de los préstamos morosos	Ratio de apalancamiento	Exposiciones soberanas como % de la exposición al apalancamiento total
12,8%	9,1%	5,6%	43,3%	4,9%	9,7%

Datos a junio de 2015

3. Next steps

- The EBA decides on a yearly basis whether or not to conduct a stress test exercise. On those years where a stress test exercise is not conducted, a transparency exercise is carried out.

30/11/2015
Report on banks' transparency in their 2014 Pillar 3 reports.

1. Context

For the first time since the entry into force of the CRR on 1 January 2014, the EBA has assessed bank´s compliance against the disclosure requirements laid down in this regulation.

In this regard, the EBA has released an assessment of the **annual Pillar 3 reports** of 17 European banks which relate to the 2014 financial year. In particular, it analyses the changes on risk management, own funds, capital requirements, indicators of global systemic importance, use of the Internal Ratings-Based (IRB) approach to credit risk, unencumbered assets, market risk and remuneration policy. Moreover, it also covers a thematic study which compares the revised Pillar 3 framework published in January 2015 by the BCBS.

2. Main points

- Specific findings: overall, there is an increase in the quality of disclosures but compliance with new disclosures requirements is still work in progress.
  - **Risk management**: the disclosure is, in general, satisfactory. However, the majority of banks could improve their compliance with the new disclosure requirements of CRR.
  - **Own funds**: most banks provide the required disclosures although improvement is expected regarding the cross-referencing on full terms and conditions of own funds and the identification of CET1 instruments.
  - **Capital requirements**: disclosures could be improved as regards the breakdown of capital requirements by exposure class or approach, and the practice of providing RWAs figures instead of the required disclosures on capital requirements.
  - **Indicators of global systemic importance**: all institutions disclose information according to the required template, apart from a few exceptions.
  - **Credit risk under the IRB approach**: despite increased compliance on backtesting, banks should improve overall comparability and the presentation and granularity of the information provided regarding risk management, model parameters, modelling assumptions and the breakdown of risk parameters by exposures and by geography.
  - **Market risk**: the lack of specificity of some requirements may explain some of the needed improvements (e.g. disclosure on liquidity horizons) although gaps in information also arise regarding, among others, the nature of the risk models or the stress-testing framework.
  - **Uncumbered assets**: despite being new requirements, they present a high degree of compliance in the mandatory quantitative templates. However, regarding the non-mandatory qualitative information, banks provide too little information.
  - **Remuneration policy**: compliance with the disclosure requirements has improved although more qualitative and quantitative information on senior management´s remuneration should be provided by banks.
- Thematic study: it provides an overview of the commonalties and differences between the revised BCBS Pillar 3 and the current CRR disclosure requirements.
  - This study determines that the **BCBS framework is more specific than the current CRR**, due to the higher details of the characteristics of internal models for credit risks and market risk and for the capital requirements for market risk.

3. Next steps

- The mentioned revised Pillar 3 framework issued in January 2015 by the BCBS will be applicable at **year-end 2016**.

09/12/2015
Comparative report on the approach taken on recovery plan scenarios.

1. Context

The Bank Recovery and Resolution Directive (BRRD) requires institutions to consider a range of scenarios of severe macroeconomic and financial stress relevant to an institution's specific conditions when developing their recovery plans.

In this regard, the EBA has published a **comparative report** on the approaches taken by a sample of European banking groups on scenarios in recovery plans. This benchmarking exercise is aimed at supporting national competent authorities and institutions by providing them with an overview of how scenarios included in recovery plans have been developed so far.

2. Main points

- **Sample**: 19 banks with parent institutions located in 10 different EU countries, representing roughly €12.4 trillion in assets of EU banking sector assets. The EBA has not specified the name of the banks.
- **Results**. There is diversity among the recovery plans analysed:
  - In a number of recovery plans, the approach chosen for the scenario analysis is already **in line with the requirements of the BRRD** and EBA regulatory products.
  - Other plans seem to be at a less advanced stage. To this extent, the **main areas for improvement** are the following:
    - Relevance: in roughly one third of the plans, the scenarios did not seem to be specific, as they featured a generic description without explaining why the events are relevant for the institution. Only a few plans considered the impact on critical functions and business lines.
    - Severity: roughly half of the plans provided a thorough explanation of hypothesis, assumptions and events. Other plans provided only a generic description which made it difficult to see whether the scenarios were severe.
    - Timeframe: in some plans, there was not an appropriate timeline of events to allow the putting into context of the breach of recovery indicators, the actions to be taken, and the proper implementation of recovery options.
    - Indicators and options: there is a lack of a clear link between scenarios and indicators in some plans. Similarly, the lack of identification of potential impediments to recovery options' implementation might prevent a thorough assessment of the overall recovery capacity.

10/12/2015
Consultation paper on draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 680/2014 on supervisory reporting of institutions with regard to financial reporting (FINREP) following the changes in the International Accounting Standards (IFRS 9).

1. Context

In July 2014, the International Accounting Standards Board (IASB) issued “IFRS 9 – Financial Instruments” which supersedes IAS 39.

In this regard, the EBA has published a consultation paper which proposes the amendment of the ITS on supervisory reporting with regard to FINREP for IFRS reporters following the issuance of the new IFRS 9 standard. In particular, this document introduces in FINREP the changes on the classification and measurement of financial instruments, the new impairment rules and the new hedge accounting rules.

The information reported by institutions using national generally accepted accounting practices (GAAP) is not subject to the changes.

2. Main points

- **Classification and measurement**. The main changes introduced throughout the FINREP templates are the following:
  - Deletion of the Held to Maturity accounting portfolio which does not exist in IFRS 9.
  - Replacement of the Available for sale (AFS) accounting portfolio by the Fair value through Other Comprehensive Income (FVOCI) accounting portfolio.
  - Replacement of the Loans and Receivables accounting portfolio by the amortised cost accounting portfolio.
  - Some changes have been implemented in specific FINREP templates related to: measurement of changes in fair value of equities in other comprehensive income, their reclassification within equity and not in P&L, changes in own credit risk in other comprehensive income, etc.
- **Impairment**. The FINREP templates with a focus on impairment have been modified to accommodate the changes introduced by IFRS 9:
  - Each template breaks assets down between the different stages, and their associated allowance where relevant.
  - Some templates convey information on the classification and impairment status of exposures.
  - Assets subject to specific impairment rules are separately identified when needed for supervisory purposes (e.g. trade receivables, contract assets and lease receivables).
  - Information on partial and total write-offs has been included in three specific templates.
  - Off-balace sheet items have the changes in their provisions broken down in different templates, depending on the category they fall into.
  - Some modifications have been introduced in templates F12.1 and F12.2, related to: gains and losses incurred when modifying an asset under the form of an increase or a decrease of its credit risk, transfer of assets between impairment stages, etc.
- **Hedge accounting**:
  - Extra rows have been added in existing templates to reflect the changes in the accounting for qualifying hedges.
  - Moreover, the revision of FINREP introduces two new templates in this respect:
    - A template to report information on non-derivative hedging instruments in cash-flow hedges and fair value hedges.
    - A template on hedged item in fair value hedges and on the impact on fair value hedges in the reporting period in review.

3. Next steps

- Comments to the consultative document shall be submitted by **8 March 2016**.
- The proposed revisions will finalised once IFRS 9 is endorsed by the EU. Assuming the implementation date of the IFRS 9 is not modified compared to the IASB version, the first application date would be **1 January 2018** and the first reporting reference date **31 March 2018**.

