Financial Regulation Outlook

June 2015
Financial Systems and Regulation Area

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Summary

Thematic review on systemically important banks (SIBs)

Enhancing resilience of financial institutions and the supervisory framework. Among many of the consequences of the recent financial crisis, one reflects on the efforts carried out by supervisors to increase oversight of financial entities, mainly global systemically important banks (G-SIBs). The Financial Stability Board (FSB) has explored changes in methods and tools to intensify supervision. This peer review covers those jurisdictions, home to G-SIBs, gathering the feedback and describing its main findings of the review on supervisory approaches and frameworks for SIBs.

Banking structural reform

Council gives green light to its agreed position. After months of negotiations, Council reached an agreement on 19 June on its position on banking structural reform. This position includes important changes on the Commission's original proposal. It softens the proposal by introducing the mandatory separation of proprietary trading instead of the prohibition. It incorporates a more flexible and risk-based approach establishing a menu of options for competent authorities to take on trading activities. Separation is no longer the only measure to be adopted, but an additional one in the toolkit of the authorities. This is a first step. Only if Parliament reaches an agreement, trilogues will begin between European Parliament, Council and Commission in order to reach a final text

The Five Presidents Report

Enhancing the eurozone's governance. The European Council on 26 June discussed the "Five Presidents Report" on "Completing Europe's Economic and Monetary Union" that lays out a 10-year roadmap towards full financial, fiscal, economic and political unions in two stages. Until 2017, it focuses on completing the banking union, working under the existing framework, and postpones more far-reaching transformations to a second stage (2017-25). The end of the road is a genuine EMU by 2025 at the latest. This report is a milestone for the eurozone's governance, although a more ambitious approach would have been welcome.

EC initiative for better regulation in the EU

Open up policy-making further and refresh current rules. Over the last decade, the EU has introduced a comprehensive set of better regulation tools, that the EC is intended to reinforce with the new Better Regulation Package, published on 19 May 2015. The EC sees better regulation, understood as designing EU policies and laws so that they achieve their objectives at minimum cost, a major political priority for both new proposals and existing legislation. The aim of the EC is to provide a basis for timely and sound policy decisions that, ultimately, give rise to an EU rulebook that is fit for purpose, modern, effective, proportionate, operational and as simple as possible. But this is not an easy task, given the large number of rules approved in the aftermath of the financial crisis, whose revision would be advisable in order to favour their simplicity and consistency, considering also whether they are producing the intended effects.

EU Commission's consultation on EMIR implementation

The state of the art. The European Commission is required to prepare a general report on EMIR to be submitted together with any appropriate proposals to the Council and the EU Parliament. The report will analyse some of the critical aspects of the EMIR regulation that have been supplemented, in addition to the article of the Regulation 648/2012, by various delegated and implementing act during the last three years. Regulators and market participants may highlight core critical elements that have arisen over the years and focus additional analysis on the adjustments required to achieve a more solid and efficient OTC derivatives market at global level.

BRRD transposition in Spain

A milestone in implementing an effective resolution regime. On 11 June, the Spanish Parliament approved the transposition of the Bank Recovery Resolution Directive (BRRD) into the Spanish law and it came into force on 20 June. This is the last step in the implementation of a resolution framework which sets out the responsibilities, instruments and powers to enable Spanish authorities to resolve failing banks in an orderly manner, by protecting critical functions and without exposing the taxpayer to the risk of loss.

Final compromise text of the PSD2

A fundamental change in the payments industry. The European Council released on 4 June the final compromise text of the new Payment Services Directive (PSD2), after the agreement with the European Parliament in the Trilogue of 5 May. The PSD2 will make fundamental changes in the payments industry by giving third-party payment service providers (TPPs) access to the banks' infrastructure.

1 Thematic review on systemically important banks

Enhancing resilience of the supervisory framework

Among many of the consequences of the recent financial crisis, one reflects on the efforts carried out by supervisors to increase the oversight of financial entities, mainly global systemically important banks (G-SIBs). The Financial Stability Board (FSB) has explored changes in methods and tools to intensify and improve supervision. This peer review covers those jurisdictions, home to G-SIBs, gathering the feedback and describing its main findings of the review on supervisory approaches and frameworks for SIBs.

Addressing too-big-to-fail

G20 leaders called on the FSB to propose possible measures to address too-big-to-fail (TBTF) problems associated with SIFIs and consequently develop and integrate a set of policy measures, lately gathered in a report, covering the progress and remaining efforts to fully and effectively implement the SIFI framework.

