Financial Regulation Outlook

July 2015
Financial Systems and Regulation Area

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- Proposed IRRBB treatment: BIS presents two alternative approaches
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Summary

Lower capital charges for EU robust securitisation

EBA issues advice to the European Commission. In response to the European Commission's request of January 2014, the EBA has issued its recommendations on the criteria to designate high-quality transactions and on the preferential prudential treatment that they deserve. The advice focuses on two main issues: i) criteria to define Qualifying Securitisation (QS), and ii) lower minimum capital requirements for banking exposures to QS. Reviving this market is considered a building block of the Capital Markets Union project and an area where action is envisaged in the short term.

Proposed IRRBB treatment

BIS presents two alternative approaches.The Basel Committee on Banking Supervision (BCBS) has issued a consultative document regarding the interest rate risk in the banking book (IRRBB) for comments before September 2015. Two options are presented: i) treat IRRBB as an additional capital requirement for banks through a standardised Pillar 1 approach, or ii) enhance Pillar 2's supervisory review and evaluation process to include in greater detail IRRBB requirements and quantitative disclosure based on a standardised approach.

Credit Value Adjustments

Basel's review. The Credit Valuation Adjustment (CVA) approach was set out in Basel III's capital standards to cover potential losses from variations in credit quality of counterparties within the counterparty credit risk approach. A revision has recently been proposed by Basel, with three main objectives: i) capture all CVA risks and better recognition of CVA hedges; ii) ensure alignment with industry practices for accounting purposes, and iii) ensure alignment with the proposed revision to the market risk framework. The implementation of the proposal is not expected in the short term.

MREL guidelines for EU banks

MREL will ensure that European banks have enough liabilities to absorb losses in resolution. Last 3 July the EBA released its final technical standards on the criteria for determining the Minimum Requirement for own funds and Eligible Liabilities (MREL) in order to make the bail-in tool feasible. Therefore, shareholders and creditors shoulder much of the recapitalisation burden instead of taxpayers. Aimed at ensuring a harmonised approach throughout Europe, the resolution authority will determine it based on five criteria set by the EBA.

SREP Methodology for supervision

A new supervisory toolkit. This is the first of a series of articles included in the Regulatory Outlook with the aim to describe and assess the supervisory process of the SSM. The idea is to have a wide perspective of the new supervisory culture once the first full supervisory exercise of the SSM is coming to an end. The SSM SREP will be heavily based on the EBA Guidelines and therefore it would be the major source for this series of articles.

Corporate governance principles for banks

Enhancing governance to reinforce the banking system. In order to guarantee a proper functioning of the economy, and specifically, the banking sector, banks must count on effective corporate governance. And due to the role banks play in the economy, they cannot allow themselves any weaknesses, as these could result in the spread of problems across the banking sector. Therefore, the Basel Committee has developed these principles to promote sound corporate governance practices.

EU General Data Protection Regulation

Trilogues underway after Council agreement. The new regulation aims to overcome the existing fragmentation and modernise the principles of the 1995 directive. The European Parliament and the Council have already started the Trilogue negotiations. Main points under discussion are related to the definition of consent, the requirement of a data protection officer, the "one-stop shop" mechanism, the joint liability for controllers and processors and the limits to administrative fines. The co-legislators aim to agree on a final text by end-2015.

1 Lower capital charges for EU robust securitisation

EBA issues advice to the European Commission

In response to the European Commission's request of January 2014, the EBA has issued its recommendations and supporting report with the focus on two main issues: i) criteria to define Qualifying Securitisation (QS) and ii) lower minimum capital requirements for banking exposures to QS. The Commission will decide later this year to what extent it should incorporate the EBA's suggestions in its more comprehensive proposal for an EU framework for securitisation. Reviving this market is considered a building block of the Capital Market Union project and an area where action in the short term is envisaged. The Commission closed the consultation to the industry on this issue on May 13th and is expected to reveal his plan of action in late summer.