14/12/2015
Consultation Paper on Guidelines on ICAAP and ILAAP information collected for SREP purposes.

1. Context

Competent authorities (CAs) review institutions' internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) as part of the supervisory review and evaluation process (SREP) performed in accordance with the CRD IV and in accordance with the EBA SREP Guidelines.

In this regard, the EBA has issued these Guidelines for consultation with the objective of facilitating a consistent approach to the assessment of institutions' ICAAP and ILAAP under the SREP. In particular, the Guidelines specify what **information** regarding ICAAP and ILAAP CAs should collect from the institutions, and they also set **general criteria** for CAs to organise collection of ICAAP and ILAAP information from institutions and using such information for the purposes of their assessments of other SREP elements.

2. Main points

- **Information regarding ICAAP and ILAAP CAs should collect from institutions**:
  - An overarching document ('reader's manual') that provides an overview of the ICAAP and ILAAP documents and their status, an overview of where the information items specified in these Guidelines can be found, and other information relevant for the CA at the start of the assessment.
  - Information common to ICAAP and ILAAP: information on business model and strategy; risk governance framework; risk appetite framework; risk data, aggregation and IT systems; and disclosure.
  - ICAAP specific information. Information regarding the methodology and policy documentation, as well as the operational documentation on the following topics: the overall ICAAP framework; risk measurement, assessment and aggregation; internal capital and capital allocation; capital planning; stress testing in ICAAP; and supporting documentation.
  - ILAAP specific information. Information regarding the methodology and policy documentation, as well as the operational documentation on the following topics: liquidity and funding risk management framework; funding strategy; strategy regarding liquidity buffers and collateral management; cost benefit allocation mechanism; intraday liquidity risk management; liquidity stress testing; contingency funding plan and supporting documentation.
  - Conclusions on ICAAP and ILAAP and quality assurance information, such as: the findings of the internal capital and liquidity adequacy assessments and their impact on the risk and overall management of an institution; an adequate explanation of how institutions ensure that the ICAAP and ILAAP frameworks and models used provide reliable results; results of the internal validations/reviews of ICAAP and ILAAP methodologies and calculation outcomes performed by independent validation function; the internal audit reports covering ICAAP and ILAAP; etc.
- **General criteria for CAs to organise collection of ICAAP and ILAAP information**: the frequency, reference and remittance dates, and scope for ICAAP and ILAAP information should be determined in relation to the SREP categorisation of institutions, minimum supervisory engagement model and supervisory examination programmes.
  - Category 1 institutions (global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs)) and, as appropriate, other institutions determined by CAs) shall provide all information specified in these guidelines annually by a single set date as a comprehensive package.
  - Non-Category 1 institutions may have different scope, format, frequencies, remittance and reference dates regarding information, which will be determined by the CAs for each category of institutions, or individual institutions.

3. Next steps

- The deadline for submission of comments is **11 March 2016**.
- These Guidelines are expected to apply from **30 June 2016**.
- Some CAs may structure their ICAAP and ILAAP information requests in **2016** already based on the content of these draft Guidelines.

16/12/2015

Consultation Paper draft RTS on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use internal models for market risk and assessment of significant share.

1. Context

The CRR contains specific mandates for the EBA to develop draft RTS to specify the conditions under which competent authorities assess the significance of positions included in the scope of market risk internal models, as well as the methodology that competent authorities shall apply to assess compliance of an institution with the requirements to use an Internal Model Approach (IMA) for market risk.

The EBA has launched a consultation paper on these draft RTS being mindful of developments regarding the Fundamental Review of the Trading Book (FRTB) that the BCBS is close to finalizing. The EBA objective has been to introduce some elements that go in the direction of the Basel review, which can be implemented within the CRR current legal setting.

2. Main points

- **Assessment of significant share of positions**. Permission by the competent authorities for the use of internal models shall be required for each risk category (general risk of equity instruments, specific risk of equity instruments, general risk of debt instruments, specific risk of debt instruments, foreign-exchange risk and commodities risk) and shall be granted only if the internal model covers a significant share of the positions of a certain risk category.
    - Identification of risk categories and legal scope: the assessment of the significance of positions shall be conducted for the particular combination of legal entity(ies) and risk category(ies), without considering any roll-out plans or materiality limits for the risk categories or institutions that remain outside the scope of the model.
    - Methodology applied: when assessing the significance of positions, due to differences in the nature of general and specific risks, it is proposed to use two different treatments. The assessment of general risk has to be based on the own fund requirements stemming from changes in broad market movements, unrelated to any specific attributes of individual securities, while specific risk shall be assessed based on the net position in each individual security, in order to reflect the idiosyncratic risk.
    - Initial and regular assessment of significance. As part of the annual internal validation, the risk control unit shall assess the materiality of the positions excluded from the internal model by using two simple metrics: the proportion of the P&L and of the own funds requirements stemming from the positions included in the scope of the model compared with the total by risk category.
    - Minimum model stability period prior to authorization: at the moment when the model application is submitted, the market risk internal model shall have been working for at least 1 year in a stable way (not subject to material changes).
    - Treatment of positions excluded by the competent authority during the initial validation process. It is proposed to request two calculations:
        - When submitting a model application banks shall comply with a threshold of 5 to 10% for the positions they intend to include in the internal model.
        - In case competent authorities have excluded some positions from the scope banks would be required to meet a 30 to 40% threshold.

- **Assessment methodology of market risk internal models**:
    - Common governance framework. The EBA has consolidated minimum standards on model governance, independence, resources and validation in a single governance section that covers the following elements: segregation and independence of the risk unit; variable remuneration of the risk unit/internal audit personnel; outsourcing; initial and regular internal validation; completeness of the internal validation; independence of the internal validation; new product approval policy; internal reports and structure of committees; internal limits and limit breach approval process; and stress testing programme.
    - VaR and SVaR: specific requirements are established related to the calculation at consolidated level and consistently at 'close of business' time; to the documentation of computations; to back-testing performed by the independent risk unit; etc.
    - The IRC model: some elements used in this model such as the selection of ratings, PDs and LGDs, transition matrices or liquidity horizons are further specified. Governance requirements are also introduced for the inclusion of equity positions in IRC and the use of zero PDs for modelling purposes is excluded.
    - Correlation trading portfolio: governance requirements are established for the inclusion of positions and appropriate segregation of instruments included in this portfolio, including an explicit requirement to assess and monitor regularly the existence of a liquid two-way market.

3. Next steps

- Comments to this consultation paper shall be submitted by **13 March 2016**.

16/12/2015

- **Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework.**
- **Report on institutions' exposures to shadow banking entities.**

1. Context

The global financial crisis has revealed fault lines which can transmit risk from the shadow banking system to the regulated banking system, putting the stability of the entire financial system at risk.

In this regard, the EBA has developed a set of guidelines specifying the criteria financial institutions should consider when setting an appropriate **aggregate limit** on exposures to shadow banking entities (SBEs) which carry out banking activities outside a regulated framework, as well as **individual limits** on exposures to such entities.

Additionally, the EBA has published a report presenting the outcome of a data collection conducted to better understand the relevance of institutions' exposures to SBEs and the impact of potential limits.

