Regulation Outlook

November 2014
Financial Systems and Regulation Area

- G20 leaders: time to shift the dial towards growth: Regulatory overhaul must be consolidated and serve growth
- TLAC: Making bail-in feasible and credible instead of bail-out: A necessary complement to the bail-in tool.
- Restoring confidence in risk-weighted capital ratios: Basel Committee's report to the G20
- Basel Committee published the final version of the NSFR (Net Stable Funding Ratio): Another step towards the building-up of the liquidity framework
- European banking structural reform: Opinion of the ECB on the European Commission proposal
- The ECB published the fourth Single Supervisory Mechanism (SSM) Quarterly Report: Extraordinary progress in the implementation of the SSM
- Proportionate regulation for electronic money: Fostering financial inclusion and innovation while protecting customers' funds

Index

Summary

G20 leaders: time to shift the dial towards growth

Regulatory overhaul must be consolidated and serve growth. At the G20 Brisbane summit (15-16 November) the attention was focused on economic recovery and growth, with agreement on several structural measures aimed at boosting the G20's GDP by at least 2% by 2018. The communiqué asserts that the regulatory reform is near to completion and points to a new way forward shaped by implementation, impact analysis, cooperation and oversight of new risks.

TLAC: Making bail-in feasible and credible instead of bail-out

A necessary complement to the bail-in tool. On 12 November, the Financial Stability Board (FSB) released a draft consultation on the principles and characteristics of a minimum TLAC requirement. The FSB paper will be under consultation until 2 February 2015, and is likely to be approved by the next G20 summit in 2015 in Turkey. In parallel with the consultation period the FSB, with the collaboration of the Basel Committee on Banking Supervision, will carry out a comprehensive Quantitative Impact Study (QIS) to assess the optimal Pillar 1 minimum TLAC requirement.

Restoring confidence in risk-weighted capital ratios

Basel Committee's report to the G20. Global banking regulators outlined on 12 November how they intend to reduce the variability in banks' regulatory capital ratios. Regulators consider that variability is excessive and that it could hinder comparability across banks and undermine investor confidence in the disclosed capital ratios, which are a key measure of financial strength. But there is no single cause, and neither is there a unique solution. Accordingly, a battery of measures has been considered to address this problem. Although this response is wide in scope, regulators in the Basel Committee will remain vigilant and will propose a more fundamental review in the longer term if it proves necessary.

Basel Committee published the final version of the NSFR

Another step towards the building-up of the liquidity framework. On 31 October the Basel Committee released the final version of the NSFR. The publication of this liquidity ratio represents, together with the Liquidity Coverage Ratio (LCR), one of the main components of the Basel liquidity framework. The LCR measures the liquidity capacity of financial institutions under stressed conditions, whereas the NSFR is a more structural ratio which tries to ensure that financial institutions maintain a stable funding profile over a one-year period.

European banking structural reform

Opinion of the ECB on the European Commission proposal. On 19 November 2014, the ECB issued an opinion on the European Commission (EC) proposal on structural reform, in response to a request from both the European Parliament and the Council. The ECB supports the proposal, although with many nuances on how to introduce it especially on the separation, mainly because it contributes to ensuring a harmonised framework within the EU, which ultimately is key for the effectiveness of the work to be done by the Single Supervisory Mechanism.

The ECB published the fourth SSM Quarterly Report

Extraordinary progress in the implementation of the SSM. According to the SSM Regulation, the European Central Bank (ECB) is obliged to publish, on a quarterly basis, a report related to the progress in the implementation of the Single Supervisory Mechanism (SSM). After the effective launch of the SSM on 4 November, the fourth report has been released.

Proportionate regulation for electronic money

Fostering financial inclusion and innovation while protecting customers' funds. Electronic money services are flourishing in emerging countries as a first step for the financial inclusion of the unbanked. E-money has also the potential to foster innovation, both in developed and developing countries, enabling the entrance of new players to the payment services' market. Yet allowing non-bank institutions to take funds from the public and issue e-money has significant risks that authorities have to address through specific and proportionate regulation. This has already been the case in the EU and some countries in South America.

1 G20 leaders: time to shift the dial towards growth

Regulatory overhaul must be consolidated and serve growth

In the G20 Brisbane summit (15-16 November) the attention was focused on economic recovery and growth, with agreement on several structural measures aimed at boosting the G20's GDP by at least 2% by 2018. The communiqué asserts that the regulatory reform is near to completion and points to a new way forward shaped by implementation, impact analysis, cooperation and oversight of new risks.

