BBVA | RESEARCH

Financial Regulation Outlook

DECEMBER 2015 | REGULATION AND PUBLIC POLICY UNIT

01
Regulatory stance from Antalya's G20 Summit: No negative effects from financial regulatory reform

02
TLAC requirements, no last-minute surprises: Debtors will foot the bill when banks fail

03
An European framework for covered bonds?: EC consultation on whether and how to build it

04
The European Deposit Insurance Scheme: First proposal towards common European deposit protection

Index

Summary 3

1 Regulatory stance from Antalya's G20 Summit 4

2 TLAC requirements, no last-minute surprises 5

3 A European framework for covered bonds? 7

4 The European Deposit Insurance Scheme (EDIS) 9

5 Internal Liquidity Adequacy Assessment Process 11

6 Transatlantic data flows 13

Main regulatory actions around the world over the last month 14

Abbreviations 16

Summary

Regulatory stance from Antalya's G20 Summit

No negative effects from financial regulatory reform. G20 leaders met in Antalya (Turkey) on 15-16 November for their annual meetings. The main economic and regulatory themes were, as expected, the implementation of G20 growth strategies, the finalisation of total loss-absorbing capacity (TLAC) standards for global systemically important banks (G-SIBs) and the introduction of higher loss absorbency (HLA) requirements for global systemically important insurers (G-SIIs). One important document that was disclosed was the first annual report on the implementation and effects of the G20 financial regulatory reforms.

TLAC requirements, no last-minute surprises

Debtors will foot the bill when banks fail. On 9 November, the FSB released the final version of the TLAC principles and term sheet by which G-SIBs are required to have enough liabilities with Total Loss-Absorbing Capacity (TLAC) and the findings of the Quantitative Impact Study (QIS) conducted by the FSB.

A European framework for covered bonds?

EC consultation on whether and how to build it. As part of the action plan for a Capital Markets Union, the EC wants to assess the convenience of moving towards an EU framework for covered bonds based on high quality standards. Several options are being discussed, ranging from a voluntary convergence of national laws to creating an alternative pan-European instrument through dedicated EU legislation. The design of a hypothetical EU framework is also under consultation, including the feasibility of a similar funding tool for "prime" SMEs. The deadline is on 6 Jan 2016.

The European Deposit Insurance Scheme

A plan to complete the banking union. On 24 November, the European Commission released a proposal outlining the road-map towards common European deposit protection, to be achieved by 2024. The proposal envisages three stages: i) from 2017 to 2020, a system of reinsurance; ii) progressive mutualisation through a system of co-insurance until 2024, and iii) full mutualisation with a single EDIS in 2024. This move constitutes an ambitious step in the right direction towards a fully-fledged banking union**.**

Internal Liquidity Adequacy Assessment Process (ILAAP)

A new supervisory tool. Following prior publications describing the elements of the Supervisory Review and Evaluation Process (SREP), this article reviews its final element, i.e. the Internal Liquidity Adequacy Assessment Process (ILAAP), which is a novelty for the majority of both supervisors and banks alike. Through the assessment of the risks to liquidity and funding, along with the SREP liquidity assessment, supervisors will verify the institution's compliance with the minimum requirements, under both normal and stressed scenarios.

Transatlantic data flows

In need of a new EU-US agreement. On 6 October, the European Court of Justice invalidated the 'Safe Harbour' EU-US agreement on which thousands of firms relied for their transatlantic data flows. European and US authorities should now agree on a new legal framework that facilitates the flow of data, which is key for the digital economy, under appropriate data protection safeguards.

1 Regulatory stance from Antalya's G20 Summit

No negative effects from financial regulatory reform

G20 leaders met in Antalya (Turkey) on 15-16 November for their annual meetings. The main economic and regulatory themes were, as expected, the implementation of G20 growth strategies, the finalisation of total loss-absorbing capacity (TLAC) standards for global systemically important banks (G-SIBs) and the introduction of higher loss absorbency (HLA) requirements for global systemically important insurers (G-SIIs). One important document that was disclosed before Antalya's Summit and had been expected was the first annual report on the implementation and effects of the G20 financial regulatory reforms.