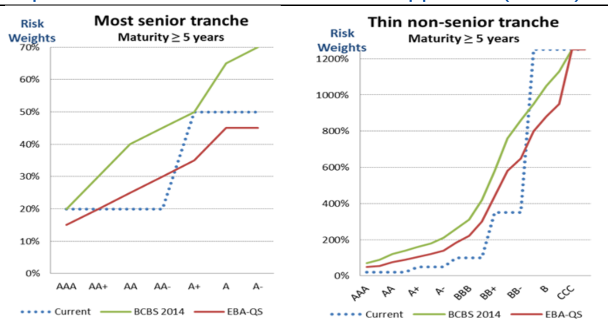
Criteria to define Qualifying Securitisation

A two staged approach is proposed to define QS: 1) **Core criteria to define transaction that are Simple, Standard and Transparent (SST),** ensuring mitigated risks of the securitisation process (legal risks, model risks, servicing risks, refinancing risks, etc.) and 2) **additional criteria related to the underlying exposures -** ensuring mitigated underlying credit risks - that are required **to deserve a preferential treatment for banking prudential requirements.** The advantage of this staged approach is that it promotes a **new standard for robust securitisation (SST transactions)** that can be used across all European regulations (Liquidity, Insurance, funds, etc.). EBA proposed criteria for SST are largely consistent with the final global criteria for identifying Simple, Transparent and Comparable securitisations (STC), disclosed by BCBS/IOSCO on July 23rd.

Lower capital requirements for Qualifying Securitisation

EBA has taken Basel 2014 Securitisation Framework as a baseline and re-calibrated it to the lower risks of QS transactions, resulting in **an average reduction in capital requirements of around 25% for QS**. But **EBA proposal for QS could result in higher capital requirements than the current framework**, as a consequence of the fact that Basel 2014 toughened on average capital rules. For instance, in the case of applying the method based on external ratings (ERBA) – mainly used by banks investing in QS issued by third parties - the capital required for mezzanine tranches increases in comparison to current rule. The use of the ERBA could also maintain the excessive non-neutrality bias for QS transactions, particularly in the case of peripheral countries with securitisation ratings subject to sovereign ceilings. (see Figure 1.1)

Figure 1.1
Capital required under External Rate Based Approach (ERBA)



Capital required after/before securitisation		
Post-crisis RMBS 5 años (representative structure)		
	Spain	Great Britain
Current	5,2	2,0
BCBS Dec 2014	**5,5**	**2,5**
QS-EBA advice	4,6	2,1

1: neutrality ;<>1 no neutrality

Source: BBVA Research

Assessment

The revised EU framework for QS intends to be consistent with global standards. EBA recommends revisiting the current advice once global work on definition and potential recalibration of capital required is completed. If recalibration is finally not recommended by the Basel Committee, the Commission will have to decide if going ahead with this issue that is considered crucial to revive an EU robust securitisation market.

2 Proposed IRRBB treatment

BIS presents two alternative approaches

The Basel Committee on Banking Supervision (BCBS) has issued a consultative document regarding the interest rate risk in the banking book (IRRBB) for comments before September 2015. Two options are presented: i) treat IRRBB as an additional capital requirement for banks through a standardised Pillar 1 approach or ii) enhance Pillar 2's supervisory review and evaluation process to include in greater detail IRRBB requirements and quantitative disclosure based on a standardised approach.

What are the options?

BIS highlights two main reasons for the new treatment. First, to ensure banks have sufficient capital to cover losses arising from changes in interest rates, especially under the current exceptionally low interest rates environment which has been in place since the financial crisis. The anticipated year-end rise in interest rates by the Federal Reserve will certainly have an impact on bank's balance sheet. Second, to limit capital arbitrage opportunities between the trading and the banking book. This has become especially relevant after the most recent capital requirement enhancements of the trading book as defined by the *Committee's ongoing Fundamental Review of the Trading Book*. The higher capital requirements for trading activities provided banks with an incentive to book them in the banking book in order to optimise capital requirements.

Figure 2.1
IRRBB Regulatory Timeline

Source: BBVA Research

Two options are presented in the consultative document for the treatment of IRRBB, and one is to be implemented after the consultation period.

The first option is to include the treatment of IRRBB as an additional capital requirement for banks directly through BCBS standardised Pillar 1 approach. The second option is to enhance Pillar 2's supervisory review and evaluation process (SREP) together with some elements of Pillar 3 of greater disclosure. The additional capital or supervisory requirements are intended to cover large internationally active banks, but national supervisors will have the discretion to include other entities considered of systemic importance.