On this basis, this report takes forward the recommendation set out in the TBTF Report, and launched a peer review and assessed progress towards enhancing supervisory frameworks and approaches for G-SIBs. Increasing supervisory effectiveness is a key pillar of the FSB policy framework for reducing moral hazard.

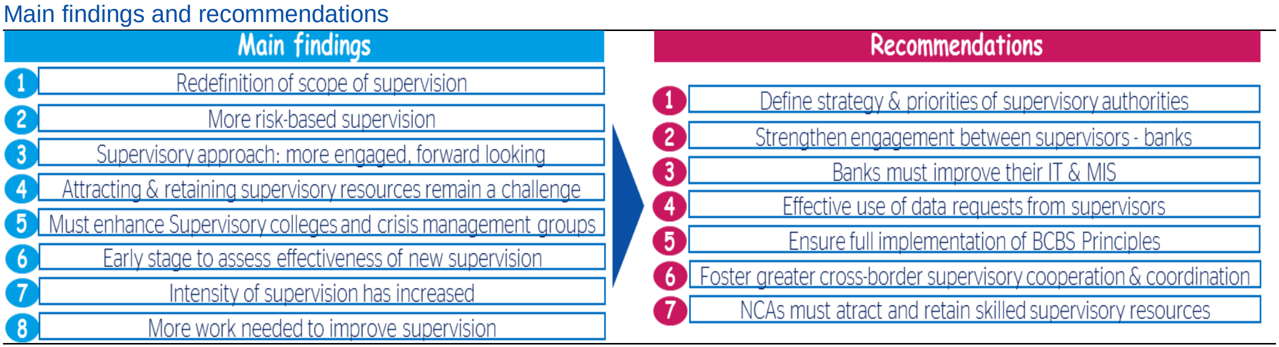
Thematic review: content and main findings

The peer review found out that all surveyed national authorities have taken significant steps, but they have not moved at the same pace. A common focus across all jurisdictions has been the development of the recovery and resolution plans. Corporate governance is another area of focus. Despite these differences, all authorities have made changes to their supervisory approach, and major changes have been made in their organisational structures.

This report has highlighted a number of key outstanding challenges, which need to be addressed in order to further progress supervisory effectiveness. The identified challenges are related to the need for authorities to i) establish and implement clear and transparent supervisory strategies and priorities; ii) maintain a high-level dialogue with institutions; iii) ensure data requests to effectively support supervisors, iv) further develop international supervisory cooperation; and v) effectively manage volume of regulatory and supervisory change.

Throughout four sections, the review: i) takes stock of how supervisors have changed their supervisory framework and approaches; ii) summarises feedback from surveyed G-SIBs, and iii) describes national authorities' approaches to assessing supervisory effectiveness. Overall, iv) findings and conclusions of the review also set out recommendations to address identified challenges which are hindering progress towards a more effective supervision.

Figure 1
Main findings and recommendations



Source: BBVA Research

Next steps

Although implementation of these reforms has led to a greater supervisory intensity, it does not necessarily translate into more effective supervision. Good progress has been made in implementing the FSB recommendations for more enhanced and effective supervision. However, more work is needed to further improve supervisory effectiveness and its assessment.

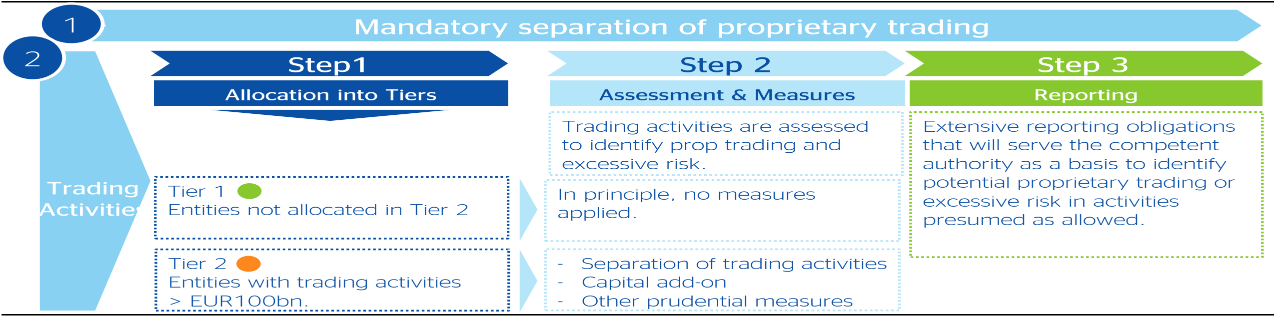
The FSB will continue to discuss supervisory practices for SIBs as well as other SIFIs. Following this report, any challenges and impediments to more effective supervision that have been identified in this peer review will be addressed by the FSB and the next report on progress of its implementation will be issued in 2016.