The Financial Stability Board (FSB) tried to address three objectives with the report. First, describe the implementation progress of the reforms. Second, present an early analysis of the overall effects of the reforms. Third, highlight the key areas that merit some attention by top policy makers.

Regarding the first objective, **the report concludes that the implementation progress of the financial reform agenda has been steady but uneven.** Two of the four main goals that the FSB has tried to pursue, i.e. building resilient financial institutions and ending with "too-big-to-fail" institutions, have advanced the most and are generally following the expected timelines. Basel III capital and liquidity standards have been met in a consistent and timely way by most jurisdictions, and the policy framework to end too-big-to-fail institutions has advanced for G-SIBs. But there remains substantial work to be done in the implementation of effective resolution regimes.[1] On the other hand, the goal of making derivatives markets safer, by implementing reforms that improve transparency and increase standardisation in the over-the-counter market, continues to be uneven and behind schedule. Progress has been made in the most advanced and largest derivatives markets, where the use of trade repositories (TR) and central counterparties (CCP) has increased widely. On the final goal of transforming shadow banking into resilient market-based finance, it remains at an early stage of implementation and policies were only recently finalised. All in all, two goals are being well achieved, one is lagging and the final one is only beginning to be addressed.

The second objective of **analysing the effect of financial regulatory reform has only begun to be addressed** and should improve with time. The report states that it is empirically difficult to isolate the effects from other post-crisis factors, and that the analysis will only be complete once it covers the full financial cycle and both normal and stressed market conditions have been observed. However, **the FSB states that the most tangible effect of regulatory reform is that the banking sector is more resilient and that the provision of credit to the real economy has not been undermined in the process**. Most banks have raised their capital buffers by retaining earnings and issuing equity, rather than by reducing lending sharply. Additionally, the cost of financing, from both banks and bond markets, has remained low.

Finally, the FSB identified four main areas that merit ongoing attention. We highlight two that have a direct impact on financial systems. First, **the implementation of reforms in emerging markets and developing economies (EMDEs) might face some challenges** or are affected by spill-overs from implementation in home jurisdictions of global financial institutions. Second, **the FSB recognises that some concerns exist regarding the impact of the reforms on market liquidity**. However, no significant negative effects have been observed and the FSB states that liquidity conditions before the crisis should not be used as reference levels.

The FSB report is a necessary first analysis of the impact of the G20 financial reform agenda, but remains to be improved upon. It will be interesting to see if the limited impact on the economy still holds in the subsequent annual reports, as the financial cycle is completed and extraordinary global monetary conditions end.

1: Resolution regimes are important because they allow financial institutions to be resolved without compromising the provision of fundamental services and therefore limit the possibility of generating financial panic and/or contagion to the financial system.

2 TLAC requirements, no last-minute surprises

Debtors will foot the bill when banks fail

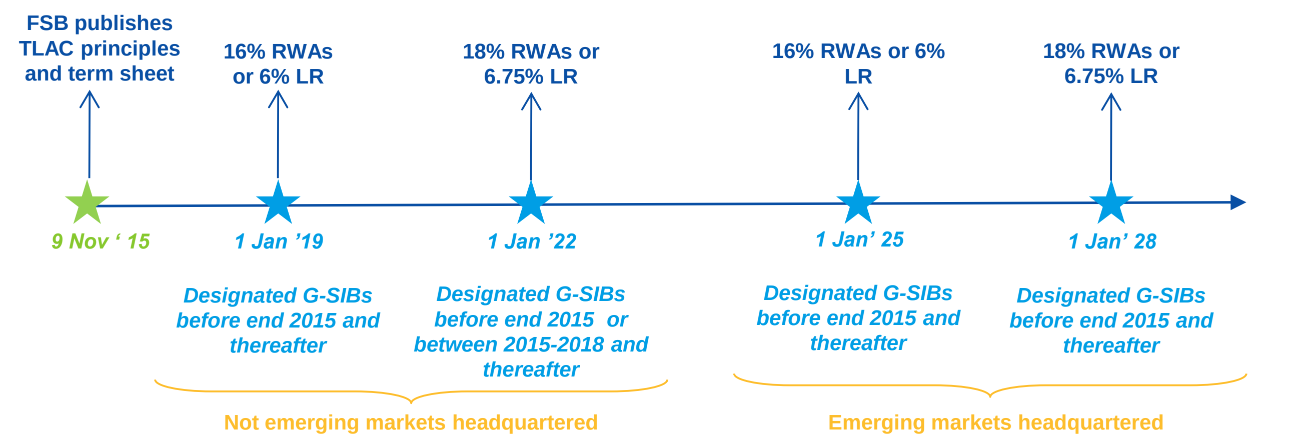
On 9 November, the FSB released the final version of the TLAC principles and term sheet by which G-SIBs are required to have enough liabilities with Total Loss-Absorbing Capacity (TLAC) and the findings of the Quantitative Impact Study (QIS) conducted by the FSB[2].