Both proposals raise some concerns for the industry. Regarding the first option, a standardised one-size-fits-all approach would be inappropriate because of the heterogeneity in business models, products, and balance sheet exposure as observed across banks and jurisdictions. Moreover it could potentially generate volatility in bank's earnings, on asset and liability duration and cluster banks around similar investment horizons. This would reduce diversity in banks' operations and products, and would perversely contribute to an increase in systemic risk.

On the other hand, even though the second option does not directly require additional capital linked to a bank's IRRBB exposure, by requiring banks to disclose information (Pillar 3) with greater detail on a standardised approach and be subject to enhanced supervision (Pillar 2), it will effectively establish a capital floor for banks. The problem is that such additional capital does not necessarily respond to potential capital losses, but to future earnings variability, for which other measures of risk mitigation seem more appropriate (e.g. capital stress tests).

The BIS has tried to address some of the concerns of the industry, in particular the one-size-fits-all issue by including a more nuanced and standardised approach and a hybrid approach with a standardised fall-back. The proposal is better adapted to the heterogeneity of banks; however, it does not take into account risk mitigation strategies (e.g. dynamic hedging) and might require banks to hold additional capital under beneficial interest rate scenarios. All in all, the BIS proposal still has room for improvement.

3 Credit Value Adjustments

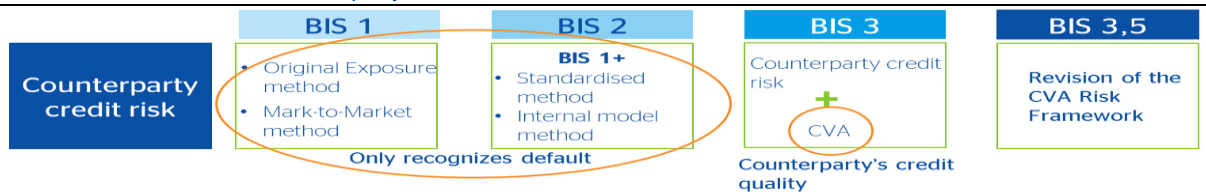
Basel's review

The Credit Valuation Adjustment (CVA) approach was set out in Basel III's capital standards to cover potential losses from variations in credit quality of counterparties within the counterparty credit risk approach. A revision has recently been proposed by Basel, with three main objectives: i) capture all CVA risks and better recognition of CVA hedges; ii) ensure alignment with industry practices for accounting purposes, and iii) ensure alignment with the proposed revision to the market risk framework. The implementation of the proposal is not expected in the short term.

Background

There are two elements to counterparty credit risk (CCR): default and the credit quality of the counterparty. The probability of default of counterparty has been recognised with a capital requirement since Basel I. Nevertheless, the accounting rules also oblige the credit quality of these counterparties to be taken into account. During the recent financial crisis, the main CCR losses in firms were not related to defaults but to fair-value adjustments (losses) on derivatives and credit spreads under the accounting framework (IAS 39). Basel III included a CVA capital charge to recognise these potential losses.

Figure 3.1
Review of the treatment of counterparty credit risk



Source: BBVA Research

Basel revision

The revision proposed by Basel is aimed at: i) capturing all CVA risks and better recognition of CVA hedges; ii) ensuring alignment with industry practices for accounting purposes, and iii) ensuring alignment with the proposed revisions to the market risk framework instead of being an isolated capital charge.
The main aspects of this revision are:

- **The scope of the CVA framework is widened** to include all securities financing transactions (SFTs) at fair value for accounting purposes. The original framework included OTC derivatives not cleared through qualifying central counterparties and only those SFTs deemed material by the supervisor.
- **The proposal has increased the eligible hedges permitted to manage CVA.** By this, they enable a greater alignment of the capital framework with current strategies being used by the industry. The range of single-name instruments has been widened to include "proxy hedges" (not directly referenced to the counterparty) as eligible. The proposal also recognises "market risk" hedges which mitigates the sensitivity of CVA to market the risk factors that drive exposure.
- **New factors are now considered to measure fluctuations of CVA:** the proposal will take into account the sensitivity of CVA to market factors movements (equity, interest rate, commodity, FX), in comparison with the current proposal which only considers movements in credit spreads.
- **Calculation methods:** the proposal sets two different frameworks to accommodate different types of banks. **Fundamental Review of the Trading Book (FRTB)-CVA framework** would be available for banks with more sophisticated management risk techniques. This will allow considering CVA as part of the trading book framework instead of an isolated capital charge. This framework consists of a proposed standardised approach for CVA and a proposed internal models approach for CVA. **The Basic CVA framework** would apply to banks not getting supervisory approval to use the former one.

Assessment

The alignment of the framework with current hedging practices is well received, as well as the inclusion of the CVA framework into the trading book framework, which was widely demanded by the industry. Nevertheless, there are important resource obligations yet to be authorised to apply the FRTB-CVA framework. The implementation of this proposal is expected to be at the same time as the FRTB.

4 MREL guidelines for EU banks

MREL will ensure that European banks have enough liabilities to absorb losses in resolution

On 3 July, the EBA released its final technical standard on the criteria for determining the Minimum Requirement for own funds and Eligible Liabilities (MREL) in order to make the bail-in tool feasible. Therefore, shareholders and creditors would shoulder much of the recapitalisation burden instead of taxpayers. Aimed at ensuring a harmonised approach throughout Europe, the resolution authority will determine this, based on five criteria set by the EBA.

The Bank Resolution and Recovery Directive (BRRD) empowered the EBA to develop the MREL. This figure will be set on a case-by-case basis and will be determined in monetary terms, based on the following five criteria, in which the capital and leverage ratios play a central role:

- <u>The default loss absorption amount (LAA)</u>, which is the capital requirement currently applicable to an institution (including Pillar 2 and the combined buffer*). This figure can be adjusted upwards or downwards based on the resolvability assessment and on the Supervisory Review and Evaluation Process (SREP) outcome.

  LAA = Maximum (capital ratio requirement or leverage ratio requirement or Basel 1 floor)± adjustment

- <u>The recapitalisation amount</u> (RA), which will be necessary to satisfy the applicable capital requirements and to comply with the conditions for authorisation. The rationale is to ensure sufficient market confidence after the resolution strategy has been implemented. The RA will be anchored to the RWAs and leverage assets post-resolution.
- <u>The DGS adjustment</u> may lower the MREL amount according to the resolution authority's assessment of the contribution to the DGS in the resolution process.
- <u>To comply with the no creditor worse off than in liquidation principle (NCWO)</u>, the resolution authority may assess whether senior unsubordinated debt could be effectively written down or converted into equity, without posing any legal challenges, whilst other *pari passu* liabilities are excluded.
- <u>The MREL floor, set at 8% of total liabilities</u>, has to be reached before other measures are applied (use of resolution fund or public stabilisation tools in exceptional circumstances).

The role of the resolution authority is crucial when determining the specific requirements for each institution. Indeed, not all banks are the same and their resolution strategy depends on resolvability assessment, size, business model, etc. In this sense, the resolution authority will have discretionary powers in order to adjust the five criteria, taking into account the institution's idiosyncratic characteristics.

Therefore, in contrast to the FSB's TLAC, which is calculated with reference to a minimum common standard, the MREL will mainly be determined by the resolution authority. MREL could be seen as the EU's counterpart to the FSB's TLAC; however, they differ in several substantial aspects due to their scope, calibration and date of entry into force (TLAC will not apply before 2019, and MREL from 1 January 2016 with a transitional period of 48 months), among other things.

Figure 4.1
MREL calendar

Source: BBVA Research

5 SSM SREP Methodology for supervision

A new supervisory toolkit

This is the first of a series of articles included in the Regulatory Outlook with the aim to describe and assess the supervisory process of the SSM. The idea is to have a wide perspective of the new supervisory culture once the first full supervisory exercise of the SSM is coming to an end. The SSM SREP will be heavily based on the EBA Guidelines and therefore it would be the major source for this series of articles.