2008-14: delivering the regulatory reform to ensure financial resiliency

The outbreak of the financial crisis made very clear the importance of having resilient financial markets. The G20 reacted with the creation of the FSB and a proposal for a regulatory overhaul along four main lines of action: i) making banks stronger, ii) addressing the "too big to fail" issue, iii) making derivatives markets safer, and iv) shedding light on shadow banking. More than five years on, it can reasonably be said that the regulatory reform is almost complete, with many new global standards, frameworks, principles and recommendations confirming it, and with Basel III and the SIFI framework outstanding as its main cornerstones.

During 2014, some important steps were taken to complete the reform. The BSBC finalised the Basel III framework with both the leverage and the NSFR ratios. It also finalised the large exposures framework and started working on a strategy to mitigate the excessive variability of RWAs (see related article in this edition). In November 2014 the FSB issued the list of G-SIBs that will face a capital surcharge starting in January 2016 (see related BBVA Research Flash), and tabled a proposal to determine the Total Loss-Absorbing Capacity (TLAC) for these banks (see related BBVA Research Flash). In Brisbane, the leaders welcomed all the progress done both on the normative side and also in the implementation of Basel III. On the other hand, they lamented the two-year delay in the implementation of commitments related to derivatives, and called its members to undertake their swift implementation and to defer to each other when justified. They also agreed on a new roadmap to guide further work on shadow banking, where progress has been slower than in other areas.

Table 1

	MAIN REGULATORY G20 COMMITMENTS
Washington 2008	Outline of the regulatory reform
London/Pittsburg 2009	Official creation of the FSB First policy recommendations to address Too Big To Fail (TBTF). First agreement on OTC derivatives reform
Toronto/Seoul 2010	Basel III Accord Agreement on framework for SIFIs
Cannes 2011	First G-SIB list. Key Attributes of Effective Resolution Regimes Kick off of shadow banking regulation working plan
Los Cabos 2012	New focus on impact of the regulatory reform on EMEs Financial inclusion
St Petersburg 2013	Reaffirmed commitment to implement agreed measures Progress and next steps towards ending TBTF
Brisbane 2014	Completion of Basel III Consultation on total loss absorbing capacity (TLAC) framework Ongoing work to reduce excessive variability in RWAs First G-SIB binding list

Source: BBVA Research

The way forward: implementation, risk oversight and serving growth

All in all, it can be said that as a result of the regulatory overhaul the financial system is now safer, simpler and less opaque than in 2008. Banks (including systemic ones) are less prone to fail and more easily resolvable. In this new normal, bail-outs will be less probable and less frequent, protecting taxpayers and preserving financial stability. Consequently, the G20 leaders have decided to shift the dial towards a new strategy that puts financial markets at the service of economic growth while remaining vigilant to new vulnerabilities and risks in these markets. This requires a swift and consistent implementation of the agreed regulatory reform, a better understanding of its quantitative impact, especially at the cumulative level, and better cooperation and coordination over cross-border issues. We expect that all these considerations will guide the strategy of the next (Turkish) Presidency of the G20 in 2015, under which a reform in the FSB representation structure could also be expected in order to account for the increasingly important role played by the emerging markets.

2 Total Loss-Absorbing Capacity (TLAC): Making bail-in feasible and credible instead of bail-out

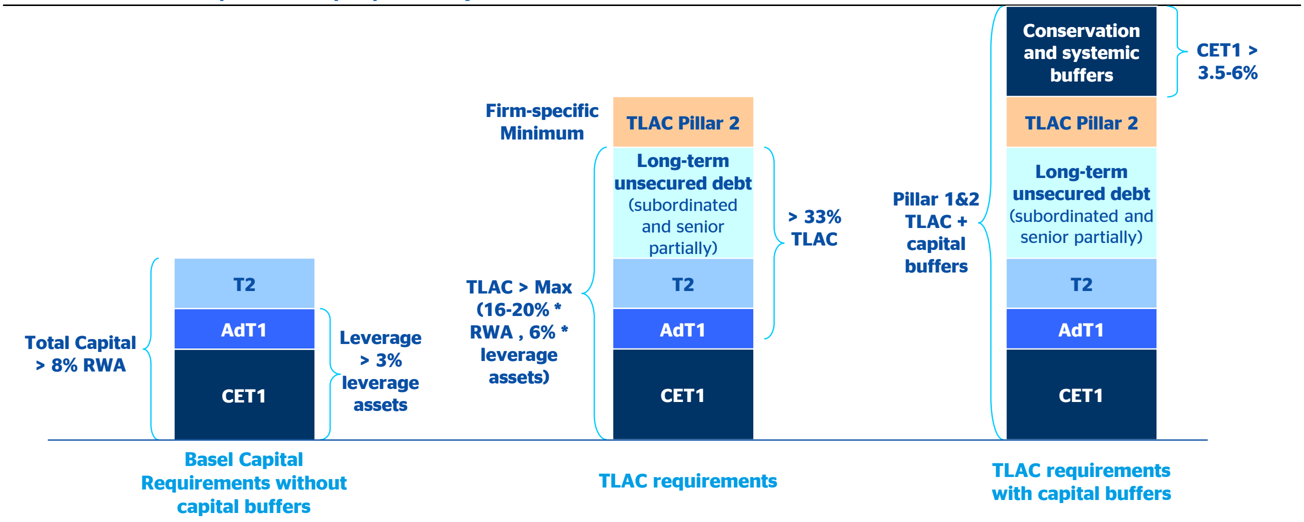
A necessary complement to the bail-in tool

