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Regulation Outlook

July.2014
Financial Systems and Regulation Area

- 84th BIS Annual Report: the financial system at a crossroads.
- New banking payment requirements in the eurozone: the administrative costs of maintenance the new organisational framework (SSM, SRB and SRF).
- Progress on Single Resolution Board: six months to go.
- Global Systemically Important Banks: European framework and first data disclosure.
- EBA reports on covered bonds: supports preferential treatment and further harmonisation.
- Recent macro-prudential policies in UK: no more bubbles.
- Completing the solvency framework in Spain: new Law 10/2014.

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Summary

84th BIS Annual Report

Banks have gained strength during the crisis. However, improvements have not been equally distributed and some entities still face balance sheet weaknesses. Traditional retail banks have proven to be resilient and have recovered sooner than wholesale and investment banks. Furthermore, international players that fund their foreign lending activities through local branches in foreign countries have fared better than cross-border, home-based banks over the past five years.

New banking payment requirements in the eurozone

Financial institutions are required to contribute to support the administrative cost of the new institutions (SSM, SRB and SRF) in the context of the Banking Union project. These new contributions will be added to other payment obligations, such as the DGS. However even if in the short run the profits of the European banking system may be affected, in the long run the benefits of a robust banking union will clearly outweigh the financial costs.

Progress on Single Resolution

On 10 July, the Official Journal of the European Union published the first vacancies for members to constitute the Single Resolution Board, including the posts of Chair and Vice-chair. According to the Single Resolution Mechanism Regulation, the Board, together with the first private contributions to cover its administrative costs, should be established (and collected) before January 2015; this means in less than six months.

Global Systemically Important Banks

European framework and first data disclosure. On 5 June, the EBA released the final framework that defines the methodology to identify the European G-SIBs. The methodology and the capital requirements imposed on European G-SIBs are in line with the FSB/BCBS global framework.

EBA reports on covered bonds

Supports preferential treatment and further harmonisation. The opinion issued by EBA on capital requirements of covered bonds contributes to the Commission's ongoing review, and is accompanied by a report that supports the opinion and, at the same time, complies with a recommendation of the ESRB to identify best practices to promote further harmonisation of national regulatory frameworks. This board recommends the EBA to report to the Commission if legislative proposals are deemed necessary in a two-year term.

Recent macro-prudential policies in UK

No more bubbles. On 26 June, the macro-prudential authority in UK launched two new recommendations aimed at avoiding the excessive indebtedness of households: mortgage lending with loan to income (LTI) ratios at 4.5 or higher should not represent more than 15% of the total amount of a bank's mortgage new loans, and an interest rate stress testing with a 3% increase to assess the borrower´s ability to pay. Conversely, the countercyclical buffer (CCB) for UK exposures was set at 0%.

Completing the solvency framework in Spain

Law 10/2104 for the arrangement, supervision and solvency of credit institutions. The Law 10/2014, of 26 June, transposes Directive 36/2013/EU and, at the same time, consolidates in a single legislative body the hitherto scattered legislation that is relevant to credit institutions. Among the new elements incorporated into the Spanish framework, the capital buffers are a central piece.

1 84th BIS Annual Report

The financial system at a crossroads

Banks have gained strength during the crisis. However, improvements have not been equally distributed and some entities still face balance sheet weaknesses. Traditional retail banks have proven to be resilient and have recovered sooner than wholesale and investment banks. Furthermore, international players that fund their foreign lending activities through local branches in foreign countries have fared better than cross-border, home-based banks over the past five years.

Concentration in the financial systems has increased in parallel with non-bank funding sources. Banks typically face higher funding costs than other non-financial market entities and most of their corporate clients. Asset management firms have grown rapidly over the past few years and are now a source of credit, which increases the diversification of funding sources in the international capital markets, but poses greater risks for the stability of the financial system through increased pro-cyclicality of asset prices.

Despite the aggregate improvement in profitability, banking systems remain vulnerable. In countries most affected by the financial crisis, uncertainties are still present and banks still have to fully recognise impairment losses in a high debt environment. In this context, the ECB's global assessment of banks' balance sheet seems a cornerstone to restore market confidence. In emerging countries, those that are in the late stages of financial booms, the risk of a slowdown is clear, due to excessive growth in lending and real estate asset prices. Therefore, macro-prudential measures need to be reinforced by local authorities.

Debt and the financial cycle, and the normalisation of monetary policy

Financial cycles tend to last longer than traditional business cycles. Countries are currently at very different stages of the financial cycle. In the economies most affected by the crisis, the private sector has started to reduce debt levels, which remain high in many cases. In contrast, economies less affected find themselves in the late stages of strong financial booms, making them vulnerable to a balance sheet recession and financial distress. At the same time, corporations in emerging markets are tapping international markets extensively, thus making their funding structure more volatile. Some countries could even find themselves in a debt trap: expansive policies that seek to stimulate the economy through low interest rates encourage more debt, ultimately adding to the problem they are meant to solve.