2. Main points

<u>Guidelines on limits on exposures to SBEs which carry out banking activities outside a regulated framework</u>

- **Scope**: exposures to SBEs above 0.25% of an institution's eligible capital after taking into account the effect of exemptions and the credit risk mitigation (CRM) in CRR. SBEs are defined as are undertakings that carry out one or more credit intermediation activities and that are not excluded undertakings (excluded undertakings are those subject to supervision, credit institutions, etc.).
- **General requirements**:
  - Institutions should implement <u>effective processes and control mechanisms</u> (e.g. identify their individual exposures to SBEs and all potential risks arising from those exposures, ensure that those risks are adequately taken into account within the ICAAP, etc.).
  - The institution's <u>management body</u> should, among others, review and approve the risk appetite and risk management process to exposures to SBEs.
- **Criteria to set limits on exposures to SBEs.** The EBA specifies two approaches:
  - <u>Principal approach</u>. Institutions should set:
    - An **aggregate limit** to their exposures to SBEs relative to their eligible capital considering the business model, risk management framework, risk appetite, size of its current exposures to SBEs and interconnectedness.
    - **Tighter individual limits**, taking into consideration the regulatory status of the SBE, its financial situation, etc.
  - <u>Fallback approach</u>: if institutions are not able to apply the principal approach, their aggregate exposures to SBEs should be subject to the **limits on large exposures** in accordance with the CRR. This approach should be applied as follows:
    - If institutions cannot meet the requirements regarding effective processes and control mechanisms or oversight by their management body, they should apply the fallback approach to **all their exposures** to SBEs.
    - If institutions can meet those requirements but cannot gather sufficient information to enable them to set out appropriate limits, they should only apply the fallback approach to the **exposures to SBEs** for which the institutions are not able to **gather sufficient information**.

<u>Report on institutions' exposures SBEs</u>

- **Sample**: 84 institutions (of which 15 were investment firms) from 22 Member States participated in the data collection.
- **Definitions**: the definition of SBE used for the purposes of the data collection was broader than the definition used in the GL, so as to capture as much information as possible.
- **Results**:
  - Institutions' exposures towards SBEs (after considering the effect of exemptions and CRM) account for €568bn.
  - The reporting institutions in Great Britain have reported the highest aggregate exposures (€285bn), followed by institutions in Germany (€113bn).

3. Next steps

- The EBA Guidelines apply from **1 January 2017**.

18/12/2015
Report on the net stable funding ratio (NSFR) requirements.

1. Context

In October 2014, the BCBS published the final standards on the net stable funding ratio (NSFR) with the aim of reducing risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding.

In this context, the CRR mandates the EBA to report whether and how the introduction of the NFSR would be appropriate to ensure stable funding in the EU, to assess its impact on the EU financial markets and to establish the methodology for calculating such a NFSR requirement. The European Commission, considering the EBA report and the diversity of the European banking sector, shall assess the appropriateness of submitting a legislative proposal to the co-legislators on a requirement concerning stable funding.

The EBA has published a report on the impact assessment on introducing a stable funding requirement in the EU for the purposes of developing a methodology for its calibration. In particular, this report covers the sample and main implications derived from the analysis conducted.

2. Main points

- **Sample**: 279 credit institutions participated in the QIS of the EBA, representing a 75% of total assets in the 28 EU countries. It also encompasses 13 business models.
- **Reference date**: data used in this report is, in general basis, from end-December 2014.
- **Content of the assessment**: it includes an assessment/description of the following aspects:
    - The externalities that lead banks to choose excessive levels of short-term wholesale funding. To limit the impact of these externalities, an appropriately designed stable funding requirement (SFR) should aim at reducing the risk of both funding instability and asset illiquidity in the balance of financial entities.
    - The current levels of the Basel NSFR for a representative sample of EU banks. A 70% of the participating banks meet the Basel NSFR requirements, and the shortfall from non-compliant banks represents the 3% of the available funding in the sample.
    - The impacts of introducing SFR on the business and risk profiles of institutions.
    - The particular impact on trade finance and pass-through financing models of introducing a SFR and how these transactions would be reflected in the calculation of available stable funding (ASF) and required stable funding (RSF).
    - The potential consequences of introducing a SFR for investment in financial assets, different funding markets and secured funding, among others.
- **Proposal for the definition and calibration of a stable funding requirement**: the EBA highlights that while the Basel NSFR standard is seen as fitting well within the EU banking framework, certain EU specificities should take into account, such as: trade finance; pass-through models; central counterparty clearing houses (CCPs); centralised regulating savings (a particular interdependency case between assets and liabilities that only applies to one jurisdiction within the EU); and residential guaranteed loans.

3. Next steps

- By **31 December 2016**, the European Commission shall assess the appropriateness of potential legislative proposals on NSFR.
- The Basel NSFR will become a minimum standard by **1 January 2018**.

18/12/2015
Final Draft RTS and guidelines on business reorganization plans under BRRD.

1. Context

In the context of the Bank Recovery and Resolution Directive (BRRD), where the resolution authority applies the bail-in tool to recapitalise a credit institution under resolution, the management body of the institution is required to draw up and submit to the resolution authority a business reorganisation plan.

In this regard, the EBA has now published RTS on the minimum elements to be included in the reorganisation business plan and on the minimum contents of the reports on the progress in the implementation of the plan.

Jointly with the RTS, the EBA has published guidelines on the criteria that resolution and competent authorities should take into consideration for the assessment of a business reorganisation plan.

2. Main points

- The **business reorganisation plan** shall include:
    - A historic and financial account of the factors that contributed to the difficulties of the institutions.
    - A short description of crisis prevention and crisis management measures that have been applied by the competent authority, the resolution authority or the institution.
    - A description of the business reorganisation strategy and the measures intended to restore the long-term viability of the institution during the reorganisation period.
    - The projected financial performance of the institution or entity during the reorganisation period.
    - The actions that the institution will take to ensure that is able to fulfil all the applicable prudential and other regulatory requirements, including the minimum requirement for own funds and eligible liabilities.
    - Sufficient information to allow the resolution authority and the competent authority to assess the feasibility of the proposed measures (e.g. macroeconomic assumptions, scenario-based analysis, etc.).
    - Specific, appropriate and at least quarterly implementation milestones and performance indicators.
- The **progress report** shall cover at least:
    - The milestones that are met, the measures that are realised and how their impact compares to that envisaged by the business reorganisation plan.
    - The performance of the institution or entity and a comparison with the forecasts of the business reorganisation plan and previous progress reports.
    - The reasons why any milestones or performance indicators have not been achieved and proposals to remedy the delays or shortfalls.
    - Any other issues arising in the execution of the business reorganisation plan that may prevent the restoration of the long-term viability of the institution or entity.
    - The upcoming measures and milestones and an assessment of how likely they are to be met.
    - Updated financial performance projections.
    - Where necessary and justified, a proposal for adjustments to individual measures, milestones or performance indicators.
- **Criteria to be considered while conducting the assessment of the plan**:
    - Awareness and commitment: the plan should show that the management body support the business reorganisation plan and commit to implement it.
    - Credibility: the plan should demonstrate with a high level of confidence that is application will restore the long-term viability of the institution.
    - Appropriateness of the reorganisation strategy and measures: the plan should be feasible and realistic.
    - Consistency: the plan should be consistent with any business plans of the institution.
    - Monitoring and verification: any milestones and performance indicators contemplated should be sufficiently concrete to enable their monitoring and verification. The resolution authority and the competent authority will review that the business reorganisation plan is implemented correctly.

3. Next steps

- The RTS will apply **20 days** after their publication in the Official Journal of the European Union (OJEU).
- The guidelines will apply **3 months** after their translation of the guidelines in all EU official languages.