On 12 November, the Financial Stability Board (FSB) released a draft consultation on the principles and characteristics of a minimum TLAC requirement.[1] The FSB paper will be under consultation until 2 February 2015, and is likely to be approved by the next G20 summit in Turkey in 2015. In parallel with the consultation period, the FSB will carry out a comprehensive Quantitative Impact Study (QIS) with the collaboration of the Basel Committee on Banking Supervision, to assess the optimal Pillar 1 minimum TLAC requirement.

The new resolution framework seeks to provide the authorities with a series of instruments and competences to deal with banking crises in a preventative manner, protecting financial stability, preserving critical functions and minimising the cost to taxpayers in the event of banking failures. As the central premise of the new regulation framework, any banking rescue will have to be supported by shareholders and private creditors through the bail-in tool. In order to be effective, banks must, at all times, have enough liabilities to absorb losses and comply with a minimum of Total Loss-Absorbing Capacity (TLAC). The main characteristics of the TLAC are the following:

- **Nature**: the TLAC should consist of instruments that can be legally, feasibly, effectively and operationally written down or converted into equity in case of resolution. Thus, capital instruments and new senior subordinated debt would count towards the TLAC. Traditional senior debt *pari passu* with derivatives or corporate unsecured deposit would count up to 2.5% of RWA.
- **Sizing**: The minimum TLAC requirement doubles the capital and leverage requirements (maximum between 16% and 20% of RWA and 6% of leverage assets) without taking capital buffers into account.
- **Placement**: the appropriate allocation of the TLAC will be determined by the resolution strategy: at parent level in SPE banks and at each resolution entity under an MPE scheme.
- **Entering into force:** The FSB proposes in the consultation paper that the TLAC requirement should not be in place before January 2019, allowing G-SIBs to adapt their funding structures gradually.

Figure 1
TLAC minimum requirement proposed by the FSB



Source: BBVA Research

The final design of the TLAC is not yet clear, and nor is it yet consistent between countries. The FSB consultation and calibration period will be critical in designing the optimal TLAC, to ensure resolvability without unduly penalising financial intermediation and financial stability. In any case, we can venture that the TLAC is a new prudential ratio with a potentially similar impact on the banking industry as Basel III in terms of capital and funding management, banking risk and profitability.

1: For further details see: https://www.bbvaresearch.com/wp-content/uploads/2014/11/20141111_Regulation-Watch_TLAC-V-def1.pdf

3 Restoring confidence in risk-weighted capital ratios

Basel Committee's response reported to the G20

Global banking regulators outlined on 12 November how they intend to reduce the variability in banks' regulatory capital ratios. Regulators consider that variability is excessive and that it could hinder comparability across banks and undermine investor confidence in the disclosed capital ratios, which are a key measure of financial strength. But there is no single cause, and neither is there a unique solution. Accordingly, a battery of measures has been considered to address this problem. Although this response is wide in scope, regulators in the Basel Committee will remain vigilant and will propose a more fundamental review in the longer term if it proves necessary.

A battery of measures has been announced

The Committee's response to address excessive variability in risk-weighted assets (RWAs) includes a revision of the internal model-based approaches to narrow the modelling choices available to banks and increase comparability in associated regulatory capital ratios. Moreover, non-modelled or standardised approaches (SA) will also be reviewed in order to improve their risk sensitivity. The revised SA will serve as a basis for the implementation of a permanent and transparent capital floor that will apply when internal models are used to calculate regulatory capital.

