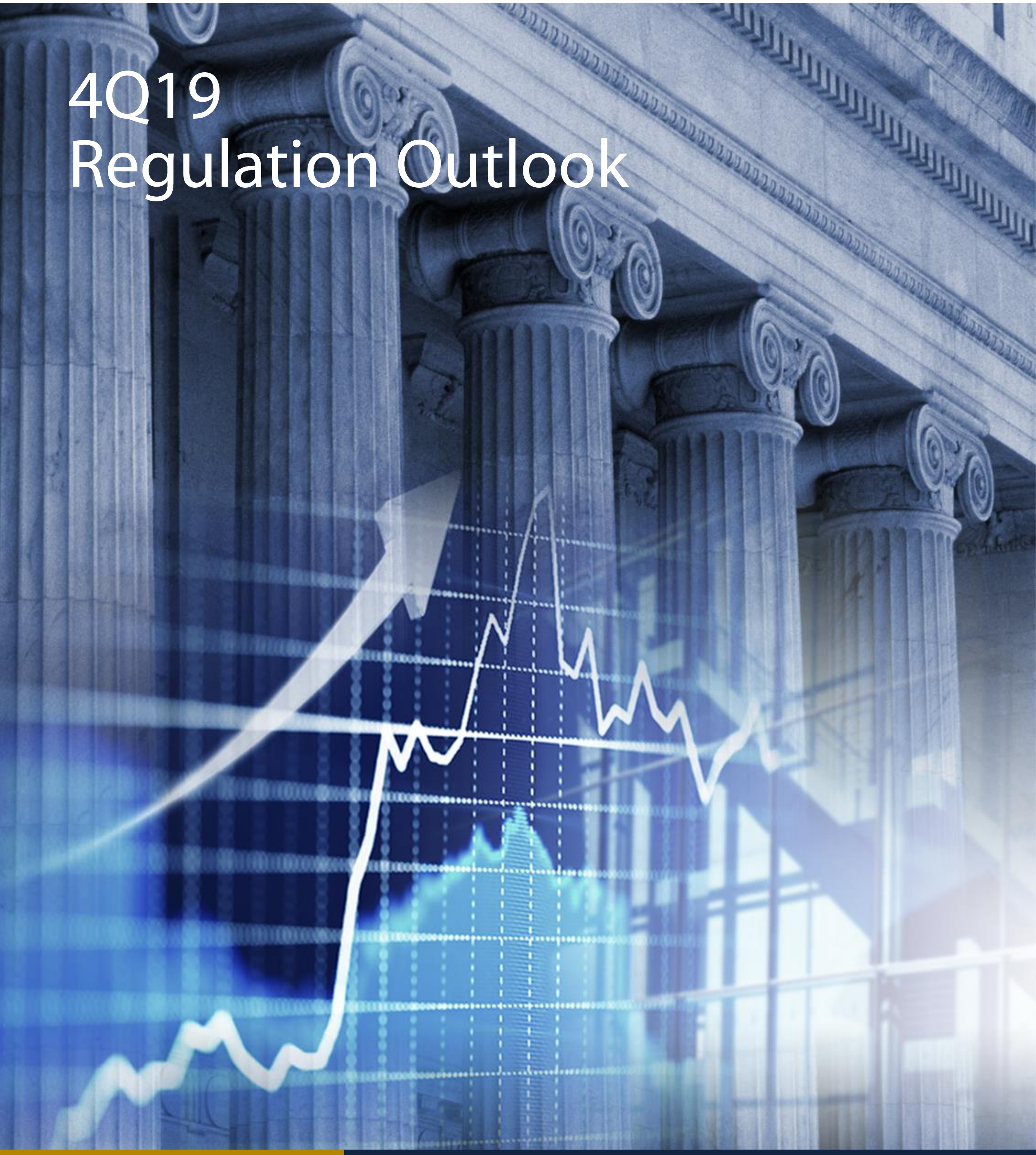
4Q19
Regulation Outlook



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Executive summary

In the fourth quarter of 2019, the publication of the BCBS CP on Revisions to the CVA stands out. At European level, the EBA published the 2020 EU-wide stress test final methodology, and the EP and the Council published the Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector. In USA the publication of the Final Rule on Prudential Standards for LBHC, SLHC, and FBO stand out.

Global publications

- At international level, the FSB has published the **Work Programme for 2020** to provide the ongoing and planned FSB initiatives in 2020.
- Further, the BCBS has now published a **Consultation paper (CP) on revisions to the CVA risk framework**, which is seeking the views of stakeholders on a set of limited, targeted and final adjustments to the CVA risk framework.

European publications

- At European level, the European Commission (EC) has published the **European Green Deal** which sets a new growth strategy that aims to transform the EU into a resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.
- The European Parliament (EP) and the Council have published the **Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector** and the **Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks**.

European publications (continuation)

- Further, the EP and the Council also published **Directive (EU) 2019/2034 on the prudential supervision of investment firms (IFs)** and **the Regulation (EU) 2019/2033 on the prudential requirements of IFs** to establishing an effective and proportionate prudential framework to ensure that IFs, which are not systemically important, authorised to operate in the Union do so on a sound financial basis and are managed in an orderly manner acting in the best interests of their clients.
- The ECB has published its **2020 priorities for supervising significant banks** in the euro area and its **risk map for 2020** which sets out the main risks faced by the supervised institutions.
- On the other side, the EBA has published: i) the **2020 EU-wide stress test final methodology**; ii) the **Risk Reduction Package Roadmaps**, and iii) the **Final GL on ICT and security risk management** which establishes requirements for credit institutions, IFs and payment service providers (PSPs) on the mitigation and management of their ICT risks.

European publications (continuation)

- Along with the above the EBA has also issued: i) the **Impact study and key recommendations on Basel III reforms: macroeconomic assessment, credit valuation adjustment (CVA) and market risk**, which provides a detailed impact assessment and the key policy recommendations on the CVA and market risk reforms; ii) the **Action Plan on Sustainable;** iii) the **Draft ITS amending EC Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models** with the aim to integrate the sub-set of templates dedicated to the IFRS 9 benchmarking, changing the reporting templates and instructions.
- Finally, the EBA has published the **Final draft on RTS on the SA-CCR**, based on the proposals included in the Discussion and Consultation Paper, which specifies key aspects of the SA-CCR and represents an important contribution to its smooth harmonised implementation in the EU.
- Besides, the EIOPA has published the **2019 Institutions for Occupational Retirement Provisions (IORPs) stress test results** with the aim of assessing the resilience and potential vulnerabilities of the European DB and Defined Contribution (DC) pension sector.

Local publications

- In Spain, the BdE has published the **Circular 3/2019 defining the threshold for the significance of overdue receivables** in order to define the absolute and relative components of materiality threshold for those Spanish less significant credit institutions; and the **Circular 4/2019 on public and reserved financial information standards and model financial statements** which establishes certain requirements relating to the publication of financial information, for EFCs (eg. characteristics and elements of the internal information or the recognition, valuation, presentation and information criteria).
- In USA, the Fed, and the FDIC have issued a **Final Rule on modifications to resolution plan requirements** in order to address the amendments to the Dodd-Frank Act made by the EGRRCPA.

Local publications (continuation)

- Moreover, the Fed has issued the **Final Rule on Prudential Standards for Large Bank Holding Companies (LBHC), Savings and Loan Holding Companies (SLHC), and Foreign Banking Organizations (FBO)**.
- In addition, the Fed, FDIC and OCC have also issued the **Final Rule on Changes to applicability thresholds for regulatory capital and liquidity requirements**, with the aim of better aligning the regulatory requirements for LBHCs based on their risk profile, taking into account their size and complexity, as well as its potential systemic risks.
- The Fed, FDIC and OCC have published a **Final rule on revisions to the Supplementary Leverage Ratio (SLR)** in order to exclude from the SLR certain funds of banking organizations deposited with central banks if the banking organization is predominantly engaged in custody, safekeeping, and asset servicing activities.
- Furthermore, the Fed, FDIC and OCC have issued a **Final Rule on Standardized Approach for Calculating the Exposure Amount of Derivative** in order to address an alternative approach to the agencies' current exposure methodology (CEM) for calculating derivative exposure under the agencies' regulatory capital rules.
- Finally, the OCC has published the **Final Rule amending Stress test Rule National Banks and Federal Saving Associations**, in order to adapt the regulation to the legislative modifications that the stress test regulation has suffer.

Regulatory projections

At European level, the EBA 2020 EU-wide stress test will be launched and the European Commission Green Deal Climate Law is expected to be published. In Spain, the Circular 3/2019 defining the threshold for the significance of overdue receivables; and the Circular 4/2019 on public and reserved financial information standards and model financial statements will be applicable.

Regulatory projections

1. Next quarter

- **(Europe) January 2020**: the EBA 2020 EU-wide stress test will be launched.
- **(Europe) March 2020**: it is expected that the EC will published its Green Deal Climate Law.

2. Next year

- **(Europe) April 2020**: the EP and Council Regulation (EU) 2019/2089 which modifies, among others, the EU Climate Transition Benchmarks and sustainability-related disclosures for benchmarks, will be applicable.
- **(U.S.A) April 2020**: the Final rule on revisions to the Supplementary Leverage Ratio of the Fed, FDIC and OCC will come into force.
- **(U.S.A) April 2020**: the Final Rule on Standardized Approach for Calculating the Exposure Amount of Derivative issued by the Fed, FDIC and OCC will enter into force.
- **(U.S.A) April 2020**: the Final Rule on Regulatory Capital Treatment for High Volatility Commercial Real Estate (HVCRE) Exposures of the Fed, FDIC and OCC will be applicable.
- **(Europe) June 2020**: EBA's Final GL on ICT and security risk management will apply.
- **(Spain) December 2020**: credit institutions will apply the significance threshold of the credit obligations specified in the Circular 3/2019 of the BdE.
- **(Spain) December 2020**: credit institutions will apply the Circular 4/2019 on public and reserved financial information standards and model financial statements of the BdE.
- **(Europe) 2020**: its expected that the EC adopts the Final RTS on SA-CCR published by the EBA on 2019 defining its date of application.

3. More than a year

- **(Europe) 2021**: EIOPA's occupational retirement provisions stress test results will be published.
- **(Europe) March 2021**: the EP and the Council Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector will enter into force.
- **(Europe) June 2021**: the EP and the Council adaptation of the investment firms prudential framework will be applicable.
- **(U.S.A) July 2021**: FED and FDIC Final Rule on modifications to resolution plan requirements will be applicable for companies subject to category I, II and III standards.
- **(U.S.A) July 2022**: the Final Rule of the Fed and the FDIC on modifications to resolution plan requirements for covered companies that are triennial reduced filers will apply beginning July 2022.
- **(Europe) July 2022**: It will be applicable the EP and Council Directive (EU) 2019/2162 and Regulation (EU) 2019/2160 on exposures in the form of covered bonds.