22/12/2015
Consultation paper on draft guidelines on stress testing and supervisory stress testing.

1. Context

The CRD IV empowers EBA to issue guidelines to ensure that common methodologies are used by competent authorities when conducting annual supervisory stress tests.

In this regard, the EBA has published a consultation paper on GL which aim at providing common organisational requirements, methodologies and processes for the performance of **stress testing by institutions**, including guidance on the supervisory assessment of the institutions' stress testing; common methodologies to be used by competent authorities when conducting supervisory stress testing in the context of their supervisory review and evaluation process (SREP); and guidance on how outcomes of stress tests could be used to inform a forward-looking assessment of institutions' projected stressed capital needs.

2. Main points

- **Proportionality principle**: it applies to all aspects of these GL. Thus, for Category 1 institutions (systemically-important), these GL are applicable in their entirety, whereas for other institutions the GL are calibrated in accordance with their size and complexity of their activities.
- **Stress testing by institutions**. The GL set overarching principles of governance on the following aspects:
    - Stress testing governance structures and their use, including the application of the guidelines on internal governance of stress testing.
    - Data infrastructure: institutions should have data aggregation capabilities and reporting practices. They should also endeavour to refer to the extent appropriate BCBS principles for effective risk data aggregation and risk reporting.
    - Stress testing scope and coverage, taking into account a multi-layered approach from simple portfolio-level and individual risk level stress testing to comprehensive institution-wide stress testing.
    - Possible methodologies, including the importance of undertaking both simple sensitivity analyses and more complex scenario stress testing; the severity of scenarios; and highlighting the importance of qualitative and quantitative approaches to reverse stress testing.
    - Individual risk categories to consider in relation to stress testing: the GL include a range of non-exhaustive categories (i.e. credit and counterparty risk, securitisation, market risk, operational risk, conduct risk, liquidity risk, interest rate risk from non-trading activities, concentration risk and FX lending).
    - Application of stress testing programmes, including the interaction between the outputs of stress tests and management actions and the application for recovery and resolution purposes, and the use of stress tests to assess the viability of the institution's capital plan in adverse circumstances in the context of ICAAP/ILAAP.
- **Supervisory assessment of the institution´s stress testing**. This section provides guidance to supervisors on the scenario selection, the use of stress testing outcomes when assessing capital and liquidity adequacy under SREP, etc.
- **Supervisory stress testing**. The GL focus on different forms of supervisory stress testing and objectives, the respective use for SREP purposes, the aspects related to the organization, resources and communication, and possible methodologies.
- **Outcomes of stress tests**. The GL set out an approach to dealing with the quantitative results of institutions' stress tests done for ICAAP purposes and supervisory stress tests aimed at the assessment of the institutions capital adequacy under SREP.

3. Next steps

- Comment to this consultative document shall be submitted by **18 March 2016**.
- The EBA aims to issue the final guidelines in **Q2 2016**, and it is expected that the application date will be in the **last quarter of 2016**.
- Competent authorities must report whether they comply with the guidelines in two months after the publication of the translations into the official EU languages.

EUROPEAN CENTRAL BANK
EUROSYSTEM

13/11/2015
CP on a draft regulation on the exercise of options and discretions available in Union law.

1. Context

The CRD IV/CRR and other delegated acts include options and discretions that competent authorities have to define. The ECB, as competent authority, has to decide on whether and how to exercise the options and discretions for significant institutions in the context of the SSM.

In this regard, the ECB has published a draft regulation which lays out legal obligations for the significant banks of the SSM related to the prudential treatment of certain general options and discretions. In particular, it has defined those relative to **own funds**, **capital requirements**, **large exposures**, **liquidity** and **transitional provisions** of the CRR.

2. Main points

- **Own funds**: a risk weight of 1 250 % should be applied to the greater of the following: (i) the amount of qualifying holdings in excess of 15 % of eligible capital; (ii) the total amount of qualifying holdings that exceed 60 % of the eligible capital of the institution.
- **Capital requirements**. Some of the established definitions are the following:
    - The more than 90 days past due standard shall be applied to exposures secured by residential or SME commercial real estate in the retail exposure class, as well as exposures to public sector entities.
    - The mark-to-market method shall be used regarding hedging sets within the standardized method for counterparty risk.
    - Regarding position risk, netting between a convertible and an offsetting position in the instrument underlying it may be calculated if either conditions set out in the CRR are fulfilled prior to 4 November 2014.
- **Large exposures**: the limit on the value of a large exposure shall not be lower than 150 M€. However, some exposures shall be exempted from the application of the 150 M€ limit on the value of a large exposure.
- **Liquidity**. Some of the established definitions are the following:
    - The information required under national law for monitoring compliance within national liquidity standards shall be reported to the ECB.
    - Exposures to central banks shall be identified as level 1 assets if some conditions are fulfilled.
    - Shares shall be identified as level 2B assets if they form part of a major stock index in a Member State or a third country.
- **Transitional provisions of CRR**:
    - Amendments on applicable percentages and dates have been set to certain provisions of the CRR, such as the following: unrealised losses measured at fair value, unrealised gains measured at fair value, exemption from deduction of equity holdings in insurance companies from CET1 items, etc.

3. Next steps

- Comments to this consultation paper shall be submitted by **16 December 2015**.
- This Regulation shall enter into force on the **twentieth day** following that of its publication in the Official Journal of the European Union (OJEU).

EUROPEAN CENTRAL BANK
EUROSYSTEM

16/11/2015
Note on the 2015 Comprehensive Assessment (CA).

1. Context

The Comprehensive Assessment (CA) is an initial requirement for all banks that become or are likely to become subject to direct ECB supervision. In this context, the ECB conducted a second CA of nine banks from March to November 2015 which consisted of an asset quality review (AQR) and a stress test.

The ECB has published the 2015 CA **outcomes** of the following nine banks: Banque Degroof S.A (Belgium), Sberbank Europe AG (Austria), Unicredit Slovenia (Slovenia), VTB Bank (Austria) AG, Novo Banco SA (Portugal), Agence Française de Deéveloppement (France), JP Morgan Bank Luxembourg S.A (Luxembourg), Medifin Holding Limited (Malta) and Kuntarahoitus Oyj or Municipality Finance plc (Finland).

2. Main points

- **Participating banks**:
  - Banque Degroof, Sberbank Europe, Unicredit Slovenia and VTB Bank have been included in this CA as they have been considered significant institutions in 2014 and were not subject to the 2014 CA.
  - Novo Banco, was founded after the resolution of Banco Espíritu Santo, which was included in the 2014 CA but did not complete the exercise. Therefore, Novo Banco has been subject to the 2015 CA but only to the stress test component, as its assets were analysed through an AQR and a special audit in 2014.
  - Agence Française de Deéveloppement, JP Morgan Bank Luxembourg, Medifin, Kuntarahoitus Oyj have been included in the 2015 exercise as they will become significant as of January 2016.
- **Results:**
  - AQR: it has resulted in aggregate adjustments of €453 M, of which €395 M were due to provisioning adjustments and €58 M stemming from CVA (credit value adjustment) and Fair Value review.
  - AQR and Stress Test: capital shortfalls, i.e. CET1 ratios falling below 5.5% in the adverse stress test scenario, have been identified in five institutions (Agence Française de Deéveloppement, Medifin, Novo Banco, Sberbank Europe, VTB) for a global amount of €1,740 M. However, these institutions, except for Novo Banco, have already covered their shortfall.