Table 1

BCBS's response

Area	Measures	Aim
I. Policy: prudential proposals	(i) Review of the **Internal Models Approaches** for Credit, Market and Operational Risks	Foster less variability in outcomes and greater simplicity by means of constraining modelling choices and providing guidance to promote convergent criteria
	(ii) Review of the **Standardised Approaches**	Improve the risk sensitivity of RWAs associated to Credit, Market and Operational Risks
	(iii) Permanent **capital floors** based on the Standardised Approaches	Ensure that internal model-based capital requirements do not fall below prudent minimum levels and serve as a benchmark
	(iv) Calibration of the **Leverage Ratio** that will be a mandatory requirement in 2018	Restrict the build-up of excessive leverage and mitigate model risk
	(v) Reduce the number of **national discretions** (list published) and provide **guidance** in several areas	Promote consistency in national regulations and implementation practices
II. Disclosure	Improvements in public disclosure (Pillar 3)	Promote market discipline and facilitate comparability
III. Monitoring	Additional analysis and ongoing monitoring	Design measures and assess their effectiveness

Source: BBVA Research based on BCBS's report to G20

Envisaged calendar

Some measures are already completed but others will be subject to public consultation in the following months, with final rules expected to be issued by the end of 2015. The calibration of the leverage ratio will be undertaken during 2015-17, and the mandatory minimum requirement will be implemented in 2018. The Committee has also announced that it will consider in the longer term whether a more fundamental review is necessary of the use of internal models in regulatory capital ratios.

Assessment

We welcome the aim of the global regulators of strengthening the capital framework while preserving a risk-sensitive system where requirements are commensurate with the actual risk incurred by each bank. This is vital to promote a robust, proactive risk culture where the incentives to allocate capital and price risks are not distorted. Consequently, we agree with the measures to reduce undue variability of RWAs associated with the lack of harmonisation in implementing criteria, such as the elimination of national discretions where appropriate and the issuance of guidelines to foster convergence in supervisory criteria and banking practices. Nevertheless, we have serious doubts on the advisability of setting capital floors based on the SA that could impair risk-sensitivity, considering further that the leverage ratio requirement included in Basel III already serves as a model risk mitigant.

4 Basel Committee published the final version of the NSFR (Net Stable Funding Ratio)

Another step towards the building-up of the liquidity framework

This final version presents some improvements vis-à-vis the drafts opened for public consultation in 2010 and early 2014. Above all, it maintains the structural features of the NSFR and produces a more calibrated ratio.

Rationale of the NSFR

As the recent crisis has shown, many banks experienced difficulties due to improper liquidity management. In this regard, regulators have focused on the development of a new liquidity framework that minimises the probability of similar episodes taking place. As such, two liquidity ratios were defined. On the one hand, the LCR (Liquidity Coverage Ratio) ensures the liquidity capacity of financial institutions under a situation of severe stress. On the other, the NSFR obliges financial institutions to maintain a stable funding profile (i.e. avoid an overreliance on unstable funding sources such as short term wholesale funding).

It is defined as the relation between Available Stable Funding (ASF) and Required Stable Funding (RSF): i) ASF factor is the portion of capital and liabilities expected to be reliable over one year. It will depend on maturity and relative stability of each funding source; ii) RSF factor is a function of the liquidity characteristics and residual maturities of the various assets held by that institution, as well as those of its off-balance sheet exposure. This factor will be affected by the liquidity risk profile and residual maturity. Financial institutions must keep the NSFR above 100% at a consolidated level from January 2018, without a phase-in period.

Figure 1
Final Outcome of the NSFR

ASF components	
Regulatory capital	100%
Secured and unsecured borrowings and liabilities (including term deposits) with maturity of > 1 year	100%
Stable (as defined in the LCR) non-maturity retail deposits/term deposits with maturity < 1yr	95%
Less Stable non-maturity retail deposits/term deposits with maturity of < 1 year,	90%
Wholesale funding by non-financial corporates, sovereigns, central banks and PSEs with maturity< 1yr	50%
Funding (secured and unsecured) with residual maturity of less than one year provided by non financial corporate customers	50%
Operational deposits and other funding with residual maturity between 6 months and 1 year	50%
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity	0%
Derivatives payable net of derivatives receivable **(LR definition taking into account netting and collateral)** if payables are greater than receivables	**0%**