2 Banking structural reform: Council agrees a position

Council gives green light to its agreed position

After months of negotiations, Council reached an agreement on 19 June on its position on banking structural reform. This position includes important changes on the Commission's original proposal. It softens the proposal by introducing the mandatory separation of proprietary trading instead of its prohibition. It incorporates a more flexible and risk-based approach by establishing a menu of options for competent authorities to take on trading activities. Separation is no longer the only measure to be adopted, but an additional one in the authorities' toolkit. This is a first step. Only if Parliament reaches an agreement, trilogues will begin between European Parliament, Council and Commission, in order to reach a final text.

Figure 2
Council's Position



Source: BBVA Research

Main aspects of council's position

- **The entities exempted from this Regulation have widened,** including groups containing a credit institution in the Union or even a single entity where total eligible deposits amount to less than 3% of its total assets or EUR35bn (arguably in reference to genuine big investment banks).
- **Proprietary trading is no longer prohibited, but separated from the Core Credit Institution**. An assessment will be developed in order to identify proprietary trading and require its separation from the Core Credit Institution. This assessment shall be conducted in the context of the supervisory review and evaluation process (SREP) and shall be carried out at least every year.
- **Entities would be allocated into two Tiers (Tier 1 and Tier 2)**. Entities will be allocated to Tier 2 when their trading activities over the last three years exceed EUR100bn. Those entities not allocated to Tier 2 will be allocated to Tier 1. A stricter supervisory approach is developed for those entities in Tier 2, with a wider assessment of their trading activities and stricter reporting requirements.
- **Trading activities will also be subject to a risk assessment for Tier 2 entities**. Competent authorities are empowered to adopt several measures to address that excessive risk. These measures are: i) separation of those trading activities; ii) a capital add-on, and iii) other prudential measures in accordance with CRD IV.
- **Council's position includes an exemption for UK banks already applying their national legislation**. This is achieved through a two-option framework by which Member States can decide either to replace chapter II of the Regulation by national regulation or to apply the whole European Regulation. This framework has been long discussed as it may represent a negative precedent regarding the single market.

Assessment

There is still ground to doubt whether this reform is needed. Most of the powers provided to the authorities under this legislation are already available either under the new Bank Recovery and Resolution Directive (BRRD) or other regulatory measures already adopted to address the too -big-to-fail problem.

The effect of this Regulation on market-making operations and market liquidity is under the spotlight. Many fear that, as a result of it, many banks may withdraw from certain market activities, thus resulting in a reduction of liquidity in the markets.

It is not clear to what extent this regulation is compatible with another Commission's priority, the Capital Market Union, which is aimed at ensuring enough financing for the real economy in Europe.

Next steps

Parliament will resume negotiations in September. This will be done under the Luxembourg Presidency.

3 The Five Presidents Report

Enhancing the eurozone's governance

The European Council on 26 June discussed the "Five Presidents Report" on "Completing Europe's Economic and Monetary Union" that lays out a 10-year roadmap towards full financial, fiscal, economic and political unions in two stages. Until 2017, it focuses on completing the banking union, working under the existing framework, and postpones more far-reaching transformations to a second stage (2017-25). The end of the road is a genuine EMU by 2025 at the latest. This report is a milestone for the eurozone's governance, although a more ambitious approach would have been welcome.

The EU strategy to advance towards more integration was established in 2012 in a report, *"Towards a Genuine EMU"* (the "Four Presidents' Report") produced by the Presidents of the European Council, the ECB, the Commission and the Eurogroup. Three years later, the European institutions are reviving the integration thrive. The outcome is the new "Five Presidents Report", with the collaboration of the Parliament's President this time. In 2017, ahead of the second stage, CE will publish a White Paper with the next steps. The decision on reforming the EU Treaties has been postponed until after the UK referendum in 2017.