Rationale of the SREP

The SREP is defined in the CRDIV as a process by which competent authorities are empowered to review the arrangements, strategies, processes and mechanisms implemented by institutions. Competent authorities are required to evaluate the risks to which institutions are exposed or could be exposed in the future. These risks are assessed bearing in mind, among other things, the nature, size and complexity of an institution's main activities.

The SSM needs to perform high quality supervision to ensure financial stability within the SSM domain. This implies enhancing SSM banks' resilience to shocks and minimizing the risks that financial institutions might pose to the financial system. As such, a comprehensive analysis (i.e.: SREP) is pursued based on four pillars (i.e.: governance, business model analysis and capital and liquidity assessment).

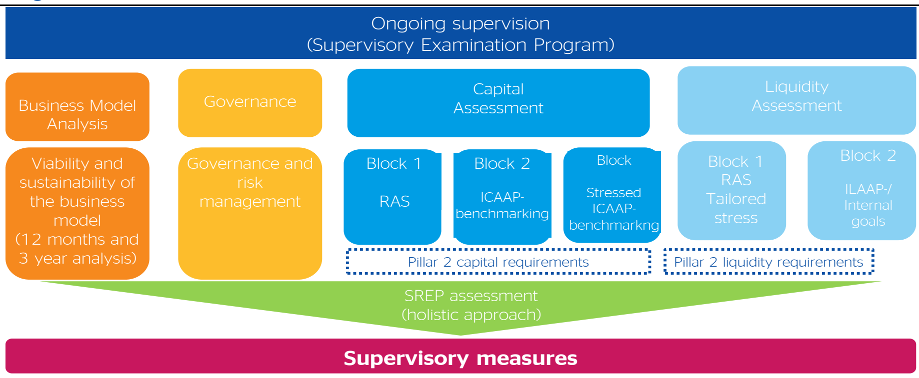
On the basis of the SREP, the SSM will conclude whether a sound management and a proper capital and liquidity position are ensured. As a consequence, the SSM might impose additional capital and liquidity buffers and on top of these measures other supervisory requirements that could be of quantitative or qualitative nature.

Overall SREP framework

The SREP is not a mechanical process, it relies extensively on quantitative and qualitative analysis and combines data and expert judgement following a principle of constrained judgement. In addition, the SREP is not a statistical review, on the contrary it has a forward looking dimension. As such, from a supervisory perspective the SREP should have basically three outcomes: i) a holistic and forward-looking assessment of the overall viability of the institution; ii) a decision on the institution's capital/liquidity requirements or other supervisory measures and iii) a definition of the minimum level of supervisory engagement for a specific institution.

The SSM SREP has four pillars that would be developed in coming Regulatory Outlook publications: i) a business model (viability) and profitability assessment; ii) an internal governance and risk management assessment; iii) an assessment of risks to capital (i.e.: credit, market, operational and interest rate risk on the banking book); iv) a liquidity and funding risk assessment (i.e.: short term funding, long term funding, etc.)

Figure 5.1
SREP Main building blocks



Source: BBVA Research

Assessment

The new supervisory tool adopted and being defined by the SSM is wide enough to cover all the risks a financial institution will face. In addition, there are specific components of the SREP that are not a common practice in all the countries in the euro zone. As such, not only the SSM but also financial institutions will have to become familiar to this new supervisory framework. This year has been the first exercise where the SSM has applied a common methodology and it would represent a decisive step in defining the common supervisory culture.

6 BIS Corporate governance: principles for banks

Enhancing governance to reinforce the banking system

In order to guarantee the proper functioning of the economy, and specifically the banking sector, banks must be able to count on effective corporate governance. As such, the Basel Committee has recently published a revised list of principles to promote sound corporate governance practices.

Rationale of effective corporate governance

The safety and soundness of banks are essential to financial stability. Drawing from the thought that there is no exclusive approach to good corporate governance, the Basel Committee has published a set of revised principles superseding the guidance published in 2010, which sought to reflect the main lessons learned from the global financial crisis.