Netting rules are based on leverage ratio framework

RSF Components	
Cash and equivalents (Central bank reserves and claims on CB with maturities of less than 6 months)	0%
Unencumbered Level 1 Assets (claims on/guaranteed by sovereigns, central banks and PSEs with 0% RW)	5%
New: **Loans to financial institutions with maturity < 6 months secured against Level 1 assets**	**10%**
Unencumbered Level 2A Assets (claims on/ guaranteed by sovereigns, central banks and PSEs with 20% RW and corporate debt securities with a credit rating of at AA-)	15%
New: **Other loans to financial institutions with maturity < 6 months**	**15%**
Unencumbered Level 2B assets (RMBS rated at least AA, corporate debt securities rated between A+ and BBB-, exchange trade common equity shares)	50%
HQLA encumbered between 6 months and 1 year	50%
Deposits held at other financial institutions for operational purposes	50%
Loans to financial institutions and CB between 6 months and 1 year	50%
Unencumbered residential mortgages and other loans with max 35% RW under Basel II standardized approach	65%
Other unencumbered loans >1yr and RW <35% under BIS II	65%
Other unencumbered performing loans with RW>35% under the Basel II standardized approach	85%
New: **Collateral posted as initial margin on derivative contracts**	**85%**
Other on-balance sheet assets (i.e: encumbered assets >1yr)	100%
New: Derivatives receivable net of derivatives payable **(LR definition taking into account netting and collateral)** if receivables are greater than payables	**100%**
20% of derivatives liabilities (taking into account netting)	**100%**
Off-balance sheet exposures-conditionally revocable and irrevocable credit and liquidity facilities	0%

Source: Basel Committee. Differences with the January 2014 proposal are shown in bold blue and with the 2010 proposal in green

Assessment

In general, the calibration of the final version of the NSFR is better than the 2010 version. However, there is some consensus in the industry of the potential penalisation to equity markets or to trade finance of these final standards. Even if this publication represents the definitive standards for the NSFR, in the coming months public authorities will take further measures related to this ratio. For instance, the actual impact of the final version will be monitored through a QIS exercise during the observation period. In addition, the Basel Committee is expected to issue NSFR disclosure standards in early 2015 and issue updated QIS templates to incorporate the final standards.

5 European banking structural reform

Opinion of the ECB on the European Commission proposal

On 19 November 2014, the ECB issued an opinion on the European Commission (EC) proposal on structural reform, in response to a request from both the European Parliament and the Council. The ECB supports the proposal, although with many nuances on how to introduce it especially on the separation, mainly because it contributes to ensuring a harmonised framework within the EU, which ultimately is key for the effectiveness of the work to be done by the Single Supervisory Mechanism.

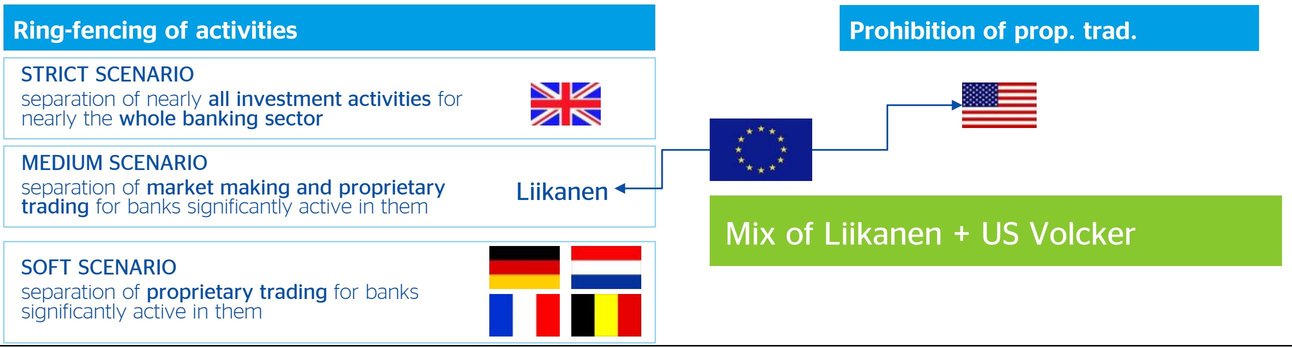
The so-called banking structural reform proposed by the EC on 29 January 2014 is aimed at imposing certain constraints on the way that banks operate, while pursuing a harmonisation of the legislation applicable in the countries of the European Union. In particular, the EC proposal is twofold. On the one hand, it prohibits banks from engaging in proprietary trading activities and on the other, it establishes a potential separation of trading activities (defined as market making, high-risk securitisation and complex derivatives) if an entity exceeds certain thresholds. The entity can demonstrate that the separation is not justified, but the burden of the proof is on the bank's side, not on that of the supervisors.

ECB declares support, but at the same time it quietly proposes a number of changes

The ECB backs the proposal, but with many caveats. The main reason for its support is the need for harmonisation in European legislation to effectively develop its supervisory functions. It favours the prohibition of proprietary trading, while it is much more cautious on the separation decision which is not clearly backed. Indeed, it considers it very important to preserve the market-making activity, as this plays a key role in the orderly functioning of the economy. It also warns that the separation of activities will probably imply the abandonment of trading activities for these banks, which will foster concentration in this line of business and exacerbate systemic risk.