Focus on the financial union until 2017

The new label "Financial Union" broadens this first building block to encompass the new capital markets union flagship, yet the immediate priority is to **complete the banking union by 2017**. This requires first and foremost that Member States fully transpose the BRRD and ratify the IGA on the Single Resolution Fund (SRF), as well as set up a bridge financing mechanism before 2016. Until 2017, the report proposes:

- Setting up a credible common backstop for the SRF, to be financed by banks' ex post contributions.
- Launching a common European Deposit Insurance Scheme (EDIS), although this cannot be achieved overnight. In the first stage, it would be designed as a reinsurance system for national schemes at European level. Nevertheless, it remains unclear whether this implies a truly new European scheme or just a formalisation of the voluntary loans among national funds. A truly European EDIS is preferred to the existing framework, as it would increase Europe's resilience and provide for greater risk-sharing.
- Reviewing the ESM's direct recapitalisation instrument by relaxing the eligibility criteria.
- Ensuring a level playing field for all eurozone banks, reducing the margin for national discretion.

The report also envisages strengthening Europe's macroprudential framework, by reinforcing the powers of the European Systemic Risk Board (ESRB). In the medium term, the report also considers a potential revision of the sovereign exposures treatment that would set a large exposure limit.

Fiscal and economic unions

The report aims at promoting convergence on fiscal and economic policies across the eurozone, and maintaining an appropriate fiscal stance at the eurozone level. Until 2017, it proposes creating an advisory European Fiscal Board to provide an independent assessment of national budgets, and a euro area system of Competitiveness Authorities. In the longer term, the report proposes formalising the convergence process with a set of economic indicators (mostly on competitiveness and labour markets). Convergence with those indicators would be a pre-condition for access to a common shock absorption function to be set-up, although its design has not yet been clearly defined.

Political union: integration underpinned by enhanced democratic legitimacy

The report calls for integrating the IGA on the SRF and the Euro Plus Pact under the *acquis communautaire* already in stage 1, and fully integrating the ESM within the EU Treaties in the medium term, as a way to reconcile it with the no bail-out clause to governments. Finally, a Eurozone Treasury will be set up to coordinate the construction of collective fiscal policies, although full centralisation is not envisaged.

Assessment

This report is a crucial step in the right direction, as it lays out the roadmap towards enhanced financial, fiscal and political integration, including much, although not all, of the necessary work ((see related BBVA Research Watch). Financial union is the area where faster and deeper progress can be expected, in contrast to a more timid impetus to the fiscal and economic unions. A major shortcoming is that debt mutualisation (i.e. eurobills), a key element of a fiscal union, is not even discussed. There are also several uncertainties, for example on the exact design of the EDIS or the reform of the Treaties, which is an unavoidable step for a genuine EMU. The exceptional developments in Greece may trigger a much more ambitious progress in fiscal union, thus helping Member States converge in the next key step for the euro.

4 EC initiative for better regulation in the EU

Further open up policy-making and refresh current rules

Over the last decade, the EU has introduced a comprehensive set of better regulation tools, that the EC is intended to reinforce with the new Better Regulation Package, published on 19 May 2015. The EC sees better regulation, understood as designing EU policies and laws so that they achieve their objectives at minimum cost, as a major political priority for both new proposals and existing legislation. The aim of the EC is to provide a basis for timely and sound policy decisions that, ultimately, give rise to an EU rulebook that is fit for purpose, modern, effective, proportionate, operational and as simple as possible. But this is not an easy task, given the large number of rules approved in the aftermath of the financial crisis, whose revision would be advisable in order to favour their simplicity and consistency, considering also whether they are producing the intended effects.

New proposals to reinforce better regulation

In the EC Communication "Better regulation for better results – an EU agenda", the EC states the aim to work more transparently and inclusively to produce higher-quality proposals, and to ensure that existing rules deliver important societal goals more effectively. New Better Regulation guidelines and the associated Toolbox have been published, the former setting out the mandatory requirements for each step in the policy cycle, whereas the latter provides additional guidance. These new guidelines will apply to EC's work from 19 May (transitional period until the end of 2015 for those initiatives which are already well advanced).