3. Next steps

- Shortfalls arising from the adverse scenario of the stress test will be expected to be covered within nine months after the publication of the comprehensive assessment results.

23/10/2015

- **CP Guidelines on the risk-based approach to anti-money laundering and terrorism financing.**
- **CP Guidelines on the risk factors financial institutions should consider when assessing the money laundering and terrorist financing risk.**

1. Context

In May 2015 the European Parliament and the Council adopted Directive 2015/849 on the prevention of the use of the Union's financial for the purposes of money laundering and terrorist financing (ML/TF). In this regard, the ESAs have launched a public consultation on two sets of Guidelines regarding **anti-money laundering** and **countering the financing of terrorism** (AML/CFT).

The first set of Guidelines, addressed to competent authorities (CAs) responsible for supervising compliance with AML/CFT obligations, specifies the characteristics of a **risk-based approach to AML/CFT supervision**. The second document, addressed to both financial institutions and CAs, provides guidance on the **factors** that they should consider when assessing the **risk of ML/TF** and how they should adjust their customer due diligence measures as a result of that risk assessment.

2. Main points

<u>CP GL on the the risk-based approach to AML/CFT</u>

- The risk-based supervision is characterized as an on-going and cyclical process than includes four steps:
  - The **identification of ML/TF risk factors**, whereby CAs obtain information on both domestic and foreign ML/TF threats affecting the relevant markets.
  - The **risk assessment**, whereby CAs use this information to obtain a holistic view of the ML/TF risk associated with each financial institution.
  - The **allocation of AML/CFT supervisory resource** based on this risk assessment, which includes decisions about the focus, depth, duration and frequency of on-site and off-site activities, and supervisory staffing needs.
  - **Monitoring and review** to ensure the risk assessment and associated allocation of supervisory resource remains up to date and relevant.

<u>CP GL on the risk-factors</u>

- Although the factors proposed are not exhaustive and firms can adopt alternatives as appropriate, these Guidelines establish two types of factors to be considered when assessing the **risk of ML/TF**:
  - **Generic factors that apply to all firms**, to make informed decisions when identifying, assessing and managing ML/TF risk associated with individual business relationships or occasional transactions (e.g. customer's nature and behavior, professional activity and reputation; transparency level of a product or transaction, etc.).
  - **Specific factors** that are important in certain sectors and determine the risk-sensitive application of customer due diligence measures in those sectors (e.g. the respondent is based in a high-risk jurisdiction, the respondent is not subject to adequate AML/CFT supervision, etc.).

3. Next steps

- Comments to both Consultation Papers shall be submitted by **22 January 2016**.
- Guidelines on risk-factors are likely to be finalized in **Spring 2016.**
- CAs should comply with the two sets of Guidelines by **26 June 2017.**

10/11/2015

Real Decreto 1012/2015, de 6 de noviembre, por el que se desarrolla la Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión, y por el que se modifica el Real Decreto 2606/1996, de 20 de diciembre, sobre fondos de garantía de depósitos de entidades de crédito.

1. Context

The Ley 11/2015 de recuperación y resolución de entidades de crédito y empresas de servicios de inversión transposed into the Spanish Law the Bank Recovery and Resolution Directive (BRRD). In this context, the Consejo de Ministros has approved the Real Decreto (RD) 1012/2015 which develops the procedural aspects and practical application of the Law 11/2015.

In particular, the RD specifies the **content of the early intervention phase** and **protocols applied in case of resolution**. Moreover, it describes the **functioning of the FROB** (Fondo de Reestructuración Ordenada Bancaria) as the national authority for resolution and determines the **contributions** that institutions have to make to the National Resolution Fund and the Deposit Guarantee Fund.

2. Main points

- **Recovery plans**: the minimum content of the plan is established, which will be assessed by the competent supervisor 6 months after the submission of the plan (the Bank of Spain and the ECB will assess plans from credit institutions whereas the CNMV will assess plans from investment firms).
- **Early intervention measures**: the measures that supervisors can adopt are defined, such as the replacement of one or more members of the Board, directors or similar; changes in the company´s business strategy, etc.
- **Resolution plans**: the minimum content of the plan is established. Further assessment of potential obstacles to resolvability and the rules of decision making and coordination among resolution authorities are also determined.
- **Resolution tools**: the procedural obligations and the use of tools are determined (e.g. bridge institutions established by the FROB).
- **National Resolution Authority**: the functioning of the FROB as the national resolution authority is defined and it is mandated to fix on an annual basis the contributions that each institution must provide to the National Resolution Fund.
- **Deposit Guarantee Fund (FGD)**:
    - The contributions are calculated with respect to deposits and guaranteed securities (up to 100,000€, deposits are not subject to absorb losses and have collection preference) instead of calculation with respect to eligible deposits, that is, all deposits and non-exempt securities.
    - Deposits of local institutions with a budget lower than 500,000€ per year will be granted with a FGD coverage up to 100,000€ per institution.

3. Next steps

- The Real Decreto comes into force the following day of its publication in the Boletín Oficial del Estado. However, the rules on internal recapitalisation will take effect on **1 January 2016.**
- The financial resources of the National Resolution Fund should reach at least 1% of the amount of deposits guaranteed by the institutions in **2024.**
- The National Resolution Fund will be integrated into the Single European Resolution Fund as of **1 January 2016.**
- The payment period to depositors is reduced from the current twenty working days to seven working days in **2024.**

02/12/2015

Real Decreto 1060/2015, de ordenación, supervisión y solvencia de las entidades aseguradoras y reaseguradoras.

1. Context

In November 2009, the European Parliament and the Council approved the Solvency II Directive with the aim of establishing a unique legal framework for insurance and reinsurance institutions within the EU. Subsequently, in July 2014, the Cortes Generales approved the Ley de ordenación, supervisión y solvencia de las entidades aseguradoras y reaseguradoras, which transposed Solvency II and the amendments of Omnibus II, into the Spanish legal system.

In this regard, the Consejo de Ministros has approved the Real Decreto (RD) 1060/2015 which completes the adaptation to Solvency II of the insurance sector in Spain. In particular, this standard further details the **solvency requirements**, the **special solvency regime**, the required **governance system**, the **supervisory model** as well as the **recovery and short-term funding plans**.

2. Main points

- **Solvency requirements**:
  - The solvency capital requirement (SCR) will be equal to the value at risk of the institution's basic own funds, with a confidence level of 99.5% and 1-year time horizon.
    - It may be calculated using either a standardized formula or internal models.
    - It will cover, at least, the following risks: underwriting risk (in insurance other than life insurance, life insurance, and health insurance), market risk, credit risk and operational risk.
  - Minimum capital requirement (MCR): it will be covered by the sum of the amount of Tier 1 and Tier 2 own funds. Institutions will ensure that the proportion of Tier 1 own funds exceeds half of the total amount of the eligible basic own funds.
  - The rules are set to properly calculate technical provisions and to detail the definition, classification and eligibility of own-funds.
- **Special solvency regime**:
  - A special system is established for those institutions that do not exceed certain quantitative thresholds (e.g. the annual gross income by earned premiums does not exceed €5 M) and institutions with certain characteristics (e.g. social welfare insurance institutions that have not obtained permission to operate through insurance classes).
- **Governance system**:
  - Institutions shall set policies related to risk management, internal control and internal audit, and outsourcing of functions.
  - The risk management system will cover those risks considered in the calculation of the SCR. As part of this system, there will be an internal risks and solvency assessment where the overall solvency requirements will be analysed.
  - The actuarial function is responsible for coordinating the calculation of technical provisions, among others.
- **Supervisory model**:
  - The Dirección General de Seguros y Fondos de Pensiones (DGSFP) is responsible for the institutions' supervision. It will review the institution's governance system, technical provisions, capital requirements, investment rules, own funds' characteristics and requirements applied to internal models.
- **Recovery plans and short-term funding plans**:
  - Institutions that fail to comply with SCR or MCR shall submit a recovery plan and a short-term funding plan, respectively. The content of these plans will include projections on management costs, income and expenses relating to insurance operations and balance sheet forecasts, among others.