- **Prohibition of activities**: The ECB supports the EC's prohibition of proprietary trading as well as the prohibition on banks owning or investing in hedge funds, although it acknowledges that the distinction between proprietary trading and market making is difficult. It suggests further clarification on the definition.
- **Separation**: The ECB adopts a cautious stance. It seems to support the proposed separation approach, but warns that market making should be preserved and some more exemptions should be granted to responsibly developing banks' risk-management functions, which can be interpreted as meaning that that it supports an extension of the exemption for derivatives which are not cleared through CCPs. Moreover, it highlights that some qualitative judgement would be needed to complement the quantitative, in reference to the need for supervisory flexibility.
- **Derogation:** The ECB is against the introduction of the derogation clause, as it may create a negative precedent for future legislation and would jeopardise the level playing field.

Figure 1
Comparison of national structural reforms initiatives



Source: BBVA Research

Next Steps

On the Council's side, the Italian Presidency has no plan to approve the proposal during its Presidency. On the Parliament's side, A Public Hearing was held on 2 December. A final vote is expected by March 2015.

6 The ECB published the fourth Single Supervisory Mechanism (SSM) Quarterly Report

Extraordinary progress in the implementation of the SSM

This month, together with the effective launch of the SSM on 4 November, the fourth report on the progress of the SSM has been released. The final outcome shows the impressive progress made by the European authorities in terms of internal organisation and legal developments that ensured the definitive implementation of the SSM. However, there are still some challenges ahead.

Organisational features

In the past months, the actions taken to build up the SSM have been remarkable. In this regard, from the organisational point of view, the members of the Administrative Board of Review were appointed by the Governing Council. This body together with Supervisory Board, the Governing Council and the Mediation Panel form the internal structure of the SSM.

Apart from this, the JSTs (Joint Supervisory Teams), core groups in charge of the effective supervision, have improved their knowledge of financial institutions through, among others: i) supporting the comprehensive assessment exercise; ii) starting to prepare the Supervisory Examination Programme (SEP) for 2015 for each significant bank (in close collaboration with DG IV); iii) conducting a field test of the risk assessment system (RAS) and of the methodology and procedure for the SSM Supervisory Review and Evaluation Process (SREP), and iv) testing the Information Management System (IMAS), the infrastructure tool used to manage the workflow and business processes, as well as the vehicle for JST members at the ECB and NCAs to communicate securely with each other.

Legal framework

From the legal standpoint, the ECB's publication of guidelines for banking supervision and its Regulation on supervisory fees completes the regulatory framework of the SSM. The guidelines for banking supervision, published in September 2014, are an important milestone in the implementation of the SSM. These represent a practical tool and will help to define a common supervisory culture within the euro area. Some of the content, however, is already covered in current SSM regulations. In addition, the ECB staff have also worked on the Supervisory Manual, which is an internal document which covers different areas such as supervisory processes and procedures; roles and responsibilities within the SSM; methodology for on-site inspections or methodology and the process for the SSM SREP.

Apart from this, in October the ECB released its Regulation on supervisory fees. This rule establishes the methodology for: i) determining the total amount of the annual supervisory fee; ii) computing the amount to be paid by each supervised bank or banking group, and iii) collecting the annual supervisory fee. The first fee notice is expected to be issued in late 2015, covering 14 months (November and December 2014, and the whole of 2015). Finally, a draft Regulation on reporting of supervisory financial information is now open to public consultation.

Solution to the legacy assets problem

As a preparatory step to the launch of the SSM, in 2014 and part of 2013 the ECB (together with NCA and external experts) pursued the comprehensive assessment whose results were published on 26 October. This exercise increased the transparency of financial institutions, with an extraordinary amount of information being released, and showed the resilience of the European financial sector with very manageable capital needs. Due to this exercise, the banks that will be covered by the SSM now show a high degree of balance sheet robustness.

Assessment and next steps

In a nutshell, the progress made in the implementation of the SSM has been impressive. The SSM is no longer a mere project but, rather, a reality. However, there are some challenges ahead - among others, the need to define a new supervisory culture and integrate so many different supervisory authorities into one. As such, the launch of the SSM should ensure that financial institutions of the participating member states will have just one supervisor but no more.

7 Proportionate regulation for electronic money

Fostering financial inclusion and innovation while protecting customers' funds

Electronic money services are flourishing in emerging countries as a first step for the financial inclusion of the unbanked. E-money has also the potential to foster innovation, both in developed and developing countries, enabling the entrance of new players to the payment services' market. Yet allowing non-bank institutions to take funds from the public and issue e-money has significant risks that authorities have to address through specific and proportionate regulation. This has already been the case in the EU and some countries in South America.