Publications of this quarter

Summary of outstanding publications of this quarter

Topic	Title	Date	Page
	Financial Stability Board		
Work programme	• 2020 Work Programme	19/12/2019	10
	Basel Committee on Banking Supervision		
CVA	• Consultation paper on revisions to the CVA risk framework	28/11/2019	11
	Basel Committee on Banking Supervision / European Banking Authority		
Basel III	• Basel III Monitoring Report • Basel III Monitoring Exercise • Report on Liquidity Measures	04/10/2019	12
	European Commission		
Sustainability	• European Green Deal	13/12/2019	14
	European Parliament / Council		
Sustainability	• Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector • Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks	11/12/2019	15
Investment Firms	• Directive (EU) 2019/2034 on the prudential supervision of investment firms • Regulation (EU) 2019/2033 on the prudential requirements of investment firms	13/12/2019	17
Covered bonds	• Directive (EU) 2019/2162 on the issue of covered bonds and covered bond public supervision • Regulation (EU) 2019/2160 on exposures in the form of covered bonds	23/12/2019	19
	European Central Bank		
Single supervisory mechanism	• SSM supervisory priorities for 2020 • SSM Risk Map for 2020	09/10/2019	21
	European Banking Authority		
Stress test	• Methodological Note of the EU-wide Stress Test 2020 • 2020 EU-wide Stress Test – Template Guidance • 2020 EU-wide Stress Test – Draft Templates	11/11/2019	23
Risk Reduction	• Risk Reduction Package Roadmaps	27/11/2019	25
MREL & TLAC	• Consultation Paper (CP) on the Draft implementing technical standards (ITS) on the disclosure and the reporting on MREL and TLAC • Consultation Paper (CP) on the Draft implementing technical standards (ITS) on specific supervisory reporting requirements for market risk	27/12/2019	26

19/12/2019
2020 Work Programme

1. Context

The FSB has published the **Work Programme for 2020** to provide the ongoing and planned FSB initiatives in 2020. The key objectives of this work programme will be i) reinforce FSB's forward-looking monitoring of developments to identify, assess and address new and emerging vulnerabilities; ii) finalise and operationalise the remaining elements of post-crisis reforms; and iii) monitor and assess the implementation of reforms and evaluate their effects in order to ensure that reforms work as intended.

2. Main points

- **Addressing new and emerging vulnerabilities in the financial system**. One of the core mandates of the FSB consists on assessing and addressing new and emerging risks to global financial stability:
    - Assess of vulnerabilities in the global financial system.
    - Monitor and assess developments in non-bank financial intermediation (NBFI).
    - The International Association of Insurance Supervisors (IAIS) will assess the systemic risk in the global insurance sector and the supervisory response to identifies risk.
    - Monitor financial innovation developments and assess their potential implications for financial stability.
    - Identify regulatory issues raised by stablecoin-type instruments that have the potential to reach global scale.
    - Develop a roadmap on enhancing global cross-border payments.
    - Develop a toolkit of effective practices to assist financial institutions, supervisors and authorities in supporting financial institutions on cyber incidents.
    - Encourage consistent application of accounting standards and promote public confidence in the quality of audits, especially for systemically important financial institutions.
- **Finalising and operationalising post-crisis reforms**. This work will be focused on:
    - Developing further guidance on financial resources to support central counterparty (CCP) resolution.
    - Making derivatives markets safer by improving the effectiveness of trade reporting.
- **Implementation of reforms**. The FSB will monitor implementation of G20 reforms through regular progress reports and peer reviews, as well as the monitor and support progress on implementing interest rate benchmark reforms.
- **Evaluating the effects of reforms**. The objective of the FSB's work to evaluate the effects of post-crisis reforms is to assess whether reforms are operating as intended in an efficient manner, and to identify and deliver adjustments where appropriate, without compromising on the agreed level of resilience.
- **Strengthening outreach and the effectiveness of the FSB process**. The FSB will review its work processes, to reinforce its ability to adapt flexibly to a constantly changing financial landscape and respond quickly to new vulnerabilities as they arise.

3. Next steps

- The work programme includes indicative time of **FSB publications planned for 2020**.

03/12/2019
Consultation paper (CP) on revisions to the credit valuation adjustment (CVA) risk framework

1. Context

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

In this context, the BCBS has now published a **Consultation paper (CP) on revisions to the CVA risk framework**, which is seeking the views of stakeholders on a set of limited, targeted and final adjustments to the CVA risk framework. In particular, BCBS propose two main changes: i) reflecting the corresponding market risk revisions in the CVA risk framework and ii) considering additional targeted revisions to the CVA risk framework.

2. Main points

- **Aligning the CVA risk framework with the revised market risk framework**. This CP introduces amendments to the CVA risk framework in three broad areas:
    - <u>Aligning risk weights with the market risk framework</u>. The BCBS proposes to carry out the following amendments to the SA-CVA:
        - Reduce all delta risk weights in the **interest rate risk** class by 30%.
        - Reduce all delta risk weights in the **foreign exchange risk** class by 50%.
        - Reduce the delta risk weight in the coun**terparty credit spread and reference credit spread risk** classes for high yield and non-rated sovereigns from 3% to 2%.
        - Cap the **vega risk** weights at 100%.
        - Reduce the **risk weight in the BA-CVA for high yield and non-rated sovereigns**, including exposures to central banks and multilateral development banks from 3% to 2%.
    - <u>Introducing index buckets</u>. This CP sets out the same new buckets, where banks could calculate capital requirements using credit and equity indices directly instead of looking through to the underlying constituents in the: i) counterparty credit spread risk class; ii) reference credit spread risk class; and iii) equity risk class of the SA-CVA. In addition, this CP proposes that the risk weights and base values of correlations for the index buckets be the same as for the revised market risk framework.
    - <u>Revising the aggregation formula</u>. This CP revises the formula for aggregating capital requirements across buckets in the CVA risk framework in order to better align it to the market risk framework. This revision of the aggregation formula will improve the recognition of CVA index hedges in the SA-CVA.
- **Further possible adjustments of the CVA risk framework**
    - <u>Revising the treatment of client cleared derivatives in the CVA framework</u> in order to enhance consistency with the corresponding counterparty credit risk (CCR) treatment and to incentivise central clearing. In particular, this CP proposes to exempt from the CVA risk framework client exposures that meet the criteria for a preferential treatment under the counterparty credit risk framework and to reduce the floor for the margin period of risk for clearing members' exposures to clients in the SA-CVA from ten to five days.
    - <u>Adjusting the scope of portfolios</u> subject to CVA risk capital requirements by excluding those securities financing transaction (SFTs) where the CVA loss exposures are immaterial.
    - <u>Getting feedback on calibrating adjustment of the SA-CVA</u> in order to change the value of the existing multiplier mCVA from 1 to 1.25. independent of any adjustments made to the value of the multiplier mCVA, supervisory authorities would still have the possibility of increasing the mCVA multiplier and hence, requiring the bank to maintain higher capital requirements for CVA risk if they determine that banks' CVA models are subject to a high degree of model risk.
    - <u>Revising the SA-CVA and the BA-CVA</u> in order to maintain an appropriate relative calibration and also is considering revised scaling of the overall capital requirements calculated under both the reduced BA-CVA and full BA-CVA approaches.

3. Next steps

- Comments to this public consultation should be submitted by **25 February 2020**.

04/10/2019

- **BCBS - Basel III Monitoring Report**
- **EBA - Basel III Monitoring Exercise**
- **EBA - Report on Liquidity Measures**

1. Context

In 2016, the BCBS published an updated standard for the regulatory capital treatment of securitisation exposures for simple, transparent and comparable (STC) securitisations. In the same year, the standard on minimum capital requirements for market risk (FRTB) was also published, and it has been recently revised in January 2019. Furthermore, in December 2017, the BCBS published the final set of revisions to the Basel III framework addressing undue variability in risk-weighted assets (RWAs) calculations and amending, credit risk calculation methods (SA and IRB), credit valuation adjustment (CVA), calculation method for operational risk (SMA) which replaces the previous ones, and establishes an output floor. It also modifies the exposure measure of the leverage ratio (LR) and introduces an additional buffer on this ratio for global systemically important banks (G-SIBs).

In this context, the BCBS has published the results of its latest **Basel III monitoring report** which sets out the impact of the finalisation of the Basel III reforms, and for the first time, it also reflects the finalisation of the market risk framework published in January 2019. In parallel with this report, the EBA has issued a **Report on its Basel III monitoring exercise** which includes a preliminary assessment of the impact of the Basel reform package on EU banks, assuming its full implementation.

Along with this document, the EBA has also published a **Report on liquidity measures** that monitors and evaluates the liquidity coverage requirements currently in place in the EU.

2. Main points

<u>BCBS - Basel III Monitoring Report</u>

- **Sample of banks**: 181 banks, including:
  - <u>Group 1</u>: 105 internationally active banks that have Tier 1 capital of more than €3 billion; and where 29 institutions have been designated as G-SIBs.
  - <u>Group 2</u>: 76 banks that have Tier 1 capital of less than €3 billion or are not internationally active (i.e. all other banks).
- **Reference date**: the results are based on data as of 31 December 2018.
- **General aspects**:
  - This Report <u>does not take into account any</u> <u>transitional arrangements</u> (i.e. phase-in of deductions and grandfathering).
  - This Report <u>does not reflect any additional capital requirements under Pillar 2</u> of the Basel II framework, any higher loss absorbency requirements for domestic systemically important banks, nor does it reflect any countercyclical capital buffer requirements.
  - <u>Changes in minimum required capital</u> from fully phased-in final Basel III <u>remain stable</u> for large internationally active banks compared with end-2017, including the recently recalibrated market risk standards aside.

	30 June 2018			31 December 2018		
	Group 1	G-SIBs	Group 2	Group 1	G-SIBs	Group 2
Increase of the minimum requirement of Tier 1 MRC[1]	5,3%	5,7%	9,0%	3,0%	3,3%	8,0%
CET1 ratio (%)	11,7%	11,6%	13,0%	12,2%	12,1%	13,0%
Target capital shortfalls[2] (MM€)	30,1	29,3	6,0	23,5	21,6	3,8
TLAC shortfalls (MM€)	108,8	108,8	N/A	78,0	78,0	N/A

(1) Minimum required capital
(2) Tier 1 + Tier 2.

2. Main points (cont.)

EBA - Basel III Monitoring Exercise

- **Sample of banks**: 113 banks form 18 European Economic Area (EEA) countries, including:
  - Group 1: 45 banks internationally active banks that have Tier 1 capital of more than €3 billion, of which 11 are G-SIIs.
  - Group 2: 68 banks that have Tier 1 capital of less than €3 billion or are not internationally active (i.e. all other banks).
- **Reference date**: the results are based on data as of December 2018.
- **General aspects**:

  This Report assesses the impact on EU banks of the final revisions of credit risk, operational risk, and leverage ratio frameworks, as well as of the introduction of the aggregate output floor. It also quantifies the impact of the new standards for market risk (FRTB) and credit valuation adjustments (CVA).

  The impact is assessed on the assumption of the full implementation of the Basel reforms (i.e. 2027).

  The Report presents the impact of the reforms in terms of changes in Tier 1 MRC, comparing the fully implemented revised Basel III requirements with the fully phased-in CRR / CRD IV requirements.