Table 1
EU agenda for better regulation: new initiatives

	Lines of action	Measures
Openness and transparency	Consulting more, listening better	**Views can be expressed over the entire lifecycle of the policy**: "Roadmaps" and "inception impact assessments", 12-week public consultations for new proposals and to evaluate and carry out "fitness checks" of existing legislation, etc. **All stakeholders will be able to provide feedback on EC delegated acts** setting out technical or specific elements.
	Explaining better	Improved explanatory memorandum
	Everyone's chance to have their say	**New website** "Lighten the Load - Have Your Say"
Better tools for better policies	Better regulation as a balanced agenda	Consider both **regulatory and non-regulatory means** Apply "Think the small first" principle (to **protect SMEs**)
	EC open to scrutiny	**New** Regulatory Scrutiny Board with a strengthened role and new composition, to allow the delivery of an **impartial opinion**. It will also check major evaluations and "fitness checks" of existing regulation.
	A shared commitment from EU institutions	**All EU institutions and MS are required** not only to commit but also to stick to better regulation principles. This will prevent, for example, gold-plating practices by MS.
Refreshing the stock of legislation	Keeping the EU law fit for purpose: at inception and afterwards	Strengthen the REFIT (**Regulatory Fitness and Performance Programme**, launched in 2012) to be more targeted, quantitative (potential benefits and cost savings and updates; check real impacts on the ground) and embedded in political decision-making.
	REFIT in action	Initiatives to **reduce burdens**, **to repeal outdated legislation** and **to improve the implementation** of EU law (e.g. broad review of reporting requirements). **Possible future evaluations and fitness checks across a wide range of policies and legislations** (e.g. EU Derivatives Regulation and Capital Requirement Regulation).
	An inclusive approach	**New** "REFIT Platform", which will soon be operational, consists of two standing groups, one for Member State experts ("government group") and one for representatives of business, social partners and civil society ("stakeholder group"). It will **collect suggestions for regulatory and administrative burden reduction, assess them and make concrete proposals to the EC.** Chair: the First Vice-President of the EC.

Source: BBVA Research based on EC Communication

Next steps

The EC recognises that it cannot deliver better regulation on its own, but that **a shared commitment by all EU institutions, Member States and other actors is required**. To this end, the EC has invited the EP, the Council, the European Economic and Social Committee and the Committee of the Regions to start negotiations - on the basis of the EC's proposal for a new inter-institutional agreement – aiming to finalise it before the end of 2015. This agreement is of great importance for better regulation principles to materialise in practice, to a greater extent than before.

5 Commission's consultation on EMIR implementation

The state of the art

The Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR) responded to the commitment by the G-20 leaders (2009 – Pittsburgh) to regulate clearing and risk mitigation obligations for OTC derivatives contracts, the reporting obligation for derivatives contracts and the necessary requirements for Central Counterparties and Trade Repositories. Following a number of delegated and implementing acts developed by the ESAs, the EU Commission ("EC") is consulting the stakeholders on the implementation of EMIR to date.

EU consultation on EMIR review: main features

Under article 85(1) of EMIR, the Commission is required to prepare a general report on EMIR to be submitted together with any appropriate proposals to the Council and the EU Parliament. In such report the EC will have to assess the impact of the regulation on: i) the access of CCPs to central bank liquidity facilities; ii) the use of OTC derivatives by non-financial firms; iii) the supervisory framework for CCPs, iv) the efficiency of margining requirements, and (v) CCPs policies of collateral margining and their adaptation to particular risk profiles. Such analysis is necessary to reduce the risks that may be generated in the EU due to the implementation of the EMIR regulation, and to enhance the solvency of the system in case of shocks. The analysis of the access to the central bank liquidity facilities, to enable CCPs to withstand a potential liquidity crisis in case of market shock, is particularly relevant considering the central role played by such entities at European and global levels.

The EMIR analysis may also yield important information to the regulators in evaluating the impact of the changes of the market infrastructure in the OTC derivatives space. Regulators drafting the technical standards or delegated/implementing acts that still have to be fully implemented (such as MIFID2-MIFIR) will also benefit from the findings of this consultation.

Additional analysis: mandatory clearing and third country equivalence

The consultation paper issued by the EC is also a good opportunity for market participants to highlight some of the consequences that may occur following a lack of legislative equivalence for third countries' regimes on OTC derivatives regulation. As of today, the EU has adopted implementing acts[1] declaring the equivalence of the EMIR framework (that will allow CCPs and Trade Repositories based in third countries to provide their services in the EU) for the following countries. Some of the key markets at global level are still lacking full recognition by the EU.

Table 2
Approved implementing act and implanting act under discussion

Third Country	Adoption of equivalence
Australia	30th Oct 2014
Hong Kong	30th Oct 2014
Singapore	30th Oct 2014
Japan	30th Oct 2014
USA	under analysis
Mexico	under analysis

Source: BBVA based on ESMA and European Commission

Next steps

The review of the EMIR framework and its impact on the structure of the European financial markets is key in pushing for the harmonisation of the implemented (or soon to be implemented) EU rules with the corresponding regulations of third countries, to allow smoother and safer transactions across different jurisdictions.