What is e-money?

Electronic money or e-money is a financial instrument that stores value electronically against the receipt by the issuer of the equivalent funds. It is accepted as a payment instrument by third parties other than the issuer and may be converted back into cash. The value is stored on an electronic device that may be an Internet account, a pre-paid payment card or other smart cards such as a mobile phone card.

Benefits and opportunities

Electronic money has the potential to foster innovation and competition in the payment services' market, as it enables new players engaged in other businesses to develop innovative products and services that enhance users' experience in a digital world. Yet e-money is particularly promising in developing countries, where a significant portion of the population does not use formal financial services. Thus, the surge of e-money products can be understood as a first step for the financial inclusion of the unbanked. In those countries, mobile penetration rates have significantly increased in recent years, so mobile-based e-money services provide an attractive and easy access to basic financial services such as payments, cash in and cash out or savings.

Risks to be addressed

As e-money issuers take funds from the public, the risk arises of money being lost or unavailable when requested by customers. This risk is particularly relevant when the e-money market is opened to players which are not prudentially regulated, making the case for specific regulation to protect customers' funds. Financial system integrity could also be questioned if no proper anti-money laundering (AML) procedures are applied. Yet 'know your customer' (KYC) requirements may hamper the access to financial services, particularly in developing countries, and are sometimes revised in favour of financial inclusion goals. Finally, there are security risks arising from the innovative technology involved in e-money services.

Regulatory approaches

The EU Directive on Electronic Money[2], approved in September 2009, and recent regulatory acts in South American countries such as Paraguay (2014), Peru (2013) and Uruguay (2014) specifically regulate e-money as a financial product separate from bank deposits. Those regulations intend to mitigate the previous risks: they introduce a licensing system and prudential and/or safeguarding requirements for allowing non-bank institutions to issue e-money. Issuers must hold an amount of funds equivalent to the total e-money issued in certain type of assets - generally bank deposits. Furthermore, e-money accounts are usually subject to limits for balances and/or transactions. Issuers must also comply with AML requirements to deter and detect fraud and particularly they should apply due diligence checks on customers.

2 Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0110&from=EN.

Main regulatory actions around the world in 2014

	Recent issues	Upcoming issues
GLOBAL	On **27 Oct FSB** published a report on cross-border consistency of **banking structural reforms** On **31 Oct BCBS** published the final rule on **Net Stable Funding Ratio (NSFR)** On **4 Nov FSB** published 2014 **Global Shadow Banking Monitoring Report** On **4 Nov FSB** published progress report on **compensation practices** On **6 Nov FSB and BCBS** published **updated list of G-SIIs and G-SIBs**, as well as the methodology and data used On **7 Nov FSB** published progress report on implementation of **OTC Derivatives** market reforms On **10 Nov FSB** launched **consultation on Total Loss-Absorbing Capacity** On **12 Nov FSB** published report on **effects of reforms on emerging and developing economies.** BCBS also published a Working Paper on the topic. On **12 Nov BCBS** published a review on implementation of **national discretions** within Basel capital framework On **12 Nov G20** published reports on **implementation of Basel III** standards and on the **reduction of excessive variability** in banks' capital ratios On **13 Nov** launched consultation on **SFTs data collection and aggregation** On **14 Nov FSB** published **reports for the G20 summit** on **progress in financial regulatory reforms** On **15 and 16 Nov** the **G20 summit** took place in Brisbane On **17 Nov IOSCO** launched consultation on **post-trade transparency in the CDS market** On **21 Nov IADI** published a revision of its **Core Principles for Effective Deposit Insurance Systems** On **25 Nov ISDA** published principles for **CCP recovery** On **27 Nov IOSCO** launched consultation on **cross-border regulation**	**Basel III Regulatory Consistency Assessment Programme (RCAP) will be issued on Dec 2014** **FSB** will review its **representation structure** to better capture emerging market and developing economies (EMDEs)
EUROPE	On **26 Oct ECB** published the **results of the comprehensive assessment** and EBA results of the EU-wide **stress test** On **30 Oct ECB** published Regulation on **fees to cover supervisory expenses** On **01 Nov** Juncker **Commission initiated its 5-year mandate** On **03 Nov Presidency of the Council** published compromise text on the proposal for a **second Payment Services Directive (PSD2)** On **04 Nov** the **SSM was launched**, and ECB assumed its role as banking supervisor for the Eurozone On **04 Nov the Council** published a report on remaining challenges for the adoption of the **Financial Transaction Tax** under enhanced cooperation On **Nov EBA** launched **consultations** on several aspects related to **bail-in in the BRRD context** On **05 Nov ESRB** published report on allocation of **macroprudential powers** On **07 Nov** the **Council** approved the **provisional system** of instalments to cover **administrative costs of SRB**. Parliament to pass it after ECON reccomendation On **10 Nov EU Council** adopted the regulation on **key information documents for PRIIPS** On **10 Nov EBA** launched consultation on **contributions to DGS** On **12 Nov the Council Presidency** published compromise text on the proposal for a r**egulation on money market funds** (MMFs) and the **EP** published its **draft report**	On **01 Dec Donald Tusk** will take office as European Council President On **02 Dec ECON** will hold a public hearing on **Bank Structural Reforms** **EC** will initiate proposals for **automatic exchange of information** regarding national tax rules On **Dec 2014** the proposed regulation on interchange fees for card-based payment transactions is expected to be approved.