Monetary policy has faced a number of challenges. First, in advanced economies central banks had to fight reduced monetary policy effectiveness. Second, emerging market economies suffered episodes of market volatility and monetary policy spillovers from advanced economies. Third, several central banks faced difficulties in dealing with unexpectedly low inflation rates or, at certain times, disinflation. Measures adopted need to assess the nature and persistence of the main factors affecting the price level, as well as monetary policy's current reduced impact and non-intended effects. Finally, looking forward, the normalisation of monetary policy is still uncertain, and the process needed to reach that situation is expected to be complex and difficult to communicate and explain. The risk of acting too late should not be underestimated.

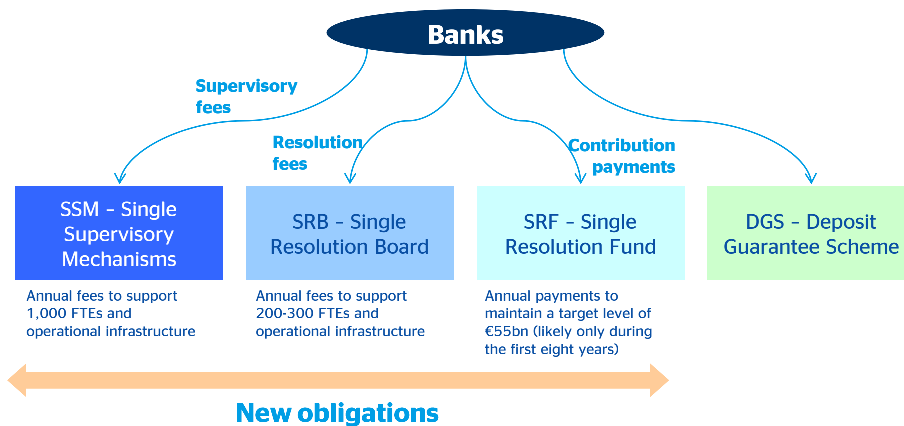
Other issues

The global economy has shown positive signs over the past year, but problems remain unresolved, as the effects of the crisis and the forces that led up to it are still in place. Policy needs to go beyond its traditional focus on the business cycle. The current low inflation environment in advanced economies reflects not only sluggish growth and a low utilisation of domestic resources, but also the influence of global factors. Over the longer term, raising productivity holds the key to more robust and sustainable growth. Sustainable growth demands targeted policies in all major economies, whether or not they were hit by the crisis. Financial markets have been sensitive to monetary policy. Accommodative monetary conditions cut volatility and fostered a search for yield. High valuations on equities, narrow credit spreads, low volatility and abundant corporate bond issuance all signalled a strong appetite for risk on the part of investors. Overall, the markets' global buoyancy seems to be somewhat disconnected from underlying economic fundamentals.

2 New payments and contributions in the institutional context of the Banking Union

The Banking Union would be backed by a new institutional framework formed by the Single Resolution Board (SRB), the Single Resolution Fund (SRF), and the Single Resolution Mechanism (SRM). The administrative costs of maintenance of this new organisational framework and the finance of the new resolution fund would be charged directly to the financial institutions.

Figure 1
New banking payment requirements in the eurozone



Source: BBVA Research

- **SSM supervisory fees:** The ECB will levy an annual supervisory fee on directly and indirectly supervised banks to cover supervisory, mainly administrative costs (human resources, infrastructure and technology cost), which are estimated to be around €260 million for 2015. Additionally, €40 million would be added to cover expenses for the remainder of 2014 following the launch of the SSM in November 2014.
- **SRB fee:** The administrative costs of the establishment of the SRB should also be financed through annual contributions from all banks subject to the SRM. Although the SRB shall be established as from January 2015, the preparatory work has already started. For these reasons, the funding needs of the SRB during the first two years of operations (2014 and 2015) are estimated to be around €25 million.
- **SRF contributions:** The SRF must reach an ex-ante target level of at least 1% of total covered deposits of all the credit institutions in the Eurozone (i.e. €55bn based on an EC primary assessment) in an eight-year period.
- **DGS contributions:** DGS requirements are not new in the European context; however, the review of the Deposit Guarantee Directive introduces several new requirements that could have a significant impact on some Member States (e.g., covered deposits instead of eligible deposits and ex-ante instead of only ex-post payments).