[1] http://europa.eu/rapid/press-release_IP-14-1228_en.htm?locale=en

6 BRRD transposition in Spain

A milestone in implementing an effective resolution regime

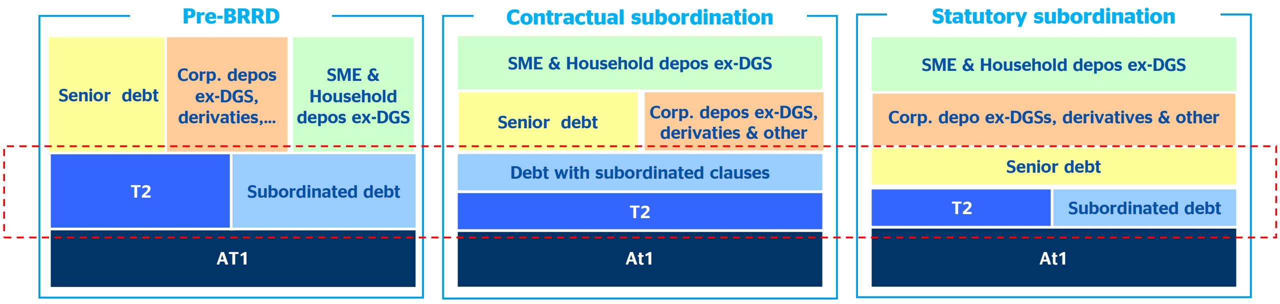
On 11 June, the Spanish Parliament approved the transposition of the Bank Recovery Resolution Directive (BRRD) in Spain (*Ley de recuperación y resolución de entidades de crédito y empresas de servicios de inversion,* Law 11/2015, of 18 June[2]), and it came into force on 20 June. This is the last step in the implementation of a resolution framework which sets out the responsibilities, instruments and powers to enable Spanish authorities to resolve failing banks in an orderly manner, by protecting critical functions and without exposing the taxpayer to the risk of loss.

The newly implemented law substitutes the former Spanish resolution framework (Law 9/2012) implemented in the context of the Financial Assistance Program led by the Troika in 2012. The new resolution powers and tools are based on four main pillars:

- <u>The new law sets a two-tier institutional framework.</u> On the one hand, the Bank of Spain would be responsible for pre-resolution tasks organised under two different units: i) the supervisor will assess the recovery plan and ii) the new resolution unit will develop the resolution plan. On the other hand, an independent institution (the Fondo de Restructuración Ordenada Bancaria, or FROB) will be responsible for all resolution functions during the execution phase.
- <u>Spain shall establish a Resolution Fund</u> for the purpose of ensuring the effective application of the resolution tools, which will gradually be merged at the eurozone level between 2016 and 2024. This fund will be constituted by annual contributions from credit institutions with a target level of at least 1 percent of the covered deposits of all entities. The resolution fund may assume losses only after shareholders and debt holders have assumed losses up to at least an 8% of the liabilities. This constitutes an additional cushion for retail deposits, even for those not covered by the deposit guarantee scheme.
- <u>The new resolution tools provide a wide range of options to deal with banks in trouble.</u> Particular attention should be paid to the new hierarchy of claims in the insolvency law, providing a maximum degree of protection for retail deposits as shown Figure 1.
- <u>On the subordination issue, Spain follows a contractual approach</u>. In fact, it changes the Spanish Insolvency law, making Tier 3 debt feasible and credible. Whether or not other European countries will implement a contractual or statutory approach is not yet clear. However, it is worth emphasising that a harmonised subordination scheme across Europe is highly desirable.

  The resulting hierarchy of claims depending on which subordination method is implemented is summarised in Figure 1:

Figure 3
Contractual subordination versus statutory subordination



Source: BBVA Research

2 Law 11/2015, of 18 June 2015: http://www.boe.es/boe/dias/2015/06/19/pdfs/BOE-A-2015-6789.pdf

7 Final compromise text of the PSD2

A fundamental change in the payments industry

On 4 June, the European Council released the final compromise text of the new Payment Services Directive (PSD2), after the agreement with the European Parliament in the Trilogue of 5 May. The PSD2 will make fundamental changes in the payments industry by giving third-party payment service providers (TPPs) access to the banks' infrastructure.