Change in total T1 MRC (weighted average in %)

Group	Credit Risk				Market risk	CVA	Op. risk	Output floor	Total risk-based	Revised LR	Total
	SA	IRB	Securit.	CCPs							
All banks	1.9	1.9	0.7	0.0	1.9	4.0	4.7	5.4	20.4	-1.1	19.3
1	1.7	1.5	0.8	0.0	2.1	4.3	5.2	5.5	21.1	-0.3	20.7
G-SIIs	2.1	2.1	0.9	0.0	3.1	4.6	5.7	6.0	24.3	2.7	27.1
2	3.6	4.0	0.0	0.0	0.3	2.1	1.6	4.8	16.0	-5.6	10.5

EBA - Report on Liquidity Measures

- **Objective**. This Report provide a biannual update on the monitoring of the liquidity coverage requirements. The analysis is based on the Common Reporting Framework (COREP) data of December 2018.
- **Main results**.
  - The weighted average liquidity coverage ratio (LCR) across banks is 149% and it has increased since September 2016.
  - In December 2018, there were only four banks with LCR levels below 100%, as they monetised their liquidity buffers during times of stress.
  - The LCR levels of GSIIs (i.e. 145%) and O-SIIs (i.e. 144%) are lower than that of other banks (i.e. 183%).
  - The average LCR level for the majority of the countries is within the 100-200% range, although there are some differences in terms of the dispersion of banks' LCR levels within countries.

EUROPEAN COMMISSION

13/12/2019
European Green Deal

1. Context

On 2015 and 2016, the UN 2030 Agenda for Sustainable Development and the Paris Agreement on climate change where approved with the aim of finding a more sustainable path for the planet and economy. Furthermore, in 2018 the European Commission (EC) published the “Report of the EC’s High-Level Expert Group on Sustainable Finance” and the “EC’s Action Plan: Financing Sustainable Growth” setting an EU strategy on sustainable finance and a roadmap for future work across the financial system.

In this context, the EC has published the **European Green Deal** which sets a new growth strategy that aims to transform the EU into a resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.

2. Main points

- **Objectives**. The main objective of this new deal is transforming the EU’s economy for a sustainable future, making the EU a global leader on this issue.
- **Transform the EU’s economy for a sustainable future**.
  - <u>Design of transformative policies</u>.
    - **Increase the EU’s climate ambition for 2030 and 2050**. This will be proposed on the first European Climate Law that will be launched by March 2020.
    - **Supply clean, affordable and secure energy**. The EU will focus on decarbonising the economy and the clean energy transition.
    - **Mobilise industry for a clean and circular economy**. The EC’s main objective is to stimulate the development of lead markets for climate neutral and circular products.
    - **Build and renovate in an energy and resource efficient way**. The EC will enforce the legislation related to the energy performance of buildings.
    - **Accelerate the shift to sustainable and smart mobility**. The focus will be placed on the automated and connected multimodal mobility.
    - **Design a fair, healthy and environmentally-friendly food system**. The EU wants to reduce significantly the use and risk of chemical pesticides, as well as the use of fertilisers and antibiotics, helping to develop a circular economy.
    - **Preserve and restoring ecosystems and biodiversity**. The new EU biodiversity strategy will include as its key objectives the effective afforestation, and forest preservation and restoration in Europe.
    - **Zero pollution for a toxic-free environment**. The EC will review EU measures to address pollution from large industrial installation, and will present a chemicals strategy for sustainability.
  - <u>Sustainability in all EU policies</u>.
    - **Pursue green finance and investment and ensure a just transition**. As part of the Sustainable Europe Investment Plan, the EC will propose a Just Transition Mechanism, including a Just Transition Fund, which will focus on the regions and sectors that are most affected by the transition.
    - **Green national budgets**. The EC states that tax reforms can boost economic growth and resilience to climate shocks and help contribute to a fairer society and to a just transition.
    - Mobilise **research and foster innovation**, activate **education and training** and improve and **simplify EU regulation**.
- **EU as a global leader**. The EU will act internationally to fight against climate change by engaging third countries on cross-cutting climate issues, defining an ecological trade policy and setting standards that apply across global value chains, among other policies.

3. Next steps

- The European Green Deal contains different deadlines for the proposed actions, among which it should be highlighted the Climate Law that it’s expected to be issued in **March 2020**.

11/12/2019

- **Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector**
- **Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks**

1. Context

In September 2015, the United Nations (UN) approved the 2030 Agenda for Sustainable Development, whose fundamental core is the Sustainable Development Goals (SDGs). Furthermore, in the Conference of the Parties (COP) 21 held in 2016 it was approved the Paris Agreement by which a commitment was made to ensure finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

In this context, the EP and Council have published the **Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector**, which stablish harmonised rules on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products.

In addition, the EP and Council have also published the **Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks**, in order to introduce a regulatory framework setting minimum requirements for such benchmarks.

2. Main points

<u>Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector</u>

- **Transparency**. This Regulation aims to reduce information asymmetries in principal-agent relationships with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment, by requiring financial market participants and financial advisers to make pre-contractual and ongoing disclosures to end investors when they act as agents of those end investors (principals).
- **Review of disclosures and marketing communications**. This Regulation establishes that financial market participants shall ensure that any information published is kept up to date so their marketing communications do not contradict the information disclosed.
- **Partial applicability and exemptions**. This Regulation does not apply in its totality to Institutions for Occupational Retirement Provisions (IORPs); and insurance intermediaries advising on insurance matters and investment firms advising on investment matters are exempted, provided that they have fewer than three employees and the Member State has not decided to apply this Regulation to any of these.

<u>Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks</u>

- **Delegation to the European Commission (EC)**. This Regulation establishes that the EC is empowered to adopt delegated acts to specify:
    - The criteria for the choice of the underlying assets, including, where applicable, any criteria for excluding assets.
    - The criteria and method for the weighting of the underlying assets in the benchmark.
    - The determination of the decarbonisation trajectory for EU Climate Transition Benchmarks.
- **EU Climate Transition Benchmarks**. Administrators of EU Climate Transition Benchmarks shall select, weight, or exclude underlying assets issued by companies that follow a decarbonisation trajectory by 31 December 2022, in accordance with the following requirements:
    - The companies disclose measurable carbon emission reduction targets to be achieved within specific timeframes.
    - The companies disclose a reduction in carbon emissions which is disaggregated down to the level of relevant operating subsidiaries.
    - The companies disclose annual information on progress made towards those targets.
    - The activities relating to the underlying assets do not significantly harm other environmental, social and governance (ESG) objectives.

3. Next steps

- The Regulation (EU) 2019/2088 will enter into force on the twentieth day following that of its publication in the Official Journal of the European Union (OJEU) and will apply from **10 March 2021**.
- Benchmark administrators which provide an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark shall comply with Regulation (EU) 2019/2089 by **30 April 2020**.

13/12/2019

- **Directive (EU) 2019/2034 on the prudential supervision of investment firms**
- **Regulation (EU) 2019/2033 on the prudential requirements of investment firms**

1. Context

In 2013, the European Parliament (EP) and the Council published CRR y CRD IV, policies under which investment firms (IFs), along with other credit entities, subject to prudential treatment and supervision, while its authorization and other organizational conduct of business requirements are gathered in MiFID II. Given that the current prudential benchmark does not address all the risks faced by some types of IFs, there should be established uniform provisions to address those risks in a way that guarantees harmonized prudential supervision of IFs across the Union.

In this context, the EP and the Council published **Directive (EU) 2019/2034 on the prudential supervision of investment firms** and **the Regulation (EU) 2019/2033 on the prudential requirements of investment firms** with the aim of establishing an effective and proportionate prudential framework to ensure that IFs, which are not systemically important, authorised to operate in the Union do so on a sound financial basis and are managed in an orderly manner acting in the best interests of their clients. These rules apply to IFs authorised and supervised under MiFID II.

2. Main points

<u>Directive (EU) 2019/2034 on the prudential supervision of investment firms</u>

- **Prudential supervision**. This Directive establishes that the prudential supervision of IFs shall be carried out by the competent authorities of the home Member State and shall be based on collaboration and cooperation between the competent authorities of the different Member States.
  - <u>Principles of prudential supervision</u>. Principles are laid down concerning the competences and obligations of home and host Member States (eg. cooperation between competent authorities of different Member States, on-the-spot verification and inspection of branches); professional secrecy and duty of information with regard to the exchange of confidential information and cooperation agreements with third countries for the exchange of information; and sanctions, powers of investigation and right of appeal.
  - <u>Revision process</u>. The review process introduces the assessment of the adequacy of internal capital and liquid assets to cover the nature and level of risks that IFs may pose to third parties to which they are or may be exposed themselves. It also includes provisions on internal governance, transparency, risk treatment and remuneration; supervisory review and appraisal process (SREP); supervisory powers and measures.
  - <u>Supervision of IFs groups</u>. There are provisions for the supervision of IFs groups on a consolidated basis and supervision of compliance with the group's capital examination (e.g. supervisory colleges); and provisions for investment holding companies, mixed financial holding companies and mixed holding companies (e.g. cooperation with third country supervisory authorities).

<u>Regulation (EU) 2019/2033 on the prudential requirements of investment firms</u>

- **Level of application of the requirements**.
  - <u>Individual application of requirements</u>. The general principle is that IFs will comply with the requirements set out in this Regulation on an individual basis. However, certain exemptions are laid down which may be granted by the competent authorities to those undertakings which fulfill certain requirements.
  - <u>Prudential consolidation and exemptions for a group of investment services companies</u>. Certain obligations are established for parent companies and their subsidiaries that they should to comply according to the basis of their consolidated situation. Special rules are also established which may be applied when the group structure is sufficiently simple.
- **Own funds**. With regard to the composition of own funds, the policy is established that IFs must have own funds consisting of the sum of their CET 1, ATier1 and Tier2, as well as a series of additional conditions. In addition, rules are established according to CET1 of IFs holding qualifying non-financial participations.
- **Capital requirements**. This Regulation lays down general equity requirements for IFs (with exceptions for so-called small and non-interconnected investment services firms), those based on overheads and permanent minimum capital. In addition, this Regulation also sets out requirements based on K-factors, which are own funds requirements with respect to the risks that an investment services firm represents to clients, the market and itself.

2. Main points (cont.)

- **Concentration risk**. The rule is established that IFs must supervise and control their concentration risk. For this purpose, the rules for the calculation of the exposure value are set out. In particular, it states that IFs must not exceed the limit of 25% of their own funds in their exposures to a client or group of connected clients. Finally, certain rules are established for the calculation of K-CON.
- **Liquidity**. This Regulation provides that IFs must have liquid assets equivalent to at least one third of the requirement based on general fixed costs. As an exception, competent authorities may exempt those IFs that are considered small and not interconnected from this requirement.
- **Publication of information by the IFs**. This Regulation states that IFs shall present their risk management objectives and policies, governance arrangements, disclosure and own funds requirements, remuneration policies, investment policies and disclosure of environmental, social and governance risks at the date of publication of their financial statements. If the company is considered small and not interconnected, it will only publish its risk and information management objectives and policies and own funds requirements.
- **Submission of information by IFs**. This Regulation provides that IFs shall communicate to the competent authorities on a quarterly frequency all information on: (i) level and composition of own funds, (ii) own funds requirements, (iii) calculations of own funds requirements, (iv) level of activity in relation to the breakdown of the balance sheet and investment service income and applicable K-factor, (v) concentration risk, and (vi) liquidity requirements. If it is considered a small, non-interconnected company, the periodicity shall be annual.