The TLAC is the complement to the bail-in tool in the new resolution framework, in which shareholders and creditors of a failed entity shoulder much of its recapitalisation burden. TLAC consists of instruments that can be legally, feasibly, effectively and operationally written down or converted into equity in case of resolution, in an amount that is "more than double" the current capital and leverage requirements. Thus, capital instruments and long-term unsecured debt are the main constituents of the TLAC.

This new requirement for G-SIBs **enters into force** on 1 January **2019,** at the higher of 16% of risk weighted assets (RWAs) or 6% of the leverage ratio denominator (LRD), and on 1 January **2022 at 18% RWAs or 6.75% LRD.** Nevertheless, there is a waiver for G-SIBs headquartered in emerging market economies (EMEs), which will enjoy an extended phase-in to comply with these ratios from 2025 and 2028.

The **instruments that are eligible to count towards TLAC** are: **CET1, AdT1, T2 and long-term unsecured debt**. These eligible liabilities need to have a minimum remaining **maturity of at least one year** and not be redeemable by the holder. Insured deposits and debt instruments with derivative-linked features (for example structured notes) are excluded. **The main challenge here is how to structure the subordination of debt to make it eligible for TLAC purposes**. Unsecured senior debt needs to be subordinated to exclude liabilities to the extent that the authorities want to avoid legal challenges. The FSB allows **three different ways** to achieve **long-term unsecured debt subordination**: **structural, contractual and statutory.**

Figure 1
TLAC's entry into force



Source: BBVA Research

2: Besides the principles and term sheet, the FSB has also published the following documents: i) overview report summarising the findings of the TLAC impact assessment studies; ii) Quantitative Impact Study report conducted by the BCBS; iii) Economic Impact Assessment report conducted by a group of experts chaired by the BIS, and iv) Historical Losses and Recapitalisation Needs findings report.

On the same date, the **FSB released the main conclusions of the impact assessment studies conducted by experts from the FSB, BCBS, and BIS. According to the results**, current TLAC shortfalls swing from as little as EUR42bn to as much as EUR1,130bn. Additionally, the average funding costs of G-SIBs would increase from EUR195mn to EUR511mn per year. Also, lending rates for the average borrower would increase in a range from 2.2 to 3.2 basis points. In spite of the possible impact in the short term, the economic benefits of TLAC would outweigh its cost, because it will increase banks' resilience, reduce the probability of failure and reduce the likelihood of a systemic crisis (these benefits are estimated to represent an increase in annual GDP of between 15 and 20 basis points).

According to the above assessment, the TLAC impact seems manageable; however, it is worth mentioning that this new prudential ratio will have an impact on banks in terms of capital and funding management, banking risk and profitability. It is expected that TLAC requirements will impose significantly greater costs, and require changes in balance sheet management for firms with lower levels of long-term unsecured debt. Thus, banks with more deposits relative to loans are likely to be forced to issue more TLAC debt as a percentage of current outstanding debt. Also, TLAC transfers systemic risk from banks to other market players (insurance companies, asset managers, hedge funds, etc.) to the extent that they invest in TLAC instruments issued by banks. Finally, this international standard applies to G-SIBs only. Nevertheless, future national implementations might require loss-absorbing requirements for domestic systemic banks (D-SIBs) such as the Minimum Requirement of own funds and Eligible Liabilities (MREL) in Europe and the U.S. TLAC proposal for G-SIBs designated by the Fed.