New rules for the European payments business

Through PSD2's current text, TPPs (third-party providers, i.e. payments initiators and information aggregators), will be granted access to client accounts, enabling them to provide their services via the banks' infrastructure. However, it remains unclear how the relationship between banks and TPPs will be managed, since the text explicitly determines that a contract between the parties shall not be required, but banks must provide access to third parties without discrimination, once authorised by the customer. Therefore, TPPs would benefit from the banks' payments infrastructure without contributing to its maintenance and improvement. This forces banks to rethink their business model to find new sources of value in the way they offer services to those TPPs.

The first technical solutions are currently emerging from the industry via APIs (Application Payments Interface), although there are no fixed standards that guarantee interoperability. Nevertheless, the European Banking Authority (EBA) is committed to having a greater active involvement, in order to provide guidelines and establish technical standards related to the authorisation of payment institutions, security protocols and communication between parties, as well as business relationships and liability issues. Indeed, by September 2018, the EBA will have to upgrade its newly published Guidelines on the security of internet payments (that were developed before the PSD2 and will be applicable from 1 August 2015) extending their scope to new entities and covering new PSD2 requirements.

A single market for electronic payments

The authorisation as a payment institution, granted by the competent authorities of the home member state, will allow for the provision of payment services throughout the European Union. However, when wishing to provide services for the first time in another member state, a payment business will have to communicate its intention, together with information regarding the use of agents or branches or the outsourcing of operational functions, to the competent authorities of its home member state. These will have to exchange information with their counterparts in the host member state and decide on the registration of the agent or branch. Regarding supervision, payment institutions may in practice be subject to the monitoring of both the home and the host competent authorities, as the directive allows the latter to require periodical reporting on the activities carried out in its territory. In case of non-compliance, it is the responsibility of the home authority to take all appropriate measures. Yet the host authority may take precautionary measures in emergency situations. Given the cooperation regime between national authorities, the proper functioning of the single market for electronic payments will depend on the smoothness of that cooperation. The EBA's guidelines and standards will play a key role in this regard.

Together with the initiatives just released by the European Commission in its Digital Single Market strategy - focused on tackling the barriers that hinder e-commerce- the passporting of payment services is another step to boost cross-border digital activity within the EU.

Enhancing innovation in the European payments landscape

The PSD2 and the European faster payments initiatives are expected to create a breeding ground for the innovation in payments to flourish. Faster payments initiatives aim to develop real-time infrastructure that facilitates account-to-account (p2p or p2b) payments. Thanks to the 'access to accounts' provisions of the PSD2, TPPs - but also incumbent players - would be able to offer faster convenient payment solutions to consumers, who will be the true beneficiaries of these new rules.

Next steps

The Directive is expected to be approved by the European Parliament by next autumn and then adopted by the Council. Once into force, member states will have two years to transpose the Directive into their national laws and regulations. At the same time, the European Banking Authority (EBA) will have to develop guidelines and establish technical standards to develop some of the issues covered by the Directive. Most of them will be review by the EBA on a regular basis. This is particularly important, given the rapid technological changes in the payments landscape.