Preliminary thoughts on the new payments and contributions

- Two principles on how to calculate the fees and the contributions should be preserved: i) **the methodology should be consistent** across the four elements (SSM, SRB fees and contributions and GDS), and ii) it should be based on **two bank-specific factors: balance sheet (flat component) and risk profile.**
- These **new contributions and fees will be added to other payment obligations** and future taxes that might be levied over banks, such as the new FTT or any new levy over deposits or banking activities. European authorities should carefully assess the **impact of the overall cost of the regulatory burden**.

To put it simply, this new reality implies **new costs and will increase the cost of financial intermediation** in the European financial system. However, even if in the short run the profits of the European banking system may be affected, in the long run **the benefits of a robust banking union may clearly outweigh the financial costs**.

3 Progress on the Single Resolution Board

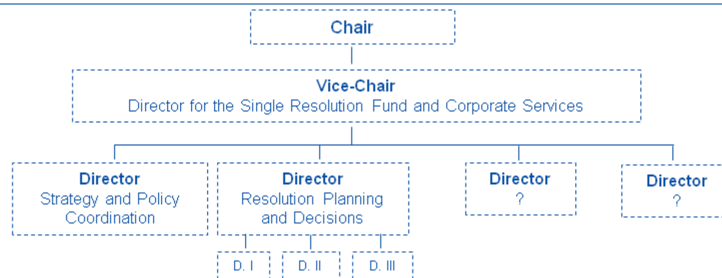
Six months to go

On 10 July, the Official Journal of the European Union published the first vacancies for members to constitute the Single Resolution Board (the Board), including the posts of Chair and Vice-chair. According to the Single Resolution Mechanism (SRM) Regulation (endorsed by the Council on 14 July), the Board, together with the first private contributions to cover its administrative costs, should be established (and collected) before January 2015, this means, in less than six months.

The kick-off of the Single Resolution Board

- **The SRM Regulation envisages that the Board should become operational and start the preparation of resolution plans already this January.** The remaining structures of the new authority would be developed during 2015. The SRB is supposed to comprise about 250 new employees (30 in January, 120 in December).
- **The selection of the top management (permanent members) of the Board** (see chart) has already started and will end this autumn. The Commission will present a short list of candidates chosen through an open selection procedure, that shall be approved by both the Parliament and the Council before the end of the year. It has also published the first vacancies to fulfil initial support posts (IT services, human resources...).
- **In the meantime, the early work is being developed by the Commission through a five-member task force** constituted in May, and it is expected that a senior staff member of the Commission will be elected as an interim chair soon.

Figure 2
Single Resolution Board



Source: BBVA Research

Administrative costs of the Single Resolution Board

- **The administrative expenses incurred by the Board will be covered completely through contributions from the banking industry** and the first disbursement shall take place before January 2015. To this end, in the next six months, the Commission should prepare the rules of establishing those contributions and get them approved in order to collect the money before the Board becomes operational.
- **Due to this challenging timetable and the Board's temporary inability to collect and administer its own budget**, the Commission is considering dividing the payment into three stages:
  1. **Stage 1:** all the administrative expenses incurred in the early preparations until the entrance into force of the SRM Regulation (09/2014) would be covered entirely from the budget of the Commission.
  2. **Stage 2:** the costs incurred during the end of 2014 and 2015 (€25mn) would be equally split **only between those banks under direct responsibility of the Board** (around 300, comprising cross-border entities and banks directly supervised by the ECB). The reason behind this temporary reduced scope is that the Board itself would be unable to manage contributions from thousands of banks.
  3. **Stage 3:** a final delegated act would be developed in 2015, once the structures of the single resolution authority are developed and the Board is ready to collect the appropriate payments to cover 2016's costs from **all the banks under SRM**. In order to maintain some simplicity, the methodology would be similar to the one established to collect the **supervisory fees under the Single Supervisory Mechanism** (and possibly, collected together since 2015. This delegated act would take into consideration the money disbursed by some banks in stage 2 and **compensate them if necessary**.

4 Global Systemically Important Banks

European framework and first data disclosure

On 5 June, the European Banking Authority (EBA) released the final framework defining the methodology to identify the European Global Systemically Important Banks (G-SIBs, named G-SIIs in the EBA framework). The methodology and the capital requirements imposed on G-SIBs are in line with the global framework which was developed by the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS) and endorsed by the G-20 leaders in 2011.