Continued on next page

(cont)	Recent issues	Upcoming issues
EUROPE	On **19 Nov ECB** issued a decision on **banking strucutral reforms** in the EU On **19 Nov ECB** issued a decision on implementation of the **ABS purchase programme** On **20 Nov** the Council reached an agreement on **reporting and transparency of SFTs** On **20 Nov EC** published shortlist of candidates for **Chair and Vicechair of the SRB** On **25 Nov EC** committed to **enhance transparency** in relation to their meetings and negotiations On **27 Nov** EBA published an opinion and a report on the **defintion of credit institutions** **On 26 Nov EC adopted an investment plan for the EU** **On 28 Nov EBA** launched a **consultation** on criteria for determining the minimum requirement for own funds and eligible liabilities **(MREL)**	
MEXICO	On **04 Nov CNBV and Banco de Mexico** made public their draft for the implementation of the **LCR** in Mexico, and it will come into force progressively between 2015-2019 On **19 Nov Codusef** issued rules defining a set of "abusive terms" to be suppressed from financial institutions contracts. On **21 Nov SHCP, the Secretariat of Finance,** began a preliminary disclosure of its proposal for the Financial Groups Rulebook, which addresses its regulatory responsibilities stemming from the Financial Reform.	CNBV and Banco de Mexico are still to present their proposal for the **NSFR to complete the liquidity framework, after issuing the LCR** In the following weeks there should be a **considerable amount of regulatory projects** coming from the financial authorities, with the aim of completing most of the Financial Reform's secondary regulation in 2014.
LATAM	On **31 Oct Peru** Central bank lowered **reserve requirements** for deposits in domestic currency **to provide liquidity** to the financial system. On **02 Nov Brazil and Uruguay** agreed on a **payment system** based on their own local currencies rather than on an exchange rate contract. On **06 Nov Central Bank of Brazil** approved a measure to improve the criteria to fight **money laundering and the terrorism finanicng**.	
USA	On **28 Oct Fed** published final rule on **risk management in financial market infrastructures** designated as systemically important On **05 Nov Fed** issued final rule on **financial conglomerates**, limiting their concentration to 10% On **18 Nov** Federal Agencies launched consultation on **technical corrections and clarifications to banking solvency rules** On **19 Nov** Federal Agencies published final rule on **securtisied risk retention**, requiring that the sponsor retains 5% On **20 Nov Fed** announced a revision of the **supervision of largest and most systemically important institutions**	**Fed** and market participants will **develop risk-free reference rate alternatives to Libor** for use in future USD derivative and other financial contracts. On **20 Nov Fed** announced a **revision on the supervision** of the largest and systemically important banking organizations
TURKEY	On **21 Oct Central Bank of Turkey** will provide further support to **core liabilities** in order to spur balanced growth and domestic savings. On **22 Oct credit card receivable interest rates** to be indexed to average sector GPL rates as published by CBRT	
ASIA	On **28 Oct direct interbank trading** of the Chinese yuan and the Singapore dollar started to boost the use of the currency globally On **29 Oct, Hong Kong's Securities and Futures Commission** approved the city's direct trading link with Shanghai and it started on **17 Nov.** On **21th Nov,** the **People's Bank of China** cut benchmark interest rates in response to the weakening economy	**China** plans to add more **flexibility to the loan-to-deposit** regulation for Chinese banks **People's Bank of China** is seeking to expedite the process of **making Chinese yuan convertible** on the capital account, and allowing **foreign investors to use the yuan** to invest in financial institutions in China.

Source: BBVA Reasearch

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	Comisión Nacional 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	The Dodd–Frank Wall 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 Transferrable Securities Directive

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