Main regulatory actions around the world over the last month

	Recent issues	Upcoming issues
GLOBAL	On **26 May FSB** published thematic review of supervisory frameworks and approaches for **systemically important banks** On **2 Jun BCSB, IOSCO and IAIS** reported on **credit risk management** in global banking, securities and insurance sectors On **8 Jun BCBS** launched a **consultation on interest rate risk** in the banking book In **June 2015 BIS and IOSCO** published a report on monitoring of the implementation of the **principles on financial market infrastructures** On **17 Jun IOSCO** published a report on **credible deterrence approaches** in securities market regulation On **22 Jun BCBS** published the disclosure standards for the **Net Stable Funding Ratio (NSFR)** On **24 Jun IOSCO** launched a **consultation** on international standards on **fees and expenses of investment funds** On **28 Jun BIS** published its **2014/15 annual report**	In **Nov Turkey** will host the **G20 Leaders summit** in Antalya
EUROPE	On **22 May EBA** updated the guidelines on management of **interest rate risk in non-trading activities** under the SREP On **26 May EBA** published guidelines on **triggers for resolution** On **28 May EBA** published guidelines on contributions and payment commitments to **deposit guarantee schemes** On **29 May EBA** published a report on monitoring of **Additional Tier 1 (AT1)** instruments of EU institutions On **28 May EC** adopted RTS for the disclosure of information relating to **countercyclical capital buffer** On **1 Jun EBA** published final guidelines on **creditworthiness assessment** and **arrears and foreclosure** and consults on draft guidelines for **passport notifications** under the Mortgage Credit Directive On **2 Jun EBA** published a questionnaire to assess **third countries' regulatory equivalence** with CRR/CRD On **2 Jun ESRB** published an updated list of **national competent or designated authorities** for CRDIV/CRR instruments and implementation of macroprudential instruments On **10 Jun EBA** published final technical advice to EC on **contributions to the Single Resolution Fund** On **10 Jun ECB** published an opinion on the Spanish draft law that **transposes the BRRD** to national legislation On **11 Jun EC** adopted a Delegated Regulation setting out the conditions for exemption from the **internal ratings-based (IRB)** approach for certain categories of equity exposures under the CRR On **15 Jun** the Council approved the new **data protection rules** under the digital single market strategy On **16 Jun** the **EU Court of Justice** formally approved the **ECB's OMT programme** (2012) On **17 Jun EP and Council** reached a political agreement on the regulation on reporting and transparency of **securities financing transactions.** On **17 Jun EC** presented its Action Plan for fair and efficient **corporate taxation** in the EU and launched a related consultation On **19 Jun Council** adopted its position on the **banking structural reform** On **22 Jun** the EU institutions published the **"Five Presidents Report"** on completing the EMU with a financial, fiscal, economic and political union. The report was discussed at the **European Council** of 26 Jun On **23 Jun** the **ESAs** launched a consultation on key information documents **(KIDs) for PRIIPs** On **24 and 25 Jun the EP and the Council** approved the rules on the European Fund for Strategic Investments (**EFSI**) On **25 Jun** the **ESRB** published a Handbook of operationalising the **macroprudential policy** in the banking sector and a review of the EU macro-prudential policy On **26 Jun EBA** published advice on criteria and capital treatment for **securitisations**	On **1 Jul Luxembourg** will take over the **Council Presidency** for the next six months In **2H 2015** an **EC** consultation is expected on retail financial services, insurance and consumer policy issues In **2H 2015 EC** will publish an **action plan** on **Capital Markets Union** In **2015 EC** will launch a consultation on an EU **covered bonds** framework In **2015 EC** will publish a proposal on an EU framework for **recovery and resolution of systemically important financial infrastructures** such as CCPs

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cont.	Recent issues	Upcoming issues
MEXICO	On **29 May Condusef** modified the rules on the Financial Institutions Bureau, establishing the **Financial Products and Services Catalogue to provide the public with** detailed information. On **26 Jun** the **Financial Stability Committee** issued its statement on risks and strengths of the financial sector	
LATAM	In **Jun Peru**'s Central Bank cut reserve requirements in domestic currency from 7.0% to 6.5%.	In **Peru** the limit to banks' gross short-positioning in FX derivatives will go down to 90% in July and 80% in August (from 95% now)
	In **Colombia** the **Financial Superintendent** proposed increasing the regulatory and supervisory powers of the Superintendence on financial conglomerates and holdings.	
USA	The **Senate Banking Committee** released a draft of a financial reform bill that would provide **regulatory relief for banks** of all sizes, tailor the regulatory structure for **systemically important banks** and begin **restructuring** within the Fed system and at Fannie Mae and Freddie Mac.	In **2015**, regulators expect **banks to step up** standards for **governance, consumer protection** compliance, **third-party risk management, cybersecurity, credit quality and anti-money laundering** compliance. Other supervisors' priorities include the Volcker Rule, liquidity requirements and resolution planning.
	On **2 Jun Fed** announced a requirement for **medium-sized financial institutions** to disclose for the first time the results of the **stress tests**	**Fed** intends to assess banks' proprietary trading and market-making exercises as enforcement of the **Volcker rule** takes effect.
	On **16 Jun** the **Federal Agencie**s finalised the revision of the capital rules applicable to **advanced approaches banking organisations**	
	In **Jun Fed** initiated its **census of non-bank** financial institutions	
TURKEY	On **30 May** the coverage of liabilities subject to reserve requirements of foreign branches of banks incorporated in Turkey has been broadened	
	In **Jun Turkey** issued new regulations related to **fees and commissions** on **Private Pension System** to comply with international standards. Effective on 1 January 2016	
ASIA	On **5 Jun China Banking Regulation Commission (CBRC)** promulgated the Notice to enforce the internal control for banks and other financial institutions, in order to prevent the operational risk of counter service. On 9 **Jun the Reserve Bank of India** announced 'Strategic Debt Conversion' for the Indian banking sector, which automatically gives lenders an option to convert loans to equity and even a controlling stake in the stressed corporate.	

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	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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