The G-SIB European regulatory framework is in line with global standards

- **Five equally weighted concepts** are used to estimate systemic risk. These are: (i) size; (ii) complexity; (iii) substitutability; (iv) interconnectedness, and (v) global activity. 12 indicators are used to approximate the different concepts. EBA will use the same data template as the BCBS in order to ensure global consistency.
- **Bucket approach.** G-SIBs are allocated into five buckets of ascending systemic levels with additional capital requirements from 1% to 2.5% of common equity (steps of 0.5%). The highest bucket, with a 3.5% capital add-on, is empty and aims at preventing the most systemically important banks from increasing their systemic score.
- **Same cut-off scores and thresholds as BCBS.** Banks are designated as G-SIB if their score is over 130.
- **Supervisory judgment** is allowed for national authorities to (i) upgrade a G-SIB from a lower to a higher bucket of systemic risk, or (ii) to designate an institution as a G-SIB despite having a score below the lower borderline.
- **The EBA/CRD IV framework only differs from global standards in terms of reporting requirements.** Although the FSB/BCBS only requires the publication of the 12 indicators used in the methodology, EBA extends the public disclosure requirement to all the data needed to calculate these indicators at the latest from July 2015.
- **European Calendar.** The Regulation will come into force on 1 January 2015.
  - Early 2015: first identification exercise with buffer requirements to be phased-in from 2016 to 2019. First data disclosure requirements by 31 July 2014.
  - By 31 July each year: banks with a leverage ratio exposure measure above €200bn must publicly disclose the indicator values of the preceding financial year-end on a consolidated basis.
  - By 15 Dec. each year: national authorities must calculate the systemic scores of institutions included in the sample and notify EBA of the inclusion of any new institutions in the G-SIB list or any upgrade of institutions by supervisory judgment.
  - Capital requirements come into force after one year, on the following 1 January.
  - It is not clear how this calendar fits with the FSB one, as the FSB intends to publish the list each Nov.

Assessment: the EBA framework would not imply any changes in the G-SIB list

- **No changes are expected in the G-SIB list** under the EBA framework. European G-SIBs identified under global standards would still be deemed as systemically important from a global perspective under the European framework, and would face the same capital requirements.
- **The requirement to disclose the whole data template would not constitute any competitive disadvantage** for European banks since other jurisdictions (i.e. United States) already required the disclosure of all the data.
- **There is a trend towards the adoption of further regulations linked to the G-SIB stamp.** The need for more stringent regulation of G-SIBs is understandable in some aspects, but concerns arise from the use of the G-SIB stamp as a benchmark to establish further one-size-fits-all regulations. This is already the case in the European Commission's proposal on structural reforms and in the forthcoming FSB proposal to impose new requirements on G-SIFIs to hold a higher gone-concern loss-absorbing capacity (GLAC). Measures are already adopted in the G-SIB policy to mitigate systemic risk and to improve the resolvability of systemically important institutions. In order to avoid an excessive burden on G-SIBs, it is important to analyse the impacts of these measures before assessing the need for additional ones.
- **Regulation must recognise that G-SIB banks are not organised under a unique business model.** Not all G-SIB business models are equally resilient; this must be recognised by authorities.

5 EBA reports on covered bonds

Supports preferential treatment and further harmonisation

The opinion issued by EBA on capital requirements of covered bonds contributes to the Commission's ongoing review of this issue and is accompanied by a report that supports the opinion and, at the same time, complies with a recommendation of the ESRB. This board advises national supervisory authorities to identify best practices regarding covered bonds and encourages harmonisation of their national frameworks. At the same time, the ESRB recommends the EBA to coordinate those actions and to report to the Commission if legislative proposals are deemed necessary in a two-year term.

Opinion on the preferential prudential treatment

Following a mandate of CRD IV pack, the EBA recommends the Commission to **maintain in the short term the current preferential capital consideration of covered bonds**, and to include additional criteria to qualify for that favourable treatment. The **new eligibility criteria considered** include reinforced supervision and disclosure to investors, a minimum overcollateralisation level and a requirement for the covered bond programme to maintain a liquidity buffer, whose calibrations are still pending.

Nevertheless, the EBA warns on the **convenience, in a longer term, of monitoring the appropriateness of this approach,** taking into account developments in asset encumbrance levels as well as the impact on the overall credit quality of covered bonds of the implementation of the Banks Recovery and Resolution Directive. Additionally, the **EBA backs further convergence of national legal/regulatory/supervisory covered bond frameworks** so as to further support the existence of a **single preferential capital treatment in the EU**.

The Commission will report to the Parliament and to the Council by 31 December, making any proposals considered appropriate in this respect.

Recommended best practices

Following ESRB recommendation, the EBA has identified, together with national authorities, the best practices in relation to eight core aspects of the covered bond market. Given the diversity in the current regulatory frameworks of covered bonds across Europe, the required modifications in the national frameworks to accommodate these criteria would be of differing relevance, leaving it up to national authorities to proceed in this direction in the short term or to explain the reasons for not doing so. The EBA will monitor the effectiveness of those best practices for a period of two years, and identify whether legislative proposals are needed.