3. Next steps

- This Real Decreto will enter into force on **1 January 2016**.

04/12/2015

Orden por la que se determina el contenido, la estructura y los requisitos de publicación del informe anual de gobierno corporativo, y se establecen las obligaciones de contabilidad, de las fundaciones bancarias.

1. Context

The approval of the Ley 26/2013 on saving banks and banking foundations represented a major change in saving banks' regulatory framework. In particular, this law requires saving banks to transform into banking foundations when they exceed certain specified thresholds.

In this regard, the Ministerio de Economía y Competitividad has adopted this regulation specifying the content, structure and disclosure requirements of the **annual corporate governance report** that shall be submitted by banking foundations; and defining the scope of the Bank of Spain empowerment to develop **financial information standards** applicable to this type of institutions.

2. Main points

- **Annual corporate governance report**:
    - <u>Transparency principle</u>: the information included in the report shall be clear, complete and accurate. The government body of the banking foundation is responsible for its approval.
    - <u>Content and structure</u>: the report shall include at least the following sections:
        - Structure, composition and functioning of the governance bodies.
        - Definition of the nomination policy.
        - Investment policy in the controlled entity.
        - Policy with regard to other investments.
        - Remuneration policy.
        - Related-parties transactions.
        - Conflicts of interest policy.
        - Social work activities.
    - <u>Disclosure requirements</u>: the government body of the banking foundation shall submit the report to the protectorate within four months after the end of the financial period. Moreover, it shall be published on the banking foundation's website.
    - <u>Annex</u>: it includes the format of the tables that should be submitted within the annual corporate governance report.
- **Financial information standards**:
    - Banking foundations shall apply those standards of the Plan General de Contabilidad applicable to <u>non-profit institutions</u>, but taking into account the specific features that the Bank of Spain will provide.
    - Financial information may be <u>public</u> (information to third parties) or <u>confidential</u> (information to the Bank of Spain), to be determined by the Bank of Spain.
    - The financial information standards shall establish the <u>form, frequency and closing dates</u> for the publication of public and confidential statements, as well as the correlations between public and confidential statements.
    - When developing the standards, <u>homogeneous disclosure criteria</u> and <u>generally accepted accounting principles</u> shall be applied.

3. Next steps

- This Orden will enter into force the **day following that of its publication** in the BOE.

BANCO DE ESPAÑA
Eurosistema

20/11/2015
Circular 6/2015 a las cajas de ahorro y fundaciones bancarias

1. Context

The approval of the Ley 26/2013 on saving banks and banking foundations represented a major change in saving banks' regulatory framework. In particular, this law requires saving banks to transform into banking foundations when they exceed certain specified thresholds. Moreover, the law includes requirements to those banking foundations that exceed certain thresholds in terms of the level of participation in credit institutions.

In this regard, the Bank of Spain has adopted the Circular 6/2015, which completes the regulatory framework set out by the Ley 26/2013. Thus, this Circular develops certain provisions regarding **obligations for banking foundations**, and also specifies the models for the **corporate governance and remuneration reports** that shall be submitted by those saving banks that do not issue shares in official stock markets.

2. Main points

- **Obligations for banking foundations**. The Circular specifies the following aspects of the law:
    - Minimum content of the management procedure: it shall include, among others, the strategic basic criteria governing the banking foundation's management, the description of the relationship between the government body of the banking foundation and the government bodies of the participated credit institution, etc.
    - Minimum content of the financial plan: it shall include aspects such as an estimation of the own funds needs of the participated credit institution under several scenarios, the manner in which the banking foundation will meet those needs, etc.
    - Financial instruments comprising the reserve fund:
        - The reserve fund shall be comprised of **own funds of the banking foundation**.
        - It is specified that the **high liquidity and credit quality** instruments in which the fund shall be invested are those mentioned in articles 197 and 198 of CRR. Certain instruments are excluded (e.g. participations in credit institutions).
        - The value of those instruments shall be **adjusted** by applying reduction factors specified in the Circular.
    - Conditions for the use of the reserve fund: the banking foundation shall use the reserve fund when the credit institution breaches the own funds requirements or when it experiences a significant decrease in its own funds.
    - Foundations acting unanimously: it shall be considered that foundations participating in the same credit institution are acting unanimously when there are **agreements** by which common strategic criteria are governing their management.
- **Corporate governance and remuneration reports**. Annex 1 of the Circular includes the corporate governance report model, and Annex 2 sets out the remuneration report model.

3. Next steps

- The Circular 6/2015 will entry into force the day following that of its publication in the BOE.

15/12/2015

- **Proyecto de circular por la que se establecen el contenido y formato del documento "Información Financiera-PYME" y se especifica la metodología de calificación del riesgo contemplados en la Ley 5/2015, de 27 de abril, de fomento de la financiación empresarial.**
- **Anejo 1. Modelo-plantilla del documento de "Información Financiera-PYME".**
- **Anejo 2. Instrucciones para la elaboración del apartado historial crediticio del documento "Información Financiera-PYME".**
- **Anejo 3. Posición relativa del acreditado respecto a su sector de actividad**

1. Context

In April 2015, the Ley 5/2015 de fomento de la financiación empresarial was approved with the objective of improving and encouraging funding of SMEs. The regulation states that institutions must notify with three months' notice their decision to cancel or reduce financing to their SME customers and self-employed workers. Institutions must also deliver the "Información Financiera-PYME" document to their customers, which contains information on the financial condition, payment history and risk rating of the borrower.

The objective of this Circular is to establish the content and format of the **"Information Financiera-PYME"** document and to specify the **risk rating methodology** that must be included in this document. The Bank of Spain has also published three annexes that include the template-model document, instructions for developing the credit history section as well as data on the relative position of the borrower within its sector.

2. Main points

- **Scope**: credit institutions based in Spain, activities performed in Spain by credit institutions based in other countries and specialised credit institutions.
- **Content of the "Información Financiera-PYME" document**:
  - Data submissions to the Central de Información de Riesgos (CIR) of the Bank of Spain. It will include the last four monthly data submissions of the borrowers and those corresponding to the end of each quarter of the last five previous years to the notification or request date.
  - Data provided by the institution to companies providing information services on creditworthiness and credit. It will include the reported data on the borrowers corresponding to the previous 5 years to the notification or request date.
  - Credit history. It will contain the credit history of the previous 5 years to the notification or request date and it will cover: a list of historical and current loans, and the amounts pending of repayment; a chronological list of unpaid obligations with their details; a statement on the current situation of default; a list of bankruptcy proceedings, refinancing agreements, etc; and a list of insurance contracts linked to the financial flow.
  - Statement on the movements during the past year within the financial flow contracts of the borrower.
  - Borrower´s risk rating. Institutions must incorporate the borrower´s risk rating calculated through the application of the provided methodology described below.
- **Risk rating methodology**. The borrower's risk rating will be low risk, medium-low risk, medium-high risk, high risk and not available depending on the following variables:
  - Financial condition of the borrower: assessed through the analysis of its financial statements. In the case of SMEs, entities shall use, in general terms, the latest financial statements deposited in the Registro Mercantil.
  - Qualitative variables: analysis of the number of years during which the borrower´s has been a customer of the institution, years during which the business has been operating, and the economic sector where it operates.
  - Behavioral variables: assessment of the evolution of the borrower´s behavior and analysis of overdue positions, frequency and recurrence of defaults, uncovered positions and positions exceeding the credit limit, and variables obtained from the CIR of the Bank of Spain.