3. Next steps

- The Directive (EU) 2019/2034 must be transposed by **26 June 2021 at the latest**.
- The Regulation (EU) 2019/2033 will apply by **26 June 2021**.

23/12/2019

- **Directive (EU) 2019/2162 on the issue of covered bonds and covered bond public supervision**
- **Regulation (EU) 2019/2160 on exposures in the form of covered bonds**

1. Context

In 2013, the European Parliament (EP) and the Council published the Capital Requirement Regulation (CRR) which grants preferential treatment to covered bonds under certain conditions. Furthermore, in July 2014, the EBA recommended that further consideration be given to complementing the eligibility requirements for the preferential risk weight (RW) treatment to cover, at a minimum, the areas of liquidity risk mitigation and overcollateralisation, the role of competent authorities, and the further development of existing requirements on disclosure to investors.

In this context, the EP and the Council published the **Directive (EU) 2019/2162 on the issue of covered bonds and covered bond public supervision and the Regulation (EU) 2019/2160 on exposures in the form of covered bonds**, with the aim of establishing a common framework for covered bonds to ensure that the structural characteristics of covered bonds across the Union correspond to the lower risk profile justifying Union preferential treatment. These rules apply to covered bonds issued by credit institutions established in the Union.

2. Main points

<u>Directive (EU) 2019/2162 on the issue of covered bonds and covered bond public supervision</u>

- **Structural features of covered bonds**.
    - <u>Dual recourse and bankruptcy remoteness</u>. Member States shall lay down rules entitling covered bond investors and counterparties of derivative contracts certain claims (eg. a claim against the credit institution issuing the covered bonds; or priority claims against the principal and any accrued and future interest on cover assets in the case of the insolvency or resolution of the credit institution issuing the covered bonds).
    - <u>Cover pool and coverage</u>:
        - **Eligible assets**. Member States shall require that covered bonds are at all times secured by asset exposures in the form of covered bonds, high-quality cover assets and assets in the form of loans to or guaranteed by public undertakings.
        - **Coverage and liquidity requirements**. Member States shall ensure investor protection by requiring covered bond programmes to comply with at least certain coverage requirements.
- **Covered bond public supervision**. Member States shall ensure investor protection by providing that the issue of covered bonds is subject to covered bond public supervision, by competent authorities (CAs).

<u>Regulation (EU) 2019/2160 on exposures in the form of covered bonds</u>

- **Exposures in the form of covered bonds**. This Regulation introduces amendments regarding certain eligible assets:
    - Exposures to credit institutions that qualify for credit quality steps 1, 2, or 3 where those exposures are in the form of: i) short-term deposits with an original maturity not exceeding 100 days, where used to meet the cover pool liquidity buffer requirement; and ii) derivative contracts that meet the requirement of derivative contracts in the cover pool where permitted by the CAs. Furthermore, the following limits to the exposures of the nominal amount are introduced:
        - **15%** for exposures to credit institutions that qualify for credit quality **step 1**.
        - **10%** for exposures to credit institutions that qualify for credit quality **step 2**.
        - **8%** for exposures to credit institutions that qualify for credit quality **step 3**.
    - Loans secured by a <u>residential property</u> up to the lesser of the principal amount of the liens that are combined with any prior liens and 80% of the value pledged properties.
    - Loans secured by <u>commercial immovable property</u> up to the lesser of the principal amount of the liens and 60 % of the value of the pledged properties. Loans secured by commercial immovable property are eligible where the loan-to-value ratio of 60 % is exceeded up to a maximum level of 70 % if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10 %, and the bondholders' claim meets the legal certainty.
    - In addition to being collateralised by the eligible assets, covered bonds shall be subject to a <u>minimum level of 5 % of overcollateralization</u> or a lower minimum level of overcollateralisation if is set by the Member State under certain conditions.

3. Next steps

- The Directive (EU) 2019/2162 must be transposed and applied by **8 July 2022 at the latest**.
- The Regulation (EU) 2019/2160 will apply by **8 July 2022**.

EUROPEAN CENTRAL BANK
EUROSYSTEM

09/10/2019

- **SSM supervisory priorities for 2020**
- **SSM Risk Map for 2020**

1. Context

The ECB has published its **2020 priorities for supervising significant banks** in the euro area, which warrants a continuation of the high-level priority areas from 2019, albeit with amendments. Along with the supervisory priorities, the ECB has published its **risk map for 2020** which sets out the main risks faced by the supervised institutions, in relation to which the supervisory priorities have been established: i) economic, political and debt sustainability challenges in the euro area, ii) business model sustainability, and iii) cybercrime and IT deficiencies), taking into account the relevant developments in the economic, regulatory and supervisory environment. Further, other significant risk drivers such as execution risk attached to banks' strategies for non-performing loans (NPLs); easing lending standards; Brexit; and climate-change related risks have been identified.

In particular, the ECB specifies that the **three areas** that will guide banking supervision are: i) continuing balance sheet repair; ii) strengthening future resilience, and iii) other priorities. For each of the priorities, a number of supervisory initiatives will be carried out. Furthermore, whereas restoring the health of balance sheets was crucial in the years after the inception of the Single Supervisory Mechanism (SSM), the supervisory focus has gradually shifted to encompass banks' future resilience and the sustainability of their business models.

2. Main points

- **Continuing balance sheet repair**. The ECB will continue to supervise in 2020:
  - Follow-up on NPL guidance. ECB Banking Supervision will therefore continue its effort to address the stock of NPLs and prevent the build-up of new NPLs in the future, with the aim to maintain progress in reducing legacy risks and achieve consistent coverage of the stock and flow of NPLs over the medium-term. In particular, it will keep engaging with affected institutions to follow up on bank-specific supervisory expectations within a harmonised framework.
  - Follow-up on internal ratings-based models. The focus will be on the remediation of the detected shortcomings during the on-site investigations held during the targeted review of internal models (TRIM). In addition, for credit risk models, significant supervisory activities will be required of the institutions to address the requirements of the EBA's IRB repair programme.
  - Trading risk and asset valuations. On-site missions with an enhanced focus on trading and market risk aspects will continue (i.e. banks which are exposed to complex instruments marked at fair value).
- **Strengthening future resilience**. ECB Banking Supervision will conduct a number of supervisory activities aimed at strengthening banks' resilience, the most prominent of which are highlighted below:
  - Credit underwriting criteria and exposure quality. ECB Banking Supervision will conduct a follow-up analysis with a view to acquiring a deeper understanding of banks' loan origination practices and processes. Depending on the findings, bank-specific actions may be considered. In addition, the quality of specific asset class exposures will be examined through dedicated on-site inspections in areas such as commercial real estate, residential real estate and leveraged finance.
  - Capital and liquidity management, ICAAP and ILAAP and further integration into SREP. Internal capital and liquidity adequacy assessment processes (ICAAPs and ILAAPs) are key risk management instruments for credit institutions. ECB Banking Supervision will continue to work towards improving banks' ICAAPs and ILAAPs by promoting a common understanding of the ECB's expectations for them. Moreover, banks' ICAAPs will be the focus of dedicated on-site inspections. Work will also proceed on improving transparency around the risk drivers of the Pillar II capital requirements.
  - Business model sustainability. ECB Banking Supervision will therefore continue assessing banks' business models and profitability, taking into account the pressure they face due to the economic environment (e.g. low interest rates or legacy issues), also in the light of increasing digitalisation, complemented by horizontal analyses.
  - IT and cyber risk. ECB Banking Supervision will continue to assess the IT and cyber risks facing banks by carrying out on-site inspections and monitoring these risks as part of the SREP. In addition, significant banks will report any significant cyber incidents to the ECB under the SSM cyber incident reporting process.

2. Main points (cont.)

  - EU-wide (biennial) and/ or ECB stress test exercises. The next supervisory stress tests for significant banks will be conducted in 2020. There will be two complementary exercises: a sample of large significant banks will participate in the EU-wide stress test coordinated by the EBA. In parallel, the ECB will conduct an additional stress test for the remaining significant banks not participating in the EU-wide stress test.
  - Governance. Supervisors will focus on banks' adherence to governance expectations in the context of each of the above activities aimed at strengthening future resilience..
- **Other priorities**. Supervisory activities planned for 2020 to address multiple risk dimensions include:
  - Follow-up on Brexit work. Together with the national supervisors, the ECB will continue to monitor the implementation of banks' Brexit plans and their adherence to supervisory expectations. This includes banks' progress towards their target operating models in the euro area within the agreed timelines.

11/11/2019

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

1. Context

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

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

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

2. Main points

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

2. Main points (cont.)

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

3. Next steps

- The 2020 EU-wide stress test will be launched at the end of **January 2020**, and the results of the exercise will be published by the **31 July 2020**.

27/11/2019
Risk Reduction Package Roadmaps.

1. Context

In May 2019 the Council of the EU and the European Parliament adopted the Risk Reductions Measures Package. This Package addressed some mandates to the EBA under the revised Capital Requirements Directive (CRD V), Capital Requirements Regulation (CRR II) and Bank Recovery and Resolution Directive (BRRD II). Most of these mandates were focused on completing and updating the Single Rulebook as well as monitoring regulatory practices within the Single Market to ensure the effective and consistent implementation of such rules.

In this context, the EBA has published the **Risk Reduction Package Roadmaps**, that aims to provide clarity on the early understanding of the mandates and changes in legislation, the timeline for consultation and submission. In particular, this document include a Roadmap on: i) governance and remuneration; ii) large exposures; iii) EBA mandates on Pillar II; iv) EBA mandates on resolution; v) EBA mandates on Pillar 3 disclosures; and vi) EBA mandates on supervisory reporting.

2. Main points

- **Governance and remuneration**. This Roadmap's key objective is to achieve a more balanced and robust governance for the whole banking structure.
    - EBA's policy strategies regarding governance and remuneration pretend to optimise the existing framework under the CRD (i.e. with amendments to existing EBA regulatory products limited to changes introduced by CRD V and clarify them where necessary and relevant to avoid legal uncertainty for both competent authorities and institutions), ensure cross-sectoral framework under CRD and Investment Firms Regulation (IFD) and ensure a harmonized and consistent approach within the EU.
- **Large exposures**. This Roadmap's key objective is to take decisive steps to manage concentration risk, including shadow banking.
    - EBA's policy strategies in the area of large exposures intend to issue guidelines (eg. specifying the conditions for the substitution approach in respect of exposures collateralized by the market value of recognised collateral); regulatory technical standards (eg. specifying the criteria for the identification of shadow banking entities) and reports regarding different types of exposures.
- **Pillar II**. This Roadmap's key objective is to provide more clarity on Pillar II requirements.
    - EBA's policy strategy focus on the main changes to the Pillar II framework and mandates from CRD V fundamentally on proportionality; sustainable finance; assessment of Money Laundering and Terrorism Finance (ML/TF) risks from a prudential perspective; microprudential perspective; Pillar II capital add-ons and guidance; and framework for interest risk in the non-trading book (IRRBB).
- **Resolution**. This Roadmap includes the mandates about the crisis management framework related to BRRD II and CRR II.
    - EBA's policy strategy on resolution focuses on the mandates related to setting Minimum Required Eligible Liabilities (MREL) instruments, reporting and monitoring; and contractual terms on bail-in and resolution stay powers.
- **Pillar III disclosure**. This Roadmap's key objective is to achieve a comprehensive Pillar III framework.
    - EBA's policy strategies regarding Pillar III disclosures pretend to optimize the framework; promote market discipline further; facilitate access for users of information to key information; foster ease of use for institutions; increase the efficiency of institutions' disclosures and promote the awareness of external stakeholders of the relevance of the role of institutions in the transition to a green economy.
- **Supervisory reporting**. This Roadmaps' key objective is to achieve a more efficient and proportionate supervisory reporting.
    - EBA's policy strategy on supervisory reporting focuses on reliability of the information reported; information has to be proportionate to the nature, scale and level of risk of institutions' activities; and maximum harmonisation of the information provided

3. Next steps

- These Roadmaps contain **a proposed deadline for each mandate**.