Table 1
Issues considered in the principles of best practice

Issue	Principles
1. Dual recourse	i) claim on the issuer and ii) priority claim on cover pool (if issuer defaults).
2. Segregation	i) segregation in a cover register or SPV; ii) bankruptcy remoteness of covered bonds (investor priority claim)
3. Characteristics of cover pools	i) limited changes in composition; ii) jurisdictions of location of cover assets
4. Mortgage cover assets	i) soft LTV limits; ii) annual revaluation
5. Coverage	i) covered principles; ii) over-collateralisation requirement
6. Assets and liabilities risks	i) use of derivatives only for hedging uses; ii) liquidity buffer; iii) stress testing
7. Authorities/Monitor	i) appointment of a cover pool monitor; ii) programme approval by special public supervisor; iii) issuer insolvency
8. Disclosure	i) scope; ii) frequency

Source: BBVA Research

Assessment

Even if further harmonisation of covered bonds in the EU is advisable, as it would facilitate investors' decision making and would benefit from a preferential prudential treatment, the approach being undertaken is a gradual one, given the difficulties associated with required legal modifications and in order to limit the impact on bondholders' accrued rights. The ESRB advises national authorities to change national frameworks to accommodate to best practices, under the EBA's monitoring, with the possibility of proposals to achieve greater convergence in two years time.

6 Recent macro-prudential policies in UK

No more bubbles

On 26 June, the macro-prudential authority in UK launched two new recommendations aimed at avoiding the excessive indebtedness of households: mortgage lending with loan to income (LTI) ratios at 4.5 or higher should not represent more than 15% of the total amount of a bank's mortgage new loans, and an interest rate stress testing with a 3% increase to assess the borrower´s ability to pay. Conversely, the countercyclical buffer (CCB) for UK exposures was set at 0%.

Housing market recovery vs. highly indebted households

Amid an intense debate about the existence of a housing bubble in the UK, the Financial Policy Committee (FPC) does not believe that household indebtedness poses an imminent threat to financial stability. However, to be protected against the risk of a significant rise of highly indebted households, on 26 June the Bank of England (BoE) published **two new macro-prudential recommendations**:

1. The Prudential Regulation Authority (PRA), which is the micro-prudential supervisor, and the Financial Conduct Authority (FCA) should ensure that mortgage lenders limit the proportion of mortgages at LTI equal or higher than 4.5 and above to no more than 15% of their new mortgages. This will apply to all lenders providing residential mortgage lending above GBP100mn, and it is expected to come into force on 1 October. The PRA launched a public consultation[1] for implementing this recommendation and points out that the PRA and the FCA will work together to guarantee the implementation of this measure in a complementary and coordinated manner. According to the cost-benefit analysis in the PRA's consultation paper, this recommendation would have a negligible effect on firms, as it is considered to be a central scenario in which impact on mortgages advances and net lending would be minimal[2].
2. In order to check borrowers' ability to repay their mortgages, lenders should apply an interest rate stress test simulating what the consequences would be, if during the first five years, the bank rate increases 3% from the prevailing rate at origination.

On the other hand, as a consequence of weak credit growth the credit gap has been strongly negative recently, so the FPC set the CCB[3] at 0% for UK exposures, because it is required by law to set the CCB rate quarterly.

All in all, although household indebtedness does not represent an imminent threat, the UK authorities want to make sure that measures "can be graduated and proportionate if action is taken sufficiently early. We can limit risks tomorrow by acting against a loosening in underwriting standards in new mortgage lending today", as stated by Mr. Carney[4].

Table 1
Progress on previous macro-prudential policy decisions

Measure	Closed in	Status
Manage and mitigate balance sheet risks from euro-area stress	June 2014	Implemented
Ensure capital resources of at least 7% of risk-weighted assets	June 2014	Implemented
Issue new capital or restructuring balance sheets in a way that does not hinder lending to the economy*	June 2014	Implemented
Require mortgage lenders to have regard to any future FPC recommendation on appropriate interest rate stress tests	June 2014	Implemented
Contingency planning should be as comprehensive as possible	June 2014	Implemented
Ensure credible plans to transition to higher future capital requirements	June 2014	Superseded
Assess vulnerability to sharp upward movements in long-term interest rates	March 2014	Implemented
Assess feasibility of calculating capital ratios using Basel III standardised approach	March 2014	Implemented
Work towards consistent and comparable Pillar 3 disclosures		Action under way
Implement Enhanced Disclosure Task Force (EDTF) recommendations		Action under way
Improve resilience to cyber attack		Action under way
Develop proposals for regular stress testing of the UK banking system		Action under way

*new capital would need to be clearly capable of absorbing losses in a going concern to enable firms to continue lending.
Source: BoE; Financial Stability Report June 2014

1: Deadline: 31 August.
2: As entities do not exceed the 15% limit and mortgages with a LTI above 4.5 represent 11% (according to press).
3: The CCB rate is based on the gap between the ratio of credit to GDP and its long-term trend.
4: Speech given by Mark Carney, Governor of the BoE, at the Lord Mayor's Banquet for Bankers and Merchants of the City of London, London 12 June 2014.