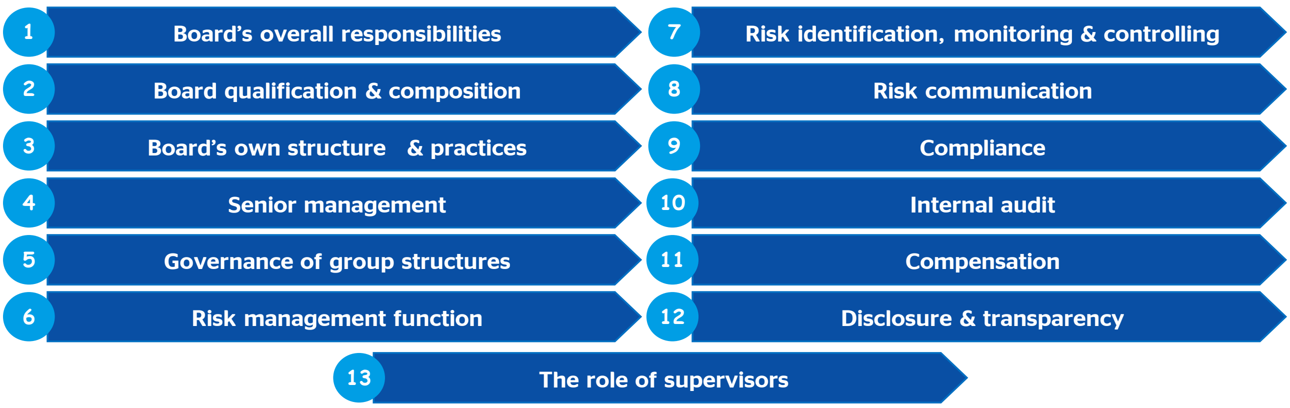
These principles provide guidance for participants and regulators of financial markets. It is a framework to be looked at by banks and supervisors, within which they should operate to achieve a robust and transparent risk management framework. The main objective of this revision aims to reinforce the collective oversight and risk governance responsibilities of the board, emphasising the key components of risk governance (i.e. risk culture, appetite, relationship to a bank's risk capacity etc.).

These factors account for supervisors' sharp interest in a sound corporate governance, as it is a key element in the safe and sound functioning of a bank. The better that banks are governed, the more efficient and cost-effective the supervisory processes will be.

Secure corporate governance leads to less supervisory intervention, placing more reliance on the bank's internal processes. Accordingly, supervisors underscore the importance of holding appropriate levels of authority, responsibility, accountability and checks and balances processes.

Figure 6.1

Corporate governance principles



Source: BBVA Research

The role of the board and the board's risk committee is critical, including the greater involvement in evaluating and promoting a strong risk culture, establishing the risk appetite and conveying it through the risk appetite statement (RAS). Increased focus on risk includes identifying the responsibilities of different parts, to address and manage risks, often referred to as the "three lines of defence": business lines, risk management and compliance function and the internal audit unit.

Implementing the principles

The Committee is aware of the diversified range of banks in a large number of countries with varying legal and regulatory systems, acknowledging that there may be restrictions in the application of certain principles. Therefore, the terms gathered throughout the document must be interpreted in accordance with the applicable law in each jurisdiction.

Additionally, implementing these principles must be commensurate with the size, complexity, structure, economic significance, risk profile and business model of the bank and the group, allowing reasonable adjustments where appropriate. Owing to these differences, the Committee does not advocate any specific board or governance structure, keeping in mind the existing different structures across countries and their evolution over time. Hence, this document encourages frequent reviews of the corporate governance of each institution.

7 EU General Data Protection Regulation

Trilogues underway after Council agreement

The new regulation aims to overcome the existing fragmentation and modernise the principles of the 1995 Directive. The European Parliament and the Council have already started the Trilogue negotiations, aiming to agree on a final text by end-2015.

A single and updated set of rules valid across the EU

The General Data Protection Regulation (GDPR), a single set of rules valid across the EU, will replace the 1995 Data Protection Directive, whose transposition into national laws has led to market fragmentation within the Union. The change from a directive to a regulation will therefore facilitate cross-border business activity. Moreover, the GDPR aims to update the regulatory framework, given the profound changes that have taken place in the way that personal data are collected, stored and processed. In this regard, the regulation will address new issues - such as profiling or pseudonymisation – and will incorporate the principles of risk-analysis approach and "privacy by design". The scope of the GDPR will extend beyond the frontiers of the EU as it will affect companies that, although not established in the EU, offer goods or services to individuals residing in the EU or monitor their behaviour.

Three years since the Commission's proposal

The European Council reached an agreement ("general approach") on the General Data Protection Regulation (GDPR) on 15 June, three years after the European Commission made its legislative proposal. Trilogue negotiations between the Council and the European Parliament, which set out its position in March 2014, have already begun. They aim to agree on a compromise text by the end of 2015.

Points under discussion

The following are some of the most relevant points of disagreement between the Parliament's position and the Council's general approach. They will have to be discussed during the Trilogue negotiations to reach a common position of both co-legislators.

- The **definition of consent** that organisations are required to obtain from the data subjects if seeking to rely on consent as the legal basis for processing personal data**.** The European Parliament backed the Commission's proposal, in which the consent has to be *explicit*, whereas the Council changed the requirement to *unambiguous* consent. The Council's draft only requires the consent to be explicit for processing special categories of personal data (such as ethnic origin, political opinions, religion or beliefs).
- The requirement of a **data protection officer**. The Commission and the Parliament established certain conditions under which data controllers and processors would be required to designate a data protection officer. Instead, according to the Council's draft, that position would only be mandatory "where required by Union or Member State law".
- The "**one-stop shop**" mechanism for supervision. The Council's general approach strengthens the role of the concerned supervisory authorities other than the lead authority (the one of the main establishment of the controller or processor). Indeed, when a possible infringement relates only to a jurisdiction, the authority of that jurisdiction would be competent over it. In general, the Council's draft waters down the "one-stop shop" mechanism in comparison with both the Commission's proposal and the Parliament's position.
- The **joint liability** for controllers and processors, proposed by the Commission and broadly supported by the Parliament, is watered down in the Council's general approach, with the controllers liable for any damages, unless the processors did not comply with their specific obligations.
- The **administrative fines** that supervisory authorities will be able to impose. Whereas the Parliament's amendment raised the limit on possible fines (up to EUR100mn or 5% of turnover), the Council backed the limit proposed by the Commission (EUR1mn or 2% of turnover). Moreover, the Council's draft introduces an additional provision specifying that, in case of violation of several provisions, the total amount of the fine may not exceed the amount of the gravest violation.

Main regulatory actions around the world over the last month

	Recent issues	Upcoming issues
GLOBAL	On **28 Jun BIS** published its **2014/15 annual report** On **30 Jun IOSCO** launched a second **consultation** on other **CRA** products and services On **1 Jul BIS** launched a **consultation** on a review of the Credit Valuation Adjustment (**CVA**) risk framework On **2 Jul BIS** published a report on the impact and accountability of **banking supervision** On **2 Jul FSB** launched a peer review on the implementation of its policy framework for **shadow banking** entities On **8 Jul BIS** published revised **corporate governance principles** for banks On **9 Jul FSB** published an interim report on progress in reforming major **interest rate benchmarks** On **15 Jul BIS** published progress report on implementation of principles for **effective supervisory colleges** On **16 Jul BIS** published the final **guidelines** for identifying and dealing with **weak banks** On **16 Jul BIS** launched a **consultation** on the guide to **account opening** On **23 Jul BIS** published the **final criteria** for identifying simple, transparent and comparable **securitisations** On **24 Jul FSB** released its ninth progress report on **implementation of OTC derivatives market reforms** On **24 Jul FSB** published its second **Annual Report**	In **Nov Turkey** will host the **G20 Leaders summit** in Antalya
EUROPE	On **26 Jun EBA** released its advice on criteria and capital treatment for **securitisation** On **29 Jun Council and EP** reached an agreement on the regulation on **securities financing transactions (SFTs)** On **30 Jun ESMA** issued its final report on interoperability arrangements between **EU-based clearing houses (CCPs)** required under EMIR On **30 Jun ESMA** published a consultation paper on draft RTS on the buy-in process under the **Central Securities Depositories Regulation** On **1 Jul Luxembourg** began its six-month rotating **Presidency of the Council**, until 31 Dec 2015 On **1 Jul** the regulation on the **European Fund for Strategic Investments** was **published in the OJEU** after approval by EP and Council in June On **3 Jul EBA** published final reports under **BRRD** on: procedures and contents of notifications, criteria for determining the **MREL**, contractual recognition of write-down and conversion powers, and resolution colleges On **6 Jul EBA** launched a consultation on RTS on **capital requirements for mortgage loans** On **6 and 7 Jul EBA** published additional **final reports on resolution** under the BRRD On **7 Jul EBA** published and **opinion and a report** responding to EC's call for advice on **qualifying securitisations** On **8-9 Jul** the **EP Plenary** approved its position on **capital markets union** and on the Transatlantic Trade and Investment Partnership (**TTIP**) On **13 Jul** the **ECB** published the second volume of the legal framework for **banking supervision** On **15 Jul EC** launched a consultation on the **impacts of the CRR/CRDIV on bank financing** of the economy On **15 Jul EBA** published updated information on the **2015 transparency exercise** and on the key features of the next **EU-wide stress test in 2016** On **15 Jul EBA** published **final guidelines on product oversight and governance** arrangements for retail banking products On **20 Jul** the **ESRB** published its **annual report** for 2014 On **20 Jul** the **ECB** published an opinion on the **Greek law** that transposes the BRRD in the country, approved by the Greek Parliament on 22 Jul. On **28 Jul EBA** published the metrics and key information on **systemically important EU banks** (G-SIIs) In **Jul** the **10th round of negotiations on the TTIP** took place between EU and US representatives	In **Sep 2015 EC** will publish an **action plan** on **Capital Markets Union** In **Sep 2015 France** will formalise proposals to **enhance eurozone integration**. The subject will be discussed by Member States in the coming months. In **3Q or 4Q 2015 EC** is expected to launch a public consultation on retail financial services, insurance and consumer policy issues 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** In **2015 EBA** will conduct a **transparency exercise**

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cont.	Recent issues	Upcoming issues
MEXICO	Financial Authorities released details of the **Bank Performance Index** (quantitative component of the **Bank Performance Assessment)** to which commercial banks are subject to. Final results will be disclosed in early 2016.	The **Strategic Questionnaire** (qualitative part of the **Assessment)** will be disclosed to banks next October, to allow Authorities to have preliminary ratings in early 2016.
LATAM	In **Jun Argentina**'s Central Bank extended the credit line for productive investment for 2H2015, requiring banks to allocate at least 7.5% of deposits in pesos of non-financial private sector On **22 Jun Colombia's Ministry of Finance** adopted the regulation for **pension funds' investment** in private capital funds that invest in **infrastructur**e On **13 Jul Colombia's Ministry of Finance** established some **exceptions to the Financial Transaction Tax** (locally known as 4x1000)	
USA	On **20 Jun** Commodity Futures Trading Commission issued rules on **cross-border margin** requirements for **uncleared swaps** On **1 Jul SEC** proposed rules requiring companies to adopt **clawback policies** on executive **compensation** On **1 Jul FDIC** released **resolution plans** of 12 large US banks On **17 Jul Fed** proposed a role to modify its **capital planning and stress testing regulation** On **20 Jul Fed** approved a final rule on strengthened capital requirements for US' most **systemically important banks** On **21 Jul** the **Volcker rule** became applicable and US banks must **comply with it fully** On **21 Jul Fed** announced steering committee of the new **taskforces on Faster Payments and Secure Payments**	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
TURKEY	In **Jun** the **central bank** announced a temporal reduction of the commission rate on balances denominated in Euro in required reserves and notice accounts held with the Central Bank due to recent developments in the eurozone	
ASIA	On **8 Jul** the **China Banking Regulatory Commission (CBRC)** said it would permit financial institutions to **renegotiate maturity terms** regarding lending using stock as collateral and allow banks to ease margin requirements for wealth management and trust product clients On **18 Jul ten agencies including the CBRC, CSRC and the central bank (PBOC) announced measures to regulate internet finance**. PBOC will oversee online payments, the securities regulator will be responsible for crowdfunded equity finance and online sales of funds while the banking regulator will supervise peer-to-peer lending	

Source: BBVA Research

Abbreviations

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

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