3. Next steps

- Interested financial institutions and professionals can submit their comments to the Bank of Spain before **30 December 2015**.
- This Circular shall enter into force **3 months** after its publication in the Boletín Oficial del Estado.
- Data statements done to the CIR prior to **1 April 2016** will be included in the document "Información Financiera-PYME", following the format and structure provided in the Circular 3/1995, sobre la CIR.

BANK OF ENGLAND

01/12/2015

Stress testing in the UK banking system results: 2015 results

1. Context

Following a Recommendation from the Financial Policy Committee (FPC) that required regular stress testing to assess the system's capital adequacy, the BoE launched its second concurrent stress test of the UK banking system in March 2015. The main purpose of this stress test was to provide a forward-looking, quantitative assessment of the capital adequacy of the UK banking system as a whole, and individually.

In this regard, the BoE has now published the results of this second stress test which includes the sample of banks, the macroeconomic scenarios and the main outcomes of the 2015 exercise.

2. Main points

- **Sample of banks**:
  - 7 UK banks participated in the exercise (Barclays, HSBC, Lloyds Banking Group, Nationwide Building Society, Santander UK, Royal Bank of Scotland Group and Standard Chartered) covering over 80% of PRA-regulated banks´ lending to the UK real economy.
- **Reference date**: the exercise was carried out on the basis of year-end 2014 balance sheets.
- **Macroeconomic scenarios**:
  - Unlike the 2014 test, which utilised aspects of the EBA´s EU-wide stress test, the 2015 stress and baseline scenarios were fully designed and calibrated by BoE staff.
  - Banks have been assessed against a CET1 capital ratio of 4.5% and an additional leverage ratio of 3%.
  - The time span has been expanded from 3 to 5 years, covering the period from end 2014 to 2019.
  - In addition to the macroeconomic and traded risk elements, the 2015 stress scenario also incorporated stressed projections for potential misconduct cost and fines beyond those paid by the end of 2014.
- **Results**:
  - This 2015 test reveals capital adequacies for five out of the seven participating banks. However, Royal Bank of Scotland and Standard Chartered only pass this exercise after taking strategic management action over the course of 2015.
  - In the baseline scenario, the aggregate CET1 ratio and leverage ratio are projected in 2016 at 12% and 4.9%, respectively.
  - In the stress scenario, the aggregate CET1 ratio and leverage ratio are 7.6% and 3.5% at end-2016, respectively.
- **FPC and PRA actions**:
  - Given continuing improvements on the bank´s resilience over the course of 2015 and plans to increase capital, the banks are not required to submit a revised capital plan.

3. Next steps

- The BoE intends to develop its stress-testing framework further in **2016**.
- Over the **next three years**, the BoE is planning to develop an approach to stress testing that is explicitly countercyclical, to improve the consistency between the concurrent stress test and the overall capital framework and to enhance its own modelling capability.
- **In 2016**, the BoE will run a cyclical scenario to assess the risks to the banking system emanating from the financial cycle.
- **In 2017**, the BoE intends to run both the cyclical and exploratory scenarios. The latter is a complement of the former and it will explore risks that are not captured by the annual cyclical scenario
- **In 2018**, the BoE intends to run the cyclical scenario only.

02/11/2015
Proposed Rule on LTD and TLAC requirements.

1. Context

Pursuant to section 165 of the Dodd-Frank Act, the Fed has proposed a new rule that would strengthen financial stability by improving the resolvability and resiliency of US Global Systemically Important Banks (G-SIBs), identified in accordance with the Fed methodology, and Intermediate Holding Companies of foreign G-SIBs operating in the United States.

Under the proposed rule, these institutions would be required to meet a new **long-term debt requirement (LTD)** and a new **total loss-absorbing capacity requirement (TLAC)**.

2. Main points

- Requirements for domestic G-SIBs:
    - These institutions would be required to hold at a minimum:
        - A **LTD amount** (elegible debt issued directly by the G-SIB) of the greater of: (i) 6% plus its G-SIB surcharge of risk-weighted assets; (ii) 4.5% of total leverage exposure.
        - An **external TLAC amount** (sum of the G-SIBs' tier 1 regulatory capital and the LTD) of the greater of: (i) 18% of risk-weighted assets; (ii) 9.5% of total leverage exposure.
    - The parent holding company of a domestic G-SIB must **avoid entering into certain financial arrangements** that would create obstacles to an orderly resolution (e.g. issuance of short-term debt to external investors and derivatives with external counterparties).
    - The Fed-regulated banking firms that hold **unsecured debt** of the parent holding companies of domestic G-SIBs would be required to apply **regulatory capital deductions**.
- Requirements for US IHCs of foreign G-SIBs:
    - The LTD and TLAC requirements must be **issued internally**, rather than sold to external investors.
    - The US IHCs of foreign G-SIBs would be required to hold at a minimum:
        - A **LTD amount** of the greater of: (i) 7% of risk-weighted assets; (ii) 3% of the total leverage exposure; (iii) 4% of average total consolidated assets.
        - An internal **TLAC amount** of the greater of: (i) 16% of the IHC's total risk-weighted assets; (ii) 6% of the total leverage exposure, if applicable; (iii) 8% of average total consolidated assets.
    - **IHCs** that are **expected to enter resolution** themselves would be required to maintain outstanding eligible internal **TLAC** in an amount not less than the greater of: (i) 18% IHC's total risk-weighted assets; (ii) 6.75% of the IHC's total leverage exposure, if applicable; (iii) 9% of the IHC's average total consolidated assets.

3. Next steps

- Comments to this proposal shall be submitted by **1 February 2016**.
- The Fed proposes to generally require firms to achieve compliance with the final rule as of **1 January 2019**.
- Nonetheless, the Fed proposes to phase in the risk-weighted assets component of the external and internal TLAC requirement in two stages: the **16% requirement** would apply as of **1 January 2019**, and the requirement would increase to **18%** as of **1 January 2022.**

25/11/2015

Proposed Rule on public disclosure requirements regarding the Liquidity Coverage Ratio.

1. Context

On September 2014, the agencies (Fed, OCC and FDIC) adopted the LCR Rule to implement a quantitative liquidity requirement, the **liquidity coverage ratio** (LCR), for certain companies. The LCR requires certain institutions to maintain an amount of high-quality liquid assets (HQLA) that is no less than 100% of total net cash outflows over a prospective 30 calendar-day period of stress.

The Fed has now published a proposed rule that would implement **public disclosure requirements** regarding the LCR. Thus, under the proposed rule, a covered company would be required to publicly disclose on a quarterly basis quantitative information about its LCR calculation, as well as a discussion of certain features of its LCR results. The proposed LCR disclosure template is similar to the template developed by the BCBS.