7 Completing the solvency framework in Spain

New Law 10/2014 for credit institutions

Although CRD IV pack, largely implementing Basel III's global prudential recommendations, entered into force in Spain on January 1, 2014, the required reform in the Spanish legal framework was unfinished. Whereas Regulation (EU) 575/2013 has applied directly since January in all Member States, Directive 2013/36/EU must first be transposed into domestic law. The Law 10/2014 of 26 June transposes this directive and, at the same time, consolidates in a single legislative body the previously scattered legislation that is relevant to credit institutions. Among the new elements incorporated into the Spanish framework, the capital buffers are a central feature.

Capital buffers

On top of the minimum capital requirements, banks will be required to maintain additional capital of the highest quality, mostly starting in 2016, and subject to a phase-in that extends up to 2019. When a bank breaches the **combined buffer requirement**, a restriction will be applied to the amount of dividend and bonus payments. The **Conservation** buffer is mandatory for all entities in order to force them into building up an additional safeguard that can be drawn down in periods of stress. Other capital buffers would be required only at entities considered of systemic relevance from a global (**G-SIIs**) or national/regional (**O-SIIs**) perspective. Whereas in the case of G-SIIs, the designation/subcategory adheres mainly to global criteria, incorporated in EBA's regulatory standard, authorities have greater discretion to decide which entities are locally relevant. Pure macro-prudential tools, that can be activated or deactivated to address systemic or macro-prudential risks, have been incorporated into the solvency framework, as is the case of the **Countercyclical buffer**, where national authorities would enjoy 'guided discretion' via ESRB recommendation, and of the **Systemic Risk Buffer**, where national discretion would be greater (e.g. apply only to certain portfolios).

Figuer 3
Capital Buffers (Common Equity Tier 1) and phase-in

	% of RWAs	2016	2017	2018	2019
All entities	Conservation-CB	0.625%	1.25%	1.875%	2.5%
Designated entities	G-SIIs (1%-3.5%)	25% of buffer	50% of buffer	75% of buffer	1%-3.5%
	O-SIIs	0%-2%	0%-2%	0%-2%	0%-2%
Discretional	Counter-cyclical -CCB	0%-0.625%	0%-1.25%	0%-1.875%	0%-2.5%
	Systemic risk- RB since 2014	0%--5%	0%--5%	0%--5%	0%--5%
	Consolidated combined buffer	CB+ CCB* + Max (G-SII*, O-SII*, SRB*) * If applicable, and where SRB covers domestic and foreign exposures exposures. Otherwise, SRB is added.			

Source: BBVA Research

Next steps and preliminary assessment

It would be highly desirable for the Spanish authorities to complete all the required regulatory developments in the short term, as is the case for the Royal Decree that enacts this law and that is well advanced in the legislative process. This law designates the Bank of Spain as the authority in charge of making decisions in relation to capital buffers, but attention should be paid to the considerable effort that is being made at European level, EBA and ESRB, to harmonise the criteria applied by different Member States. Additionally, the starting of the SSM from 4 November 2014 confers power on the ECB to apply, if deemed necessary, higher requirements for capital buffers than those applied by national authorities.

We welcome the mandate to the government to, within six months, adopt measures to strengthen the national supervision of the financial stability and institutional framework. It would be advisable to have a comprehensive consideration of capital buffers and additional macroprudential tools, as well as a proper coordination of the different authorities involved.