27/11/2019

- **Consultation Paper (CP) on the Draft implementing technical standards (ITS) on the disclosure and the reporting on MREL and TLAC**
- **Consultation Paper (CP) on the Draft implementing technical standards (ITS) on specific supervisory reporting requirements for market risk**

1. Context

CRR II and BRRD II implement the Financial Stability Board (FSB) Total Loss-Absorbing Capacity (TLAC) standard and amend the minimum requirement for own funds and liabilities (MREL). Both TLAC and MREL are required to be met at all times. Furthermore, CRR II also introduces the first elements of the Fundamental Review of the Trading Book (FRTB), initiated by the Basel Committee on Banking Supervision (BCBS), into the prudential framework of the EU.

In this context, the EBA has published the **CP on the Draft ITS on the disclosure and the reporting on MREL and TLAC**, with the aim to implement the disclosure and reporting requirements on both MREL and TLAC in accordance with the mandates included in CRR II and BRRD II. Furthermore, the EBA has also published the **CP on the Draft ITS on specific supervisory reporting requirements for market risk**, with the objective to introduce the FRTB framework in the EU.

2. Main points

CP on the Draft ITS on the disclosure and the reporting on MREL and TLAC.

Supervision reports

- **Reporting reference and remittance dates**. This CP establishes that entities subject to reporting requirements for TLAC and MREL (reporting entities) on an individual or consolidated basis shall submit information to competent authorities (CAs) and resolution authorities (RAs) as this information stands, and by close of business on the reporting reference and remittance dates (i.e. quarterly, semi-annual and annual reporting).
- **Format and frequency of reporting**.
    - Resolution entities that are not part of a group that is subject to consolidated supervision on an individual basis, and resolution entities on a consolidated basis shall submit to CAs and RAs information on key metrics, the funding structure, amount and composition of the own funds and liabilities eligible, and information on instruments governed by third-country law with a quarterly frequency.
    - Entities that are not themselves resolution entities and by material subsidiaries of non-EU G-SIIs on an individual basis, and entities that are not themselves resolution entities on a consolidated basis shall submit to CAs and RAs information on the funding structure, amount and composition of the own funds and liabilities eligible, and information on instruments governed by third-country law with a quarterly frequency.
- **Data precision and information associated with submissions**. This CP introduces that where submitting information, the reporting entities shall observe that:
    - Information that is not required or not applicable shall not be included in a data submission.
    - Numeric values shall be submitted as facts (i.e. monetary, percentage and integer).
    - Institutions shall be identified by their Legal Entity Identifier (LEI).
- **Standardised way of providing information on the ranking of items in national insolvency proceedings in the member states**. This CP establishes that RAs shall compile information on the ranking of items in their national insolvency proceedings and shall update that information when changes occur without undue delay.

Public disclosure by institutions

- **Uniform disclosure formats and instructions**. This CP establishes that institutions shall disclose among others, the key metrics on own funds and eligible liabilities and the requirements for own funds and eligible liabilities by resolution entities; the composition of own funds and eligible liabilities by resolution entities and the creditor ranking (resolution and non-resolution entities).
- **General disclosure provisions**. This CP set out general disclosure provisions in case of omission of information, where reporting entities must state the reason for omission. In addition, presentation requirements for numerical values are included (eg. quantitative monetary data shall be disclosed using a minimum precision equivalent to thousands of units).

2. Main points (cont.)

CP on the Draft ITS on specific supervisory reporting requirements for market risk

- **Reference dates and remittance dates for reporting**.
  - Institutions shall submit information to competent authorities (CAs) with a quarterly frequency as this information stands on the 31 March, 30 June, 30 September and 31 December.
  - Institutions shall submit information to CAs by close of business of the following remittance dates: 12 May, 11 August, 11 November and 11 February.
- **Reporting on thresholds**. This CP establishes that Institutions have to report information on the size of their trading book and the size of their on- and off-balance sheet business subject to market risk on an individual basis or consolidated basis, due to what CRR states.
- **Reporting on the Alternative Standardised Approach (ASA)**. This CP introduces that institutions shall submit on an individual or consolidated basis the information regarding own funds in accordance to the specific reporting requirements for market risk ASA.
- **Data precision and information associated with submissions**. This CP establishes that institutions have to submit the information in the data exchange formats and representations specified by CAs and respecting the data point definition of the data point model.

3. Next steps

- Comments to the CP on the draft implementing technical standards on the disclosure and the reporting on MREL and TLAC shall be submitted **by 22 February 2020**. It is expected that the title related to supervisory reporting will apply from **28 June 2021**, and the title related to public disclosure by institutions shall apply as of the date of application of the disclosure requirements to which the templates relate.
- Comments to the CP on the draft implementing technical standards on specific supervisory reporting requirements for market risk shall be submitted by **7 January 2020**. It is expected that this ITS will apply from **1 March 2021**.

29/11/2019
Final GL on ICT and security risk management

1. Context

Information and communication technology (ICT) risk is defined as the current or prospective risk of losses due to the inappropriateness or failure of the hardware and software of technical infrastructures, which can compromise the availability, integrity, accessibility and security of such infrastructures and of data. Due to the increase of ICT risk, including security risks, in recent years, the EBA published Guidelines on security measures for operational and security risks of payment services under the PSD2 in December 2017.

In this context, after the consultation paper published in November 2018, the EBA has issued **Final GL on ICT and security risk management** which establishes requirements for credit institutions, investment firms and payment service providers (PSPs) on the mitigation and management of their ICT risks and aims to ensure a consistent and robust approach across the Single market. In particular, this GL outline expectation in relation to governance, risk assessment process, information security requirements, ICT operational management, security in the change and development processes and business continuity management to mitigate ICT and security risks, among others.

2. Main points

- **Principle of proportionality**. These GL set out that all financial institutions should comply with its provisions in a way that is proportionate to the financial institutions' size, their internal organisation, the nature, scope, complexity and riskiness of the services and products that the financial institutions provide or intend to provide.
- **Governance and strategy**. These GL focus on the management and mitigation of ICT and security risks through establishing sound internal governance and an internal control framework that sets clear responsibilities for financial institutions' staff including for the management bodies. It requires establishing the financial institutions' ICT strategy, and the management and mitigation of ICT and security risks through independent and objective control functions (ensuring the independence of the three lines of defence, where appropriate). It also highlights the need to ensure and monitor the effective mitigation of security and ICT risks in outsourced activities.
- **ICT and security risk management framework**. This GL require financial institutions to maintain an up-to-date mapping of their business functions, roles, supporting processes and information assets, classify them in terms of criticality, from the confidentiality, integrity and availability of the data, and assess operational risks related to ICT and security risks that impact them.
- **Information security**. These GL set out requirements for information security to the extent that the information is held on ICT systems. Moreover, it defines requirements to implement a high degree of information effective security measures, including the establishment of an independent information security function; having an information security policy in place; testing information security measures; and establishing a training programme for all staff and contractors.
- **ICT Operations management**. These GL specify high level principles on how ICT operations should be managed, including requirements to automate ICT operations, implement logging and monitoring procedures for critical ICT operations, or to maintain an updated inventory of their ICT assets, among others. Financial institutions should also establish and implement an incident and problem management process.
- **ICT Project and Change management**. These GL describe requirements for ICT project management, including the acquisition, development and maintenance of ICT systems and services. Financial institutions should ensure that changes to production systems are assessed, tested, approved and implemented in a controlled manner.
- **Business continuity management**. These GL specify expectations with regard to business continuity management and developing response and recovery plans, including testing, and consequent update based on the testing results. Financial institutions should ensure that they have effective crisis communication measures in place. In addition, ICT continuity should be considered as an integral part of the overall entity continuity management process.
- **Payment service user (PSUs) relationship management**. These GL prescribe requirements for PSUs relationship management, including allowing PSUs to disable specific payment functionalities (where product functionality permits), receiving alerts on initiated and/or failed attempts to initiate payment transactions, and providing PSUs with assistance on questions and requests for support. The EBA highlights the importance of ensuring transparency between PSUs and PSPs.

3. Next steps

- These Final GL apply from **30 June 2020**.
- These Final GL will repeal from **30 June 2020** the Guidelines on security measures for operational and security risks of payment services under the PSD2 published in December 2017.

05/12/2019

Impact study and key recommendations on Basel III reforms: macroeconomic assessment, credit valuation adjustment and market risk

1. Context

On December 2017, the Basel Committee on Banking Supervision (BCBS) finalised the Basel III framework, with the objective to reduce excessive variability of risk-weighted asset (RWAs) and improve the comparability of banks' capital ratios. Furthermore, in May 2018, the European Commission (EC) requested technical advice from the EBA on the implementation of Basel III reforms in the EU. In August 2019, the first part of the report was issued by the EBA, which included a quantitative analysis of the estimated impact, and a set of policy recommendations in the areas of credit risk, operational risk, output floor and securities financing transactions.

In this context, the EBA has issued the **Impact study and key recommendations on Basel III reforms: macroeconomic assessment, credit valuation adjustment (CVA) and market risk**, which provides a detailed impact assessment and the key policy recommendations on the CVA and market risk reforms, as well as a macroeconomic impact assessment, and therefore completes the EBA's advice on the implementation of the final Basel III framework in the EU.

2. Main points

- **Sample**. The results of this report are based on a sample of 189 banks from 19 EU countries.
- **Reference dates**. The impact assessment in this report is based on quantitative impact study (QIS) data and qualitative survey evidence that institutions provided on a voluntary basis, with different reference dates:
  - Main findings: end-June 2018 (except market risk)
  - CVA risk: end-June 2018.
  - Market risk: end-December 2018.
- **Main findings**.
  - <u>Changes in minimum required capital level 1 (T1 MRC)</u>. The overall reform at its steady-state implementation scheduled for 2027 could increase the T1 MRC amount, which includes Pillar 2 requirements and EU-specific buffers, by 23.6% with respect to the June 2018 baseline.
  - <u>Changes in RWA</u>. The impact of the reform in terms of RWA closely mimics the impact measured in terms of T1 MRC (23.7%), but it does not fully correspond for the following reasons: i) T1 MRC calculation takes into account the leverage ratio (LR) T1 MRC requirement for those institutions that are constrained by the LR in either the baseline or the reform scenario; and ii) T1 MRC calculation takes into account the IRB shortfall for institutions using the IRB approach to credit risk.
  - <u>Impact on capital ratios and capital shortfalls</u>. The impact would reduce the average total capital ratio of the banks in the sample from 17.9% to 14.4% and trigger a shortfall in total capital of EUR 124.8 billion, of which EUR 83.0 billion Common Equity Tier 1 (CET1).
- **CVA risk**. The removal of the CVA exemptions will result in an increase in capital requirements; however, the additional revisions proposed by the BCBS in November 2019 are expected to reduce part of the impact. The EBA recommends the full removal of EU CVA exemptions subject to phase-in measures, in order to align with the international standards on CVA risk. Furthermore, in the area of proportionality, the EBA recommends employing thresholds for the simplified standardized approach to counterparty credit risk (SA-CCR) of CRR II to determine the eligibility for using the simplified treatment for CVA risk.
- **Market risk**. The impact on market risk is on average 105%, and is heterogeneous across banks and is driven mostly by a few large banks. The EBA recommends clarifying the treatment for unrated covered bonds and using a recalibrated Basel II SA as a simplified standardised approach for market risk.
- **Macroeconomic impact assessment**. The macroeconomic impact assessment looks at the costs and benefits of the Basel III framework on the EU's output, in both the short and the long run. The EBA concludes that the finalisation of the Basel III post-crisis reforms will have net benefits for EU economies. There will be modest transitional costs, such a reduction on the banks' lending capacity due to the higher capital requirements. However there will be longer-run benefits, such as the reduction on the severity of future economic downturns through a mitigation in both the probability and the intensity of future banking crises.

12/12/2019
Action plan on sustainable finance

1. Context

On 2015 and 2016, the UN 2030 Agenda for Sustainable Development and the Paris Agreement on climate change where approved with the aim of finding a more sustainable path for the planet and economy. Furthermore, in 2018 the European Commission (EC) published the "Report of the EC's High-Level Expert Group on Sustainable Finance" and the "EC's Action Plan: Financing Sustainable Growth" setting an EU strategy on sustainable finance and a roadmap for future work across the financial system.

In this context, the EBA has issued the **Action Plan on Sustainable Finance** which explains EBA's approach and timeline for delivering mandates related to environmental, social and governance (ESG) factors. The Action plan explains the EBA's sequenced approach, starting with key metrics, strategies, risk management and moving towards scenario analysis and evidence for any adjustments to risk weights. The Action Plan also aims to communicate key messages on the EBA's policy direction and the expectations from financial institutions on areas where action is needed now to support the move towards more sustainable finance in the EU. The EBA designed the Action Plan by taking in consideration the following mandates on ESG factors and ESG risks: i) EBA regulation; ii) Sustainability disclosure regulation; iii) EC action plan; iv) CRR and Interchange Fee Regulation (IFR); e v) CRD and Investment Firms Directive (IFD).

2. Main points

- **Timeline and milestones of the EBA's work on sustainable finance**. The EBA will follow the sequence reflected in the mandates, which can be summarised as:
  - Strategy and risk management. The EBA shall assess the development of a uniform definition of ESG risks, the criteria and methods for understanding its impact of ESG risks, the arrangements and strategies to evaluate and manage the ESG risks, and the potential inclusion of ESG risks in the supervisory review and evaluation process.
  - Key metrics and associated disclosure. The EBA will identify key metrics and associated disclosure on sustainable finance, and will include the developing of comprehensive technical standards to implement the disclosure requirements.
  - Stress testing and scenario analysis. The EBA aims to develop a dedicated climate change stress test with the main objective of identifying banks' vulnerabilities to climate-related risk and quantifying the relevance of the exposures that could be potentially hit by physical risk and transition risk.
  - Prudential treatment. The EBA should asses about the importance to implement a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives
- **Key policy messages and expectations under the remit of EBA mandates on sustainable finance**.
  - Expectations on strategy and risk management. The EBA encourages institutions to act proactively in incorporating ESG considerations into their business strategy and risk management and to integrate ESG risks into their business plans, risk management, internal control framework and decision-making processes.
  - Expectations on disclosure. The EBA encourages institutions to continue their work on Non-Financial Reporting (NFRD) disclosures as well as participation in other initiatives. As part of this work the EBA encourages institutions to prioritise the identification of some simple metrics that provide transparency on how climate change related risks, including transition risk, are embedded, into their business targets, strategies, decision-making processes, and risk management.
  - Expectations on scenario analysis and stress testing. The EBA encourages institutions to adopt climate change related scenarios and use scenario analysis as an explorative tool to understand the relevance of the exposures affected by and the potential magnitude of physical risk and transition risk.
- **Industry initiatives supporting understanding of ESG risks**. The EBA is favorable on the sharing of data and industry initiatives aimed at providing new types of data to facilitate the understanding of the impact of ESG risks, that can help to inform the EBA's work on and understanding of the performance of green and/or social assets or assets exposed to transition risk or physical risk from climate change.

3. Next steps

- EBA responses to call for advice on short-termism will be published on the **Q4 2019**.
- The Final Report on incorporation of ESG into risk management and supervision will be published by **28 June 2021**.
- Final draft implementing technical standard (ITS) on Pillar III disclosure (ESG disclosure) will be published on **2021**.
- Final draft of ESAs regulatory technical standards (RTS) on consumer and investor disclosure will be published on **2021**.
- Final report on classification and prudential treatment of assets from a sustainability perspective will be published by **28 June 2025**.

19/12/2019

Draft ITS amending EC Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models

1. Context

On 2013 CRD IV was approved, which requires competent authorities to conduct an annual assessment of the quality of internal approaches used for the calculation of own funds requirement. Following this mandate, the EBA assists competent authorities calculating and distributing benchmark values against which institutions' risk parameters can be compared. These benchmark values are based on data submitted by institutions, as EU Regulation 2016/2070 states, which also specifies the benchmark portfolios , templates and definitions to be applied.

In this context, the EBA has issued the **Draft ITS amending EC Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models** with the aim to integrate the sub-set of templates dedicated to the IFRS 9 benchmarking, changing the reporting templates and instructions. The three major objectives of the EBA supervisory benchmarking are: i) providing a supervisory assessment of the quality of internal approaches; ii) providing a powerful tool to explain and monitor risk-weighted asset (RWA) variability over time and the resulting implications for prudential ratios ; iii) providing the banks with valuable information on their risk assessment compared to other banks assessment on comparable portfolios.

2. Main points

- **Credit risk internal rate based (IRB) benchmarking**. This ITS project proposes the main modifications on the following aspects:
  - Some modifications have been made to the IFRS 9 template to incorporate counterparties treated under the standard approach.
  - The temporal exemption to report RWA calculated under the standardized approach have been deleted.
  - The hypothetical RWA collected in template C103 are now also collected at the rating split level.
- **Market risk benchmarking**. The EBA has issued a public consultation on the following issues:
  - How and if the reference dates should be set in a more general terms.
  - How to update the IBOR references in the ITS.
- **IFRS 9 benchmarking**. The main objective is to collect quantitative data on the IFRS 9 expected credit loss (ECL) parameters and other relevant information that would allow to have a good understanding of the different methodologies, models, inputs and scenarios. In the first stage of the exercise, these new parameters will focus on probability of default (PD), on three different aspect of the accounting framework:
  - Analysis of the variability of the 12 months - PD parameters. The EBA sets the definition for the PD IRB, PD through the cycle (TTC), PD point in time (PIT) and PD IFRS 9.
  - Analysis of the variability of the macroeconomic forecasts and the interaction between the lifetime PD curve and the macro economic scenarios.
    - The **variability of the economic scenario** is assessed via the variability of one macroeconomic variable forecast, namely the Gross Domestic Product (GDP).
    - The **variability of the PD curve** measured for each economic scenario.
  - Analysis of variability of practices in the Significant Increase in Credit Risk (SICR) assessment.

3. Next steps

- These ITS will apply on the **2021 benchmarking exercise**.

20/12/2019
Final draft RTS on the standardised approach for counterparty credit risk (SA-CCR)

1. Context

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

In this context, after the public consultation issued in May 2019, the EBA has published the **Final draft on RTS on the SA-CCR**, based on the proposals included in the Discussion and Consultation Paper, which specifies key aspects of the SA-CCR and represents an important contribution to its smooth harmonised implementation in the EU. In particular, this final draft covers three-pronged methodology for the mapping of derivative transactions to risk categories: i) a qualitative approach; ii) a qualitative and quantitative approach; and iii) a fallback approach. The EBA also proposes to use, in line with Basel standards, a supervisory delta formula based on a shifted Black-Scholes model.

2. Main points

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

3. Next steps

- Once the European Commission publishes its Delegated Regulation, these RTS will enter into force on the **twentieth day following its publication in the OJEU**.

23/12/2019
2019 Institutions for Occupational Retirement Provisions

1. Context

In 2015 and 2017, the EIOPA carried out its firsts stress tests for Institutions for Occupational Retirement Provisions (IORPs). Both stress test exercises assessed the impact of a 'double-hit' scenario: a falling in asset prices with a decline in risk-free interest rates too, resulting in an increase in the market value of pension obligations. The results of this exercises showed areas of risks and vulnerabilities concerning particularly the Defined Benefit (DB) /hybrid IORP sector. The 2017 IORP stress test indicated that more than a quarter of IORPs providing DB/hybrid pension schemes were backed by a sponsor that may not be able to fully support the pension promise following the adverse scenario.

In this context, EIOPA has published the **2019 Institutions for Occupational Retirement Provisions (IORPs) stress test results** with the aim of assessing the resilience and potential vulnerabilities of the European DB and Defined Contribution (DC) pension sector, tailored to the specificities of the diverse European pension sector and its potential impact on financial stability. For the first time, this European stress test exercise covered the analysis of Environmental, Social and Governance (ESG) factors for IORPs.

2. Main points

- **Sample and methodological aspects**. In this exercise 176 IORPs from 20 countries have participated, covering at least 60% of assets of the DB/hybrid IORP sector and 50% of assets of the DC IORP in the European Economic Area (EEA) . Ireland and UK did not participate in this stress test.
- **Impact of the stressed market scenario**. The stress would have wiped off almost 250bn € of asset values in the EEA DB sector and 16bn Euros in the EEA DC sector, which represents around 2% of the 2018 GDP of the participating countries. However, this results show that the EEA pension sector is on average better funded in the baseline compared to previous exercises. The liabilities of the DB IORPs decreased by 7% in the common methodology as a consequence of the adverse market scenario.
- **Potential investment reactions to the adverse market scenario**. The analysis of the IORPs' expected investment behaviour after the stress event shows strong and quick re-balancing to pre-stress investment allocations, which indicates counter-cyclical investment behaviour, yet potentially exacerbating the financial loss in case of continued reassessment of risk premia.
- **ESG exposures**. The majority of the IORPs in the sample have taken steps to integrate ESG considerations in their risk-management and investment allocations, which is important for an effective implementation of the IORP II Directive, yet only 30% of them have processes in place to manage ESG risks.
    - <u>Qualitative analysis of management and incorporation of ESG</u>. The information is provided on the extent to which IORPs take into account ESG factors, assess ESG risks and the introduction of the IORP II Directive and the Shareholder Rights Directive
    - <u>Quantitative analysis of investments prone to significant greenhouse gas emission intensity</u>. IORPs was matched with Eurostat data on greenhouse gas emission intensities by economic activities and were requested to provide a breakdown of their investments in three major asset classes by ten economic activities based on the NACE section classification.

3. Next steps

- The EIOPA conducts biannual stress tests, so it is expected to deliver the **next stress test results in 2021**.

BANCO DE ESPAÑA
Eurosistema

05/11/2019
Circular 3/2019 por la que se define el umbral de significatividad de las obligaciones crediticias vencidas

1. Context

According to the CRR, the competent authorities have the power to set a threshold for assessing the materiality of a credit obligation past due that should remain consistent over time. In particular, such materiality threshold brings the added benefit of increased comparability of bank's defaulted exposures among institutions in the same jurisdiction. As a consequence of this mandate, the ECB published on November 2018 the Regulation 2018/1845, with the aim of defining the materiality threshold for those credit institutions within the Single Supervisory Mechanism (SSM).

In this context, the BdE has published the **Circular 3/2019 which defines the significance threshold for overdue credit obligations** in order to define the absolute and relative components of materiality threshold for those Spanish less significant credit institutions, under direct supervision of the BdE. In particular, this threshold will comprise an absolute component, expressed as a specific maximum amount for the sum of all amounts past due owed by an obligor, and a relative component, expressed as a percentage reflecting the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor.

2. Main points

- **Scope**. The definition of the materiality threshold will be applied to Spanish less significant credit institutions, under direct supervision of the BdE:
  - Credit institutions consolidated groups and subgroups with its parent company stablished in Spain.
  - Individual credit institutions stablished in Spain.
  - Branches in Spain of credit institutions with its statutory seat in a EU nonmember state, in the case that they are not released of fulfilling CRR.
- **Definition of the materiality threshold**. Credit institutions shall assess the materiality of a credit obligation past due against a threshold, which comprises the following two components:
  - A limit in terms of the <u>sum of all amounts past due owed by the obligor</u> to the credit institution, the parent undertaking of that credit institution or any of its subsidiaries, equal:
    - For retail exposures, to **100€**.
    - For exposures other than retail exposures, to **500€**.
  - A limit in terms of the <u>amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor</u> for the credit institution, the parent undertaking or any of its subsidiaries, excluding equity exposures, equal to <u>1%</u>.
- **Individual operations**. For credit institutions which, in the case of retail exposures, apply the CRR definition of default to the level of an individual transaction, the threshold shall apply to the level of the individual transaction granted to the debtor by the credit institution, its parent company or any of its subsidiaries.
- **Default of an obligor**. It shall be deemed to have occurred when both of the above-mentioned limits set out are exceeded for 90 consecutive days.

3. Next steps

- The Circular shall enter into force on the **twentieth day following** that of its publication in the Boletín Oficial del Estado (BOE).
- Credit institutions shall apply this threshold no later than **31 December 2020**. Nevertheless, credit institutions shall notify the ECB, before **31 December 2019**, of the exact date on which they will commence applying such threshold.

BANCO DE ESPAÑA
Eurosistema

03/12/2019
Circular 4/2019 sobre normas de información financiera pública y reservada, y modelos de estados financieros.

1. Context

In January 2014, Royal Decree-Law 14/2013 came into force, excluding financial credit institutions (EFCs) from the definition of credit institutions. Since then, EFCs have maintained a transitional simplified regime based on accounting regulations prior to the entry into force of Royal Decree-Law 14/2013. As a consequence of this, Circular 4/2017 on public and reserved financial information standards and model financial statements, which adapted the accounting regime for Spanish credit institutions to IFRS 9 and IFRS 15, is not applicable to financial credit institutions.

In this context, the BdE has published **Circular 4/2019 on public and reserved financial information standards and model financial statements**, addressed to EFCs, with the aim of ending the transitional regime established since 2014. This Circular establishes certain simplified requirements with respect to Circular 4/2017, which applied only to credit institutions. In particular, this Circular establishes certain requirements relating to the publication of financial information, registered in Circular 4/2017, for EFCs, such as the characteristics and elements of the internal information or the recognition, valuation, presentation and information criteria to be included in the financial report.

2. Main points

- **Scope of application**. This Circular is applicable to companies that, without being considered a credit institution and with prior authorisation from the Minister of Economy and Competitiveness, are professionally engaged in one or more of the following activities:
    - The granting of loans and credits.
    - Factoring.
    - Financial leasing.
    - The granting of guarantees, and subscription of similar commitments.
    - The granting of reverse mortgages.
- **Reporting requirements**. This Circular simplifies and introduce the following requirements set out in Circular 4/2017 for EFCs:
    - Contents of the individual and consolidated annual accounts.
    - Individual and consolidated public financial statements.
    - Characteristics and elements of the financial information.
    - Criteria for recognition, valuation, presentation and information to be included in the Annual Report.
    - Criteria for the preparation of reserved information.
    - Internal accounting development and management control.
    - Presentation of financial information in the BdE.
- **Periodicity of the reserved states**. This Circular introduces the number of reserved states for EFC that must submit to the BdE and also set up the following modifications:
    - As a general rule, the maximum remission period is set at the end of the following month.
    - The periodicity for the presentation of some statements is longer than that included in Circular 4/2017 for credit institutions.

3. Next steps

- The Circular will enter into force on **1 January 2020**. However, transitional provisions are laid down for the application of certain provisions related to annual accounts and public and reserved financial statements.

31/10/2019
Final Rule on modifications to resolution plan requirements

1. Context

Section 165 of the Dodd-Frank Act and the 2011 rule require certain financial companies to report periodically their plans for rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure. In May 2019, the agencies invited comment on a proposal to modify resolution plan requirements. This proposed rule was intended to address amendments to the Dodd-Frank Act made by the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) and improve certain aspects of the 2011 Joint resolution plan rule based on the agencies' experience implementing this rule since its adoption.

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

2. Main points

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

3. Next steps

- The Final Rule will enter into force **60 days after its publication in the Federal Register**.
- Covered companies that are biennial filers (all firms subject to Category I standards) on October 1, 2020 are required to submit their next resolution plans on or before **July 1, 2021**.
- Covered companies that are triennial full filers (all firms subject to Category II or Category III standards) on October 1, 2020 are required to submit targeted resolution plans on or before **July 1, 2021**.
- Covered companies that are triennial reduced filers (all other filers) on October 1, 2020 must submit their initial reduced resolution plans under the final rule on or before **July 1, 2022**.

16/10/2019

- **Final Rule on Changes to applicability thresholds for regulatory capital and liquidity requirements**
- **Final Rule on Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations**
- **Annex**

1. Context

In 2013, the agencies (Fed/FDIC/OCC) issued Final Rules that modified the regulatory capital of banks and that addressed, among other things, the weaknesses of the regulatory framework that emerged after the crisis. Specifically, the quality and quantity of regulatory capital were improved, increasing the risk sensitivity of capital requirements. In addition, in 2014 the Liquidity Coverage Ratio (LCR) Rule was issued, with the objective of improving the resilience of the banking sector in stress tests, reinforcing the position of U.S. banks in their money lending and financial intermediation operations during market shocks. On the other hand, in 2018 and 2019, the Board of Governors of the Fed (Board) sought comment on two separate proposals to revise the framework for determining application of prudential standards to large banking organizations.

In this context, the Fed has issued the **Final Rule on Prudential Standards for Large Bank Holding Companies (LBHC), Savings and Loan Holding Companies (SLHC), and Foreign Banking Organizations (FBO)**, and agencies have also issued the **Final Rule on Changes to applicability thresholds for regulatory capital and liquidity requirements**, with the aim of better aligning the regulatory requirements for LBHCs based on their risk profile, taking into account their size and complexity, as well as its potential systemic risks.

2. Main points

<u>Fed/OCC/FDIC - Final Rule on Changes to applicability thresholds for regulatory capital and liquidity requirements</u>

- **Risk-based categories**:
  - <u>Category I</u>: U.S. G-SIBs.
  - <u>Category II</u>: ≥ $700 bn Total Assets or ≥ $75 bn in CrossJurisdictional Activity.
  - <u>Category III</u>: ≥ $250 bn Total Assets or ≥ $75 bn in nonbank assets, weighted Short-Term Wholesale Funding (wSTWF), or off-balance sheet exposure.
  - <u>Category IV</u>: other firms with $100 bn to $250 bn total assets.
  - <u>Other firms</u>: $50 bn to $100 bn total assets.
- **Capital requirements**. This Final Rule modifies the capital requirements for entities included in Category III by applying the requirements established in the Final rule on simplifications to the Capital Rule (e.g. simplified capital requirements for mortgage services).
- **Liquidity requirements**. This Final Rule introduces changes related to liquidity requirements in the different categories:
  - <u>Category I</u>. In addition to the existing requirements for G-SIBs, US subsidiary depositary entities of a G-SIB with consolidated assets equal to or greater than $ 10 bn will be subject to the full requirement of LCR applicable to G-SIBs.
  - <u>Category II</u>. In addition to the existing requirements for the entities included in this category, their subsidiary depositary entities with consolidated assets equal to or greater than $ 10 bn will also be subject to the full requirement of LCR and NSFR
  - <u>Category III</u>. The liquidity requirements are divided into two subcategories based on their wSTWF: i) if the wSTWFs are greater than $ 75 bn, the full requirement of LCR and NSFR will apply; and ii) if the wSTWFs are less than $ 75bn, 85% of the requirement of LCR and NSFR will apply
  - <u>Category IV</u>. Liquidity requirements are divided into two subcategories based on their wSTWF: i) if the wSTWFs are greater than $ 50 bn, 70% of the requirement of LCR and NSFR will apply; and ii) if the wSTWFs are less than $ 50 bn, the LCR requirement will not apply.

<u>Fed - Final Rule on Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations</u>

In addition to which the agencies have issued, the Fed has introduced other Prudential Standards for LBHC, SLHC and FBOs related to:

- **Single-counterparty credit limits**. This Final Rule modifies the thresholds to limit the single-counterparty credits for all banks included in categories II and III, adapting them to the previously applicable to US IHCs with $ 250 bn (i.e. the aggregate net credit exposure limit of 25 percent of T1 capital, the treatment regarding exposures to special purpose vehicles (SPVs) and the application of the economic interdependence and control relationship tests, as well as the required frequency of compliance).
- **Requirements for Covered SLHC**. The Final Rule modifies the requirements for Covered SLHCs, regarding liquidity risk management, stress testing and buffer requirements.

2. Main points (cont)

- **Risk Management and Risk Committee Requirements**. The Final Rule establishes the requirement of holding a risk committee for all Bank Holding Companies (BHC) or Covered SLHCs, both listed and private, with consolidated assets equal or greater than $ 50 bn. On the other hand, in relation to FBOs enhanced prudential standards have been introduced:
    - This Final Rule eliminates for FBOs < $ 50 bn in total consolidated assets risk-committee and risk-management requirements, and the duty to perform a home-country capital stress test.
    - This Final Rule requires FBOs with $ 100 bn or more in total consolidated assets but less than $ 50 bn in combined U.S. assets, to certify on an annual basis, that they maintain a qualifying risk committee that oversees the risk management policies of the combined U.S. operations of the FBO.
    - This Final Rule requires FBOs with $ 100 bn or more in total consolidated assets, and at least $ 50 bn but less than $100 bn in combined U.S. assets, more detailed risk-committee and risk-management requirements, which include the chief risk officer (CRO) requirement.
- **Buffer requirements**. This Final Rule amends the definition of highly liquid assets (HQLA) under the enhanced prudential standards rule to include all assets that would qualify as HQLA under LCR rule.
- **Stress test**. This Final Rule has modified the duty to perform stress tests increasing the minimum threshold to $ 250 bn of consolidated assets, removing the “adverse” scenario, and changing the period to perform the stress test from annual to "periodic", so it will be done every two years.

3. Next steps

- The Final Rules will be effective **60 days after publication in the Federal Register**.

20/11/2019

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

1. Context

The Section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) mandates the Fed, the FDIC and the OCC (agencies) to amend the supplementary leverage ratio (SLR) of the regulatory capital rule to exclude certain funds of banking organizations deposited with central banks. In this sense, in April 2019, the agencies published a Proposed rule on revisions to the SLR.

In this context, after the proposal, the agencies have published a **Final rule on revisions to the SLR** in order to exclude from the SLR certain funds of banking organizations deposited with central banks if the banking organization is predominantly engaged in custody, safekeeping, and asset servicing activities. This final rule is unchanged from the proposal issued.

2. Main points

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

3. Next steps

- This final rule will be effective **April 1, 2020**.

22/11/2019

Final Rule on Standardized Approach for Calculating the Exposure Amount of Derivative

1. Context

In 2014, the Basel Committee on Banking Supervision (BCBS) released a new approach for calculating the exposure amount of a derivative contract called the standardized approach for counterparty credit risk (SA-CCR). Under this new standard, banking organizations calculate the exposure amount of its derivative contracts at the netting set level. On October 2018, the Fed, FDIC and OCC (the agencies) issued a proposal to implement standardized approach for calculating the exposure amount of derivative (SA-CCR). This proposed rule was intended to replace the current exposure methodology for large, internationally active banking organizations, while other, smaller banking organizations could voluntarily adopt SA-CCR.

In this context, the agencies have issued a **Final Rule on Standardized Approach for Calculating the Exposure Amount of Derivative** in order to address an alternative approach to the agencies' current exposure methodology (CEM) for calculating derivative exposure under the agencies' regulatory capital rules. In particular, this document establishes the mechanics of the SA-CCR, revises the Cleared Transactions Framework and the Supplementary Leverage Ratio (SLR).

2. Main points

- **Scope of application**.
  - Advanced approaches banking organizations generally may use SA-CCR or IMM for purposes of determining advanced approaches total risk-weighted assets, and must use SA-CCR for purposes of determining standardized total risk-weighted assets as well as the supplementary leverage ratio.
  - Non-advanced approaches banking organizations may continue to use CEM or elect to use SA-CCR for purposes of the standardized approach and supplementary leverage ratio.
- **SA-CCR**. This final rule implements the standardized approach for counterparty-credit risk, in a manner consistent with the core elements of the Basel Committee standard:
  - SA-CCR Mechanics, Under the final rule, a banking organization using SA-CCR determines the exposure amount for a netting set of derivative contracts as follows: Exposure amount = alpha factor x (replacement cost + potential future exposure)
  - The replacement cost is based on the fair value of a derivative contract under U.S. GAAP, with adjustments to reflect the exchange of collateral for margined transactions.
  - The potential future exposure amount is based on the notional amount and maturity of the derivative contract, volatilities observed during the financial crisis for different classes of derivative contracts, the exchange of collateral, and full or partial offsetting among derivative contracts that share an economic relationship.
- **Cleared transactions framework**. This final rule replaces the current exposure method (CEM) with SA-CCR for advanced approaches banking organizations in both the advanced approaches and standardized approach. Non-advanced approaches banking organizations are permitted to elect to use SA-CCR or CEM for noncleared and cleared derivative contracts, but are required to use the same approach for both. In addition, the final rule simplifies the formula that a clearing member banking organization must use to determine the risk-weighted asset amount for its default fund contributions.
- **Supplementary leverage ratio**. Banking organizations that use SA-CCR to calculate the exposure amount of its derivative contracts must use this method for the supplementary leverage ratio.

3. Next steps

- The final rule will be effective on **April 1, 2020**, with a mandatory compliance date of **January 1, 2022** for advanced approaches banking organizations.

18/12/2019

Final Rule on Regulatory Capital Treatment for High Volatility Commercial Real Estate (HVCRE) Exposures

1. Context

On May 2018, due to the enter into force of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) added a new section was added to the Federal Deposit Insurance (FDI) Act that provided a definition of an HVCRE acquisition, development or construction (ADC) loan. Furthermore, on September 2018, the Agencies published a proposal to revise the HVCRE exposure definition for the purpose of calculating risk-weighted assets under both the standardized approach and the internal ratings-based approach.

In this context, the Agencies have published the **Final rule on Regulatory Capital Treatment for High Volatility Commercial Real Estate Exposures (HVCRE)** with the aim of revising the HVCRE exposure definition of the capital rule to conform to the statutory definition of an HVCRE ADC loan. In particular, this final rule includes the scope of application, the revision on the definition of HVCRE, as well as the differences with respect to the previous regulation and the exclusions to it.

2. Main points

- **Scope of application**. This final rule will apply to all national banks and federal savings associations (FSA), including community banks, except for qualifying community banking organizations electing to use the Community Bank Leverage Ratio Framework. On the other hand, loans originated after the effective date of this final rule must be risk-weighted using the new revised HVCRE exposure definition. Furthermore, the new definition allows banking organizations to maintain their current capital treatment for ADC loans originated between January 1, 2015, and the effective date of this final rule.
- **Revised Scope of HVCRE Exposure Definition**. In order to be classified as an HVCRE exposure a credit facility must meet the following three-prong criteria:
    - Credit facility must primarily finance or refinance the ADC of real property.
    - The purpose of the credit facility must be to provide financing to ADC or improve such real property into income-producing real property.
    - The repayment of the credit facility must depend upon the future income or sales proceeds from, or refinancing of, such real property.

  Differences from previous definition:
    - Previous definition applied to loans that financed ADC activities, whereas the new definition only applies to loans that primarily finance ADC activities and that are secured by land or improved real estate. This change excludes multipurpose credit facilities that primarily finance the purchase of equipment or other non-ADC activities.
    - New definition permits the full appraised value of borrower-contributed land, less the total amount of any liens on the real property securing the HVCRE exposure, to count toward the 15 percent capital contribution of the real property's appraised as completed value, which is one of the criteria for an exemption from the heightened risk weight.
- **Exclusions From the Revised HVCRE Exposure Definition**:
    - Credit facilities that finance the ADC of construction of one- to four-family residential structures. This exception does not include credit facilities that solely finance land development activities.
    - Credit facilities that finance the ADC of real property projects for Community Development as defined by the Agencies' Community Reinvestment Act (CRA) regulations.
    - Credit facilities that finance the ADC of agricultural land.
    - Loans on Existing Income Producing Properties That Qualify as Permanent Financings: credit facilities that finance the acquisition or refinancing of existing income-producing real property secured by a mortgage on such property.
    - Credit facilities for certain commercial Real Property Projects.In case of reclassification as a Non-HVCRE Exposure.

3. Next steps

- This final rule will be effective on **April 1, 2020**.

09/10/2019
Final Rule Amending Stress Testing Rule for National Banks and Federal Savings Associations

1. Context

On 2010, the Dodd-Frank Act was enacted and it required all National Banks and Federal Savings Associations (FSA), with total consolidated assets of more than $10 bn, to conduct an annual stress test. Furthermore, the Dodd-Frank established that the OCC would be responsible for receiving these reports. In October 2012, the OCC published the Stress test Rule, establishing two subcategories of institutions (between $10 bn and $50 bn, and more than $50 bn) with different requirements and deadlines between them. In addition, in 2018 it was published the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), which amended the original regulation regarding stress test in Dodd- Frank.

In this context, the OCC has published the **Final Rule amending Stress test Rule National Banks and Federal Saving Associations**, in order to adapt the regulation to the legislative modifications that the stress test regulation has suffer. In particular, the amendments cover, among others, the increase in the threshold for stress tests in financial institutions, from $10 bn to $250 bn of consolidated assets; the requirement to perform stress tests from annual basis to require them "periodically"; and it reduced the number of scenarios to be performed in the stress tests from three to two, eliminating the "adverse" scenario.

2. Main points

- **Covered institutions**. This Final Rule establishes that the two existing subcategories (between $10 bn and $50 bn, and more than $50 bn) are removed, and the term "covered institution" is revised and changed to those National Banks or FSAs with $250 bn in total consolidated assets or more.
- **Frequency of Stress test**. This Final Rule amends the duty to perform stress tests on an annual basis to "periodically". Therefore, the duty to perform and submit the stress tests is stablished as a general rule every two years beginning in 2020, and continuing in the even years. As an exception, there is a duty to do it on an annual basis if the financial institution is consolidated under a holding company that has the obligation to do it annually. In addition, in November 2018, the OCC Board published a proposed rule to divide large holdings into four categories based on their risk, to determine the application of prudential standards, including stress testing:
    - Category I: required to conduct annual company-run stress tests.
    - Category II: required to conduct annual company-run stress tests.
    - Category III: required to conduct biennial company-run stress tests.
    - Category IV: are not required to run stress tests.
- **Stress test scenario**. This Final Rule removes the "adverse" scenario in stress tests, leaving only the "baseline" and "severely adverse" scenarios.
- **Transition process for covered institutions**. This Final Rule establishes that when a bank becomes a covered institution will be required to conduct its first stress test in the first reporting year that begins more than three calendar quarter after the date the bank becomes a covered institution. However, this Final Rule does not include a transition period for a covered institution that moves from a biennial stress testing requirement to an annual stress testing requirement. Accordingly, a covered institution that becomes an annual stress testing covered institution **is required to begin stress testing annually as of the next reporting year**.

3. Next steps

- The final rule will be effective on **November 24, 2019**.

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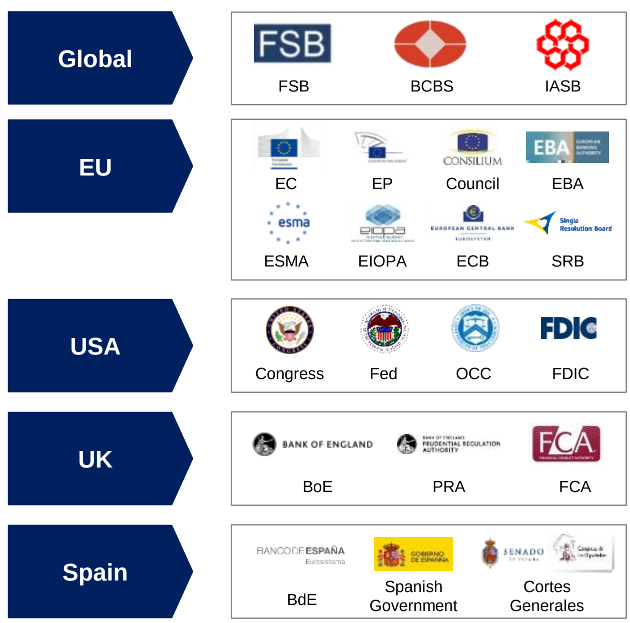

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