2. Main points

- **Scope**. Companies subject to the LCR Rule:
  - All bank holding companies and certain savings and loan holding companies that have $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure.
  - Nonbank financial companies to which the Fed has applied the LCR Rule.
  - Modified LCR holding companies.
- **Quantitative information**. Companies would be required to disclose in a standardized tabular format amounts of:
  - Eligible HQLA and each of its components (i.e. level 1, 2A and 2B liquid assets).
  - Cash Outflows (e.g. deposit outflow from retail customers and counterparties, unsecured wholesale funding outflow, etc.).
  - Cash Inflows (e.g. secured lending and asset exchange cash inflow, retail cash inflow, etc.).
  - HQLA Amount, Total Net Cash Outflow Amount, Maturity Mismatch Add-on, and LCR.
- **Qualitative information**: companies would be required to provide a discussion of certain features of LCR results. A company's discussion may include aspects such as the main drivers of the LCR results, changes in the LCR results over time, etc.
- **Frequency:** quarterly.
- **Amendment**: there is an amendment to the LCR Rule to provide holding companies that become subject to the modified LCR Rule after the rule's effective date with a full year to come into compliance with the modified LCR.

3. Next steps

- Comments to this proposed rule shall be submitted by **February 2, 2016**.
- Companies that have $700 billion or more in total consolidated assets or $10 trillion or more in assets under custody and that are subject to a transition period in the LCR Rule would be required to comply with the disclosure requirements beginning on **July 1, 2016**.
- Other covered companies that are subject to another transition period in the LCR Rule would be required to comply with the disclosure requirements on **July 1, 2017**.
- The rule would require modified LCR holding companies to comply with the disclosure requirements on **January 1, 2018**.

26/11/2015

Final Rule on amendments to the Capital Plan and Stress Test Rules.

1. Context

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

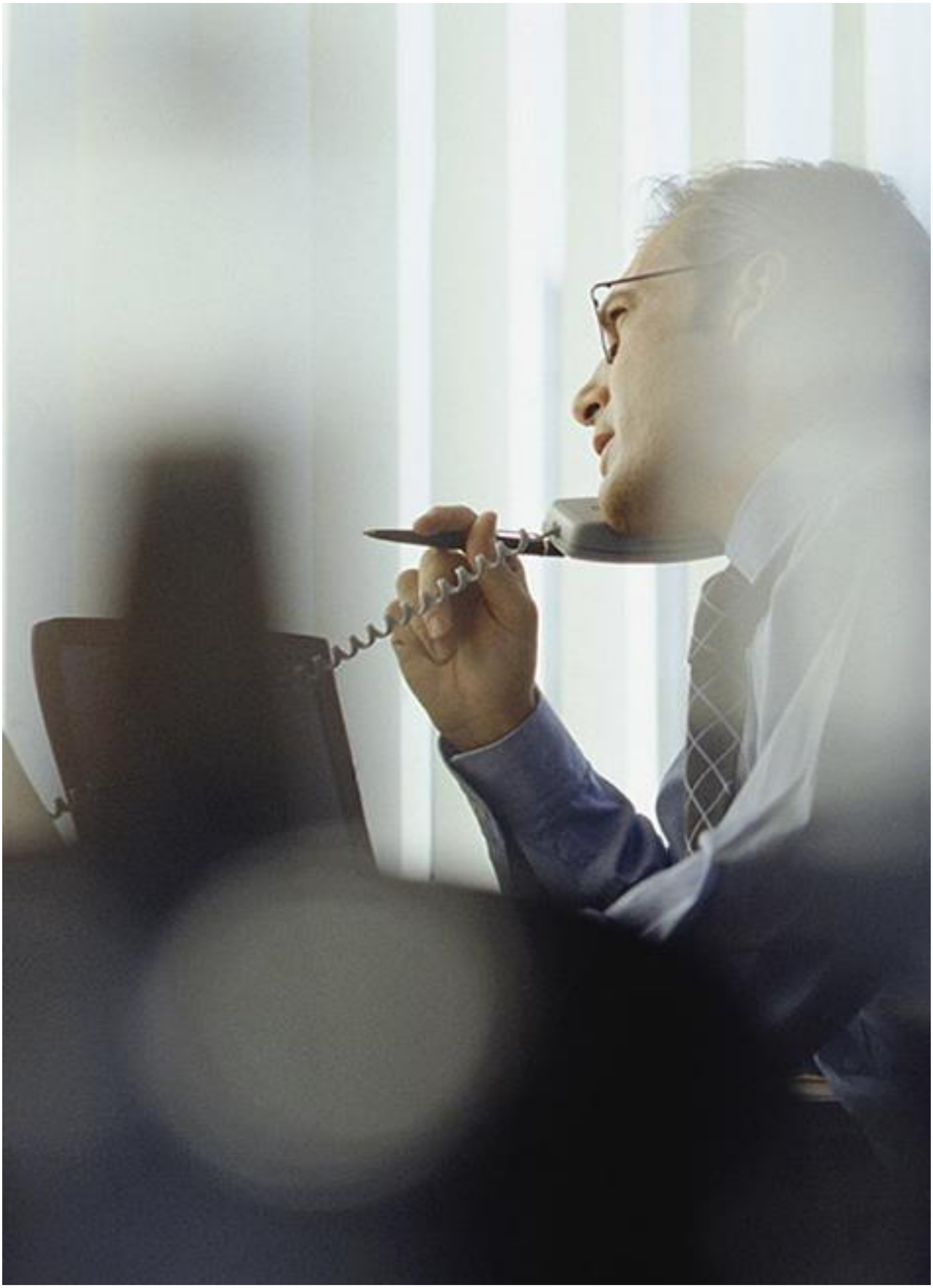
In this regard, the Fed is adopting a final rule that makes targeted **amendments** to its capital plan and stress test rules.

2. Main points

- **Revisions for BHCs with total consolidated assets between \$10bn and \$50bn, and Savings and Loan Holding Companies with total consolidated assets of more than \$10bn**:
    - Removal of the requirement that these institutions use fixed assumptions regarding dividends in their stress test. Instead, they will be required to incorporate reasonable assumptions consistent with internal capital needs and projections.
    - Modification of the mandatory capital action assumptions, to permit these institutions to reflect any related stock issuance in their stress test to the extent that they include a merger or acquisition in their balance sheet projections.
    - Delay of the application of the company-run stress test rules for Savings and Loan Holding Companies with total consolidated assets of more than \$10bn, so these organizations will become subject to these rules beginning on January 1, 2017.
- **Revisions for Large BHCs and State Member Banks Subject to the Advanced Approaches**:
    - Delay of inclusion of the supplementary leverage ratio for one year, so organizations would be required to incorporate it into their stress testing in the 2017 cycle.
    - Deferral until further notice of the use of the advanced approaches for calculating risk-based capital requirements under the capital plan and stress test rules.
- **Revisions for Large BHCs**:
    - Removal of the requirement that these institutions demonstrate their ability to maintain a Tier 1 common capital ratio of 5% of risk-weighted assets under expected and stressed scenarios.
    - Modifications on capital action assumptions in the stress test rules to allow these institutions to reflect dividends associated with expensed employee compensation and issuances to fund acquisitions.

3. Next steps

- All changes in the final rule apply as of **January 1, 2016**, which is the beginning of the next capital planning and stress test cycle.
- The Fed continues to review a broad range of issues related to its capital planning and stress testing rules. Any modifications from that review will be undertaken through a separate rulemaking and would take effect no earlier than the **2017 cycle**.



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