Main regulatory actions around the world in 2014

	Recent issues	Upcoming issues
GLOBAL	On **04/06 IOSCO** launched a consultation on independence of **CRAs** On **18/06 BIS** launched a consultation on **supervisory guidelines** for identifying and dealing with weak banks On **24/06 BIS** issued standarts to review the **Pillar 3** disclosure requirements On **24/06 BIS** released principles for effective **supervisory colleges** On **26/06 IOSCO** issued a Report on **Risk Identification** and Assessment Methodologies On **30/06 FSB** established the Global **Legal Entity Identifier** Foundation On **04/07 FSB** announced the launch of a peer review on supervisory frameworks and approaches to **SIFIs** On 15/07 FSB published a consultative document on **foreign exchange benchmarks**	On 15/11 Australia will host the G20 Leaders Summit in Brisbane
EUROPE	On **05/06 EBA** published the final framework for **G-SIIs** On **05/06 EBA** presented the standards on disclosure for the **leverage ratio** On **10/06 Eurogroup** reached an understanding on **ESM direct recapitalisation** On **18/06 Council** agreed on Regulation on **Money Laundering** and Terrorist Financing On **20/06 EC** launched consultation on the contributions of credit institutions to resolution financing arrangements launched On **27/06 EBA** launched a consultation on **countercyclical buffer** disclosure On **04/07 EBA** proposed potential regulatory regime for **virtual currencies**	On **23/07 Council** is expected to formally approve **Payments Accounts Directive** On **15/09 EP** is expected to sign the **Payments Accounts Directive** text On **09/2014 Council** is expected to formally approve the Regulation on **PRIIPs, on CSDs and UCITS V** On **11/2014** the **SSM** will become fully operational On **11/2014** the **new EC** will start its term
MEXICO	On **30/06** changes where made to the **Securities Sales Rules**, postponing their coming into force until 30/09, 2014 (they where originally set for 30/06) On **17/06** changes to the securities rulebook were finally published. Trusts that issue "**Certificados bursátiles fiduciarios inmobiliarios**" are to meet a new maximum debt cap and a short-term debt-coverage ratio	**Financial Authorities** submitted for consultation a draft for **changes to Rating Agencies rules**, (limits to State and Municipal clients' relevance; stricter disclosure and a new requirement for personnel rotation with regards to State and Municipal clients) The **Financial Entities Bureau** will be an **electronic database** of all relevant information for financial consumers to make informed decisions regarding all financial entities in the country
LATAM	**Peru** cut by 0,5% **reserves requirements** for domestic currency deposits to 11.5% On **10/06 Argentina** set limits to banks' interest rates on personal credits and car credits **30/06 Argentina** extended the "**credit line for productive investment**" launched in 07/2013 and extended in 12/2013	Since the **end of 07/2014, non-negotiable certificates of deposits** will be included as part of banks' funding when calculating the LCR requirements.
USA	**SEC** voted to finalize an initial set of rules for **cross-border swaps transactions** **CFPB** has launched an inquiry into how **mobile banking** could affect people with little or no access to financial services. **Fed, FDIC and OCC** requested comments on bank regulations that are outdated, unnecessary or burdensome	**Final action on certain key rules under the Dodd-Frank Act** has yet to be scheduled, recent publications by federal financial regulators show Members of the **SEC** have been working on rules intended to limit the **risks money market** mutual funds pose to the broader financial system without an agreement The Government Accountability Office is calling on the **Consumer Financial Protection Bureau** to step up regulatory efforts regarding **bitcoin**
TURKEY	The regulation **came into force which cancels instalment payments** for telecommunication, jewelry and food&oil purchases on **corporate credit cards** (still valid for remaining cards)	SDIF: Potential inclusion of commercial deposits under the Saving Deposit Insurance Fund scheme coverage.

Continued on next page

(Cont.)	Recent issues	Upcoming issues
ASIA	On **10/06 China** reduced **reserve requirement ratio** 0.5 percentage points for banks focusing on SME lending On **18/06 China** allowed the **direct trading** between the Chinese RMB and the **British Pound** in domestic FX market On **29/06 India and the US** agreed to implement FATCA. Indian banks and financial institutions will by this year-end **report accounts and assets held by US citizens** On **30/06 China** revised the calculation method of **Loan-to-Depost Ratio** to spur lending to the real economy, in particular SMEs On **03/07 India** relaxed norms on **overseas investments by Indian companies** to 400 percent of the firm's net-worth from earlier limit of 100%	