3 A European framework for covered bonds?

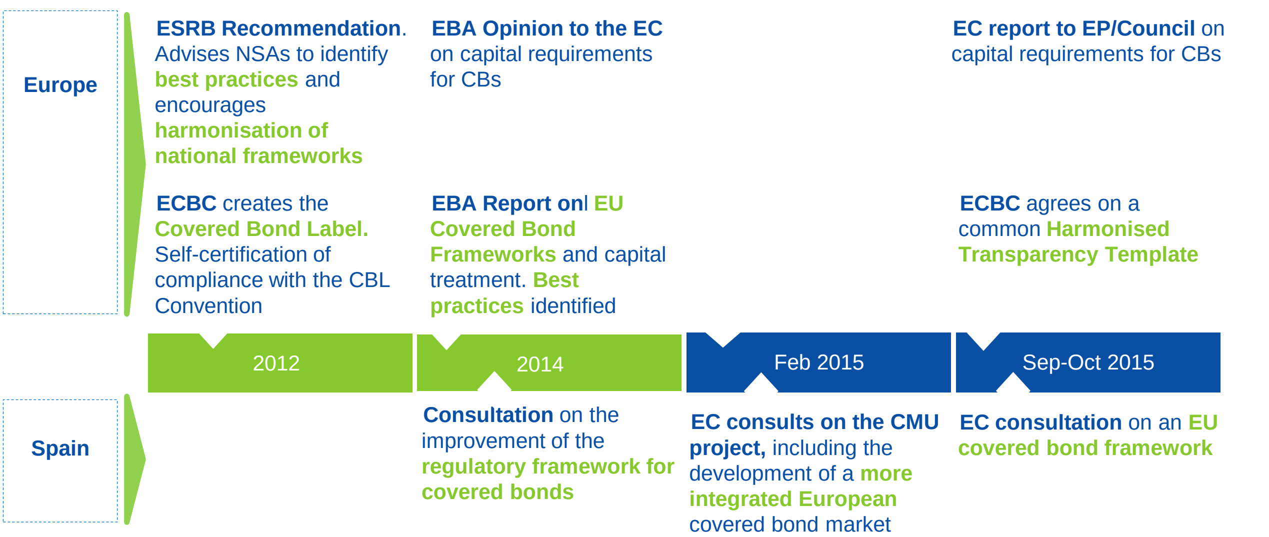
EC consultation on whether and how to build it

As part of the action plan for a CMU, the EC wants to assess the convenience of moving towards an EU framework for covered bonds based on high quality standards. Several options are being discussed, ranging from a voluntary convergence of national laws to creating an alternative pan-European instrument through dedicated EU legislation. The design of a hypothetical EU framework is also under consultation, including the feasibility of a similar funding tool for "prime" SMEs. The deadline is on 6 January 2016. This is the third article of a series in which the short-term initiatives of the CMU plan are being analysed, and that was initiated in October.

Background

The institutional pressure to harmonise EU covered bond regimes, currently based on national laws, is not new. In Dec 2012 the ESRB advised the national supervisory authorities to identify best practices and encouraged harmonisation, giving to the EBA a coordinating role. In July 2014, the EBA issued a report that revealed the disparity between legal frameworks and supervisory practices of the Member States and identified principles of "best practices". The EBA recommended the EC to consider further convergence as a prerequisite to support a single preferential treatment in banking solvency regulation. The industry has also contributed with initiatives such as the Covered Bonds Label and the harmonisation of transparency (common templates for disclosure). But the emergence of the CMU project adds an extra push, given that tacking fragmentation is a core objective.

Figure 3.1
Regulatory and industry initiatives related to covered bonds



Source: BBVA Research

Benefits of a more integrated framework and policy options

A more integrated framework, based on experience gained from well-functioning national frameworks, would favour the development of more efficient and deeper markets, promote cross-border activity and widen the investor base. The benefits are clear but the way is not free of challenges, such as the potential disruption of existing markets or the risk of stifling innovation, that should be adequately tackled. Coherence with other EU level policy projects to promote high quality standards, as is the case of high-quality securitisation, should also be ensured.

The policy options to achieve further harmonisation are also discussed, ranging from a voluntary convergence of national frameworks, based on an EC recommendation, to a mandatory EU legislation to harmonise existing frameworks or provide an alternative that complements those national frameworks.

Figure 3.2
Policy options for integration in covered bond markets

		Advantages	Drawbacks
Voluntary convergence	Voluntary revisions of national legal and supervisory frameworks based on **EC recommendations**	Flexibility to adapt to differing national legal frameworks	Limited harmonisation, being voluntary
EU legislative framework for covered bonds	1. **A directive**	Could have flexibility to adapt to differing national legal frameworks	The full legislative process at European level could be lengthy
	2. **A regulation**	Greater harmonisation as it is directly applicable in MS and would replace, al least partially, national laws	Challenging at this stage. CB laws rooted in legal tradition of many MS and lack of harmonisation of insolvency laws
	3. **29th Regime** (comprehensive EU law framework)	A "second regime" available for issuers. No amendments required to national CB laws	Increases fragmentation

Source: BBVA Research

Design of a hypothetical EU framework for covered bonds

The design would be largely based on the EBA's "best practices", although some new elements have been added. This is the case in proposing new legal definitions for "covered bonds" and for "regulated covered bonds". The latter would apply to those covered bonds that meet the high standards of the EU framework and would qualify for a preferential treatment in prudential regulation. In relation to assets eligible for inclusion in the cover pool, the possible inclusion of "prime" SMEs is being considered to promote SME financing. But allowing "prime" unsecured SME loans to be used as collateral for covered bonds should be carefully assessed, due to the potential impact on brand dilution. An alternative would be to promote a different instrument for collateralised SME funding, as the European Secured Note proposed by the ECBC.

Assessment

The initiative to promote a more integrated EU framework fits with the aims of the CMU project. Additionally to the benefits mentioned above, setting up common high quality standards for EU covered bonds could help smoothing episodes of excessive spread widening between MS and promote financial stability.

A principle-based flexible approach that enables adaptation to national specificities would be preferable, at least until insolvency and civil laws affecting covered bonds are further harmonised in Europe. It could be voluntarily implemented in national frameworks following the guidelines of an EC recommendation. It goes without saying that the effectiveness of this option would be enhanced if accompanied by the alignment of the preferential treatment in prudential regulation. Alternatively, a directive could be used to force the implementation in national frameworks of EC recommendations.

However, how to deal with the legacy assets is a major concern and should be carefully considered. The transition to the new EU framework in a reasonable timeframe would be desirable, while preserving the rights of current bondholders.

4 The European Deposit Insurance Scheme (EDIS)

A plan to complete the unfinished banking union

On 24 November, the European Commission released a legislative proposal outlining the road-map towards common European deposit protection, to be achieved by 2024. The proposal envisages three stages: i) from 2017 to 2020, a system of reinsurance, ii) progressive mutualisation through a system of co-insurance until 2024, and iii) full mutualisation with a single EDIS in 2024. This move constitutes an ambitious step in the right direction towards a fully-fledged banking union[3].

A European system for deposit insurance has been the neglected pillar of the banking union. Although it was first included in the original version of the Four Presidents' Report in June 2012, a common EDIS was soon dropped from the official agenda. The final version of the Report endorsed in December only called for a quick adoption of the new (harmonising) Deposit Guarantee Scheme (DGS) Directive. Three years later, the Five Presidents Report[4] brought the debate back on the table, this time under a staged and more pragmatic approach.

The proposed European scheme would initially (from 2017 to 2020) be built on a system of reinsurance at European level for national schemes. However, the reinsurance would only be triggered in the event of a bank collapse once the national fund has been depleted and up to a specified limit (the minimum of 20% of its initial target level or 10 times the target level of the national DGS). From 2020 to 2024, the Commission proposes a system of co-insurance under which the pay-outs would be shared from the first euro by the European and national funds. The share of the loss to be borne by the European fund will increase at a 20% annual rate until 2024. The endgame, a fully mutualised EDIS, would be operational by 2024. After this point, EDIS would cover all losses in the event of a pay-out or a resolution procedure. Access to EDIS would be made conditional on compliance by the national DGS with the DGS Directive, including with the required funding levels. Furthermore, this scheme which would be *ex ante* funded by risk-based contributions from all banks, with a target level of 0.8% of covered deposits, and will not increase the overall costs for the banking sector. Finally, the EDIS will be managed by the Single Resolution Board and its scope will coincide with that of the SSM (so it would be mandatory for all Eurozone Member States and open to non-Eurozone countries willing to join the banking union).

Assessment

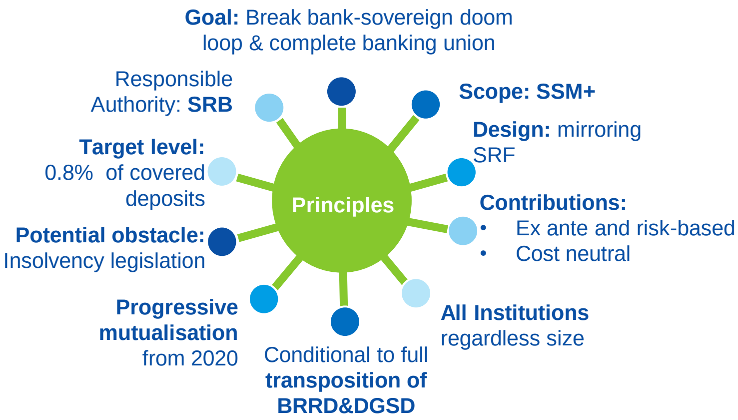
A European Deposit Insurance Scheme will strengthen the European financial safety net, overcoming certain weaknesses of the current system based on national DGSs that remains vulnerable to local systemic crises. Furthermore, it ensures that the same level of deposit protection is effectively guaranteed across countries. Ultimately, it contributes to finally ending the vicious circle between banks and sovereigns and completes the European financial architecture built up with the banking union.

Therefore, the proposal brought forward by the European Commission represents a milestone, as it lays down the steps towards truly single deposit protection in Europe by 2024. Even if the reinsurance system envisaged for the first stage does not represent a significant improvement over the current system of national DGSs in terms of mitigating the risks of financial fragmentation that arise from the vicious circle, the gradual approach proposed by the Commission is a pragmatic one and could be effective in achieving a common EDIS. Having a fully mutualised EDIS, up and running by 2024, is an ambitious and very welcome goal. Nevertheless, the main missing element in the proposal would be the establishment of a common fiscal

3: See related BBVA Research Flash: https://www.bbvaresearch.com/wp-content/uploads/2015/11/Flash_EDISProposal_2015.11.24_vf.pdf
4: See related BBVA Research Watch: https://www.bbvaresearch.com/wp-content/uploads/2015/06/Watch_5-Presidents-Report_20151.pdf

backstop to be used as a last resort. As in the case of the Single Resolution Fund, this is a politically difficult, albeit necessary, element.

Figure 4.1
Essential principles for developing an EDIS



Source: BBVA Research

Next steps

The Commission's proposal is probably going to be followed by an intense political debate in the coming months, especially given the well-known German opposition to the idea of increased mutualisation of banking risks. Furthermore, there are still some areas where further work is needed, including the methodology for calculating the contributions and how to deal with the lack of harmonization of national insolvency legislations.

5 Internal Liquidity Adequacy Assessment Process

A new supervisory tool

Following prior publications describing the elements of the Supervisory Review and Evaluation Process (SREP), this article reviews its final element, i.e. the Internal Liquidity Adequacy Assessment Process (ILAAP), which is a novelty for the majority of both supervisors and banks alike. Through the assessment of the risks to liquidity and funding, along with the SREP liquidity assessment, supervisors will verify the institution's compliance with the minimum requirements, under both normal and stressed scenarios.

Assessing risks to liquidity and funding

The **methodology to assess a bank's liquidity comprises three elements:** inherent liquidity risk, inherent funding risk and its governance and management. It allows supervisors to form a view of the level of liquidity and funding risks faced by an institution, along with its management and controls. This will lead supervisors to determine whether any specific requirements are necessary to cover these risks to which the bank is or might be exposed.

The liquidity risk assessment evaluates the bank's short- and medium-term liquidity risk over an appropriate set of time horizons, ensuring that the institution maintains adequate levels of liquidity buffers. This assessment includes an evaluation of: i) liquidity needs (short- and medium-term); ii) intraday liquidity; iii) liquidity buffer and counterbalancing capacity, and iv) supervisory liquidity stress-testing.

A bank's funding risk is assessed in order to determine whether the medium- and long-term obligations are met. The assessment is performed throughout an evaluation of: i) the funding profile; ii) risks to the stability of the funding profile; iii) actual market access, and iv) expected changes in funding risks, based on the bank's funding plan.

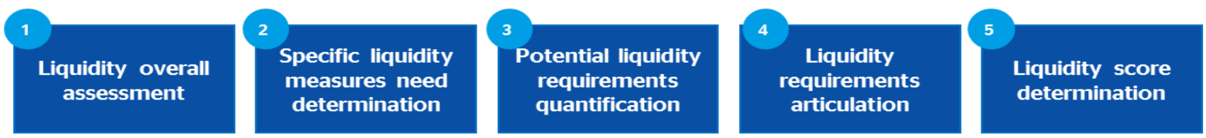
The governance and risk management framework underlying the above-mentioned risks will also be reviewed, providing a comprehensive understanding of the bank's risk profile. This evaluation comprises an assessment of the liquidity risk strategy and its tolerance, policies and procedures, risk identification, measurement, management, monitoring and reporting, and finally the bank's own funding and contingency plan.

This assessment will provide supervisors with an outcome which will be reflected in a summary of findings along with a score.

Liquidity assessment

Once the outcomes of the risks to liquidity are considered, competent authorities will carry out the **SREP liquidity assessment**. When performing the **overall assessment of a bank's liquidity**, supervisors will evaluate the levels held as well as their adequacy to cover risks, making use of different sources of information (for example, ILAAP, outcomes of the assessment of the liquidity and funding risk benchmark calculation…).

Figure 5.1
SREP liquidity assessment process



Source: BBVA Research

Following the overall assessment, supervisors must **determine the need for specific liquidity requirements**, based on the supervisory judgement and following a dialogue with the bank. They will consider the assessment of liquidity and funding risks, the bank's business model, its ILAAP and the potential systemic liquidity risk.

In addition, supervisors must determine whether any **specific quantitative liquidity requirements** are needed. As such, supervisors could develop and apply supervisory liquidity benchmarks as quantitative tools to support this assessment.

Supervisors, in order to properly **articulate the specific quantitative liquidity requirements**, should make use of the following criteria: i) LCR higher than the regulatory minimum; ii) a requirement for a minimum survival period, in a way that shortcomings are sufficiently mitigated; iii) a requirement for a minimum total amount of liquid assets or counterbalancing capacity.

Throughout this process, supervisors will **determine** whether the liquidity held by the institution provides sound coverage of risks to which the institution is or might be exposed. In addition, supervisors will assess whether the controls of liquidity risk are also appropriate.

6 Transatlantic data flows

In need of a new EU-US agreement

On 6 October, the European Court of Justice invalidated the 'Safe Harbour' EU-US agreement on which thousands of firms relied for their transatlantic data flows. European and US authorities should now agree on a new legal framework that facilitates the flow of data, which is key for the digital economy, under appropriate data protection safeguards.

Background: the Data Protection Directive and the 'Safe Harbour' scheme

The 1995 EU Data Protection Directive forbids the transfer of personal data outside the European Union unless the country receiving the data ensures an adequate level of protection. The adequacy must be assessed by the European Commission, which is empowered by the Directive to decide whether a third country ensures an adequate level of protection by reason of its domestic law or of the international commitments it has entered into. Following this provision, the European Commission considered, in a decision adopted in 2000, that the US "Safe Harbour" scheme ensures an adequate level of protection. The "Safe Harbour" is a self-certifying mechanism, administered by the US Department of Commerce, that requires the participating firms to sign up to a set of data protection principles. This scheme has been used by thousands of companies (4,484 are currently adhered) in the last 15 years as the legal basis for transferring personal data from the EU to the US.

The ruling of the EU Court of Justice

On 6 October 2015, the European Court of Justice (ECJ) declared invalid the Commission's Safe Harbour Decision, on the grounds that the scheme compromises some EU fundamental rights such as the right to respect for private life. This is partly due to the US legislation – prevailing over the Safe Harbour scheme – that permits the public authorities to have general access to the content of electronic communications. Indeed, the ECJ judgement comes after an Austrian Facebook user addressed a complaint to the Irish Data Protection Commissioner arguing that, in the light of the revelations made in 2013 by Edward Snowden, the transfer of data from Facebook's Irish subsidiary to servers located in the US allowed surveillance by public authorities. After the ECJ's judgment, the Safe Harbour scheme no longer provides legal certainty for the transfer of personal data across the Atlantic, as national data protection authorities may now suspend these transfers. Therefore, firms previously relying on the Safe Harbour scheme as the legal basis for their data transfers are now moving to other (case-specific) legal mechanisms such as standard data protection clauses in contracts between companies or binding corporate rules in the case of intra-group transfers. In the absence of such formulas, legal uncertainty will prevail until national authorities decide on the matter.

Looking forward: the need of a new EU-US framework

Since 2013, the European Commission has been in negotiations with the US Department of Commerce to agree on a renewed legal framework for transatlantic data flows with a higher level of protection. According to the Commission's statements, this would imply going beyond a self-regulating mechanism (such as the now invalidated Safe Harbour) to an oversight system backed up by significant enforcement. The ECJ ruling invalidating the existing framework makes the need for a new EU-US agreement on the protection of personal data even more urgent. The new framework has to be built not only on the ECJ judgment but also on the new EU General Data Protection Regulation – now under 'trilogue' negotiations – that will replace the 1995 Directive. In the meantime, the Commission and the national data protection authorities have the responsibility to provide clarity to firms regarding the ECJ judgment and to ensure a uniform approach to US data transfers across the EU. The use of data is one of the engines of the digital economy and has to be facilitated under a regulatory framework that provides certainty to firms as well as protection to consumers.

Main regulatory actions around the world over the last month

	Recent issues	Upcoming issues
GLOBAL	On **30 Oct FSB** Regional Consultative Group for Europe discussed in their ninth meeting on global and regional macroeconomic and financial market developments and update its work plan and policy priorities On **3 Nov FSB** published G-SIBs and G-SIIs list for 2015 On **3 Nov FSB** published a consultation on operational continuity in banking resolution On **3 Nov FSB** published a consultation on principles to ensure sufficient liquidity in resolution to maintain critical functions On **4 Nov FSB** published tenth progress report on implementing reforms for OTC derivatives On **5 Nov BCBS** consulted on incorporating FSB haircut methodology for non-centrally-cleared SFTs into the Basel III framework On **6 Nov FSB** published a report on measures to reduce misconduct risk On **9 Nov FSB** published second report on shadow banking in the Americas On **9 Nov FSB** published a report on the implementation and effects of the G20 financial regulatory reforms On **9 Nov FSB** issued final Total Loss-Absorbing Capacity (TLAC) for global systemically important banks (G-SIBs) On **9 Nov BCBS** published a consultation on deduction from regulatory capital of TLAC instrument holding for G-SIBs and non G-SIBs On **9 Nov BCBS** published a study report on TLAC Quantitative impact On **10 Nov BCBS** published a consultation on preferential treatment with regard to simple, transparent and comparable (STC) securitisations On **10 Nov FSB** published fourth progress report on implementation of principles for sound compensation On **10 Nov IOSCO** published final report on the custody of Collective Investment Schemes (CIS) assets On **12 Nov FSB** published three report on the transformation of shadow banking On **12 Nov ISDA** relaunched resolution stay protocol to void clauses in financing transactions contracts which hamper cross-border resolution In **Nov the OTC Derivatives Regulators Group (ODGR)** published a report to G20 on cross-border implementation regarding OTC derivatives	In **Sep** 2016 China will host the **G20** Leaders **summit** in Hangzhou
EUROPE	On **20 Oct EC** published its report to the EU Council and EU Parliament on capital requirements for covered bonds under the Capital Requirements Regulation (CRR) On **21 Oct EC** launched the first stage of its implementation of the Five President's Report which set out plans for strengthening the euro area's Economic and Monetary Union (EMU) On **21 Oct EBA** published a list of capital instruments that EU competent authorities (CAs) have classified as common equity tier 1 (CET1) On **22 Oct the Court of Justice of the EU** ruled that the exchange of traditional currencies and bitcoin is VAT-exempt On **22 Oct ESMA** published four new documents intended to promote the implementation of the amended Transparency