Source: BBVA Research

Abbreviations

AIFMD	Alternative Investment Fund Managers Directive	**FROB**	Spanish Fund for Orderly Bank Restructuring
AQR	Asset Quality Review	**FSAP**	Financial Sector Assessment Program
BCBS	Basel Committee on Banking Supervision	**FSB**	Financial Stability Board
BIS	Bank for International Settlements	**FTT**	Financial Transactions Tax
BoE	Bank of England	**IAIS**	International Association of Insurance Supervisors
BoS	Bank of Spain	**IASB**	International Accounting Standards Board
BRRD	Bank Recovery and Resolution Directive	**IHC**	Intermediate Holding Company
CCAR	Comprehensive Capital Analysis and Review	**IIF**	Institute of International Finance
CCP	Central Counterparty	**IMF**	International Monetary Fund
CET	Common Equity Tier	**IOSCO**	International Organization of Securities Commissions
CFTC	Commodity Futures Trading Commission	**ISDA**	International Swaps and Derivatives Association
AMC	Company for the Management of Assets proceeding from Restructuring of the Banking System (Bad bank)	**ITS**	Implementing Technical Standard
CNMV	ComisiónNacional de Mercados de Valores (Spanish Securities and Exchange Commission)	**Joint Forum**	International group bringing together IOSCO, BCBS and IAIS
COREPER	Committee of Permanent Representatives to the Council of the European Union	**LCR**	Liquidity Coverage Ratio
CPSS	Committee on Payment and Settlement Systems	**LEI**	Legal Entity Identifier
CRA	Credit Rating Agency	**MAD**	Market Abuse Directive
CRD IV	Capital Requirements Directive IV	**MiFID**	Markets in Financial Instruments Directive
CRR	Capital Requirements Regulation	**MiFIR**	Markets in Financial Instruments Regulation
CSD	Central Securities Depository	**MMFs**	Money Market Funds
DGSD	Deposit Guarantee Schemes Directive	**MoU**	Memorandum of Understanding
DFA	TheDodd–FrankWall Street Reform and Consumer Protection Act	**MPE**	Multiple Point of Entry
EBA	European Bank Authority	**MS**	Member States
EC	European Commission	**NRAs**	National Resolution Authorities
ECB	European Central Bank	**NSAs**	National Supervision Authorities
ECOFIN	Economic and Financial Affairs Council	**NSFR**	Net Stable Funding Ratio
ECON	Economic and Monetary Affairs Committee of the European Parliament	**OJ**	Official Journal of the European Union
EFSF	European Financial Stability Facility	**OTC**	Over-The-Counter (Derivatives)
EIOPA	European Insurance and Occupational Pensions Authority	**PRA**	Prudential Regulation Authority
EMIR	European Market Infrastructure Regulation	**QIS**	Quantitative Impact Study
EP	European Parliament	**RRPs**	Recovery and Resolution Plans
ESA	European Supervisory Authority	**RTS**	Regulatory Technical Standards
ESFS	European System of Financial Supervisors	**SCAP**	Supervisory Capital Assessment Program
ESM	European Stability Mechanism	**SEC**	Securities and Exchange Commission
ESMA	European Securities and Markets Authority	**SIB (G-SIB, D-SIB)**	Global-Systemically Important Bank, Domestic-Systemically Important Bank
ESRB	European Systemic Risk Board	**SIFI (G-SIFI, D-SIFI)**	Global-Systemically Important Financial Institution, Domestic-Systemically Financial Institution
EU	European Union	**SII (G-SII, D-SII)**	Systemically Important Insurance
EZ	Eurozone	**SPE**	Single Point of Entry
FASB	Financial Accounting Standards Board	**SRB**	Single Resolution Board
FBO	Foreign Bank Organisations	**SREP**	Supervisory Review and Evaluation Process
FCA	Financial Conduct Authority	**SRF**	Single Resolution Fund
FDIC	Federal Deposit Insurance Corporation	**SRM**	Single Resolution Mechanism
Fed	Federal Reserve	**SSM**	Single Supervisory Mechanism
FPC	Financial Policy Committee	**UCITS**	Undertakings for Collective Investment in Transferable Securities Directive

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This report has been produced by:

Chief Economist for Financial Systems & Regulation
Santiago Fernández de Lis
+34 91 5379852
sfernandezdelis@bbva.com

Chief Economist for Regulation and Public Policy
Maria Abascal
maria.abascal@bbva.com

Tatiana Alonso
tatiana.alonso@bbva.com

Saïfeddine Chaïbi
saifeddine.chaibi@bbva.com

Arturo Fraile
arturo.fraile@bbva.com

Rosa Gómez Churruca
Rosa.gómezc@bbva.com

Wojciech Golecki
wojciech.golecki@bbva.com

Chief Economist for Recovery and Resolution Policy
José Carlos Pardo
josecarlos.pardo@bbva.com

Pilar Mirat
mariapilar.mirat@bbva.com

Victoria Santillana
mvictoria.santillana@bbva.com

Head of Supervisory and Regulatory Affairs-Frankfurt Office
Matías Viola
matias.viola@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Developed Economies Area
Rafael Doménech Vilariño
r.domenech@bbva.com

Spain
Miguel Cardoso Lecourtois
miguel.cardoso@bbva.com

Europe
Miguel Jimenez González-Anleo
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area
Alicia García-Herrero
alicia.garcia-herrero@bbva.com

Cross-Country Emerging Markets Analysis
Alvaro Ortiz Vidal-Abarca
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano Herrera
carlos.serranoh@bbva.com

LATAM Coordination
Juan Manuel Ruiz Pérez
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive Carrasco
jselaive@bbva.com

Colombia
Juana Téllez Corredor
juana.tellez@bbva.com

Peru
Hugo Perea Flores
hperea@bbva.com

Venezuela
Oswaldo López Meza
oswaldo.lopez@bbva.com

Financial Systems and Regulation Area
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Recovery and Resolution Strategy
José Carlos Pardo
josecarlos.pardo@bbva.com

Supervisory and Regulatory Affairs Frankfurt Office
Matías Viola
matias.viola@bbva.com

Global Areas

Economic Scenarios
Julián Cubero Calvo
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo Delgado
s.castillo@bbva.com

Innovation & Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

Contact details

BBVA Research
Paseo Castellana, 81 – 7th floor
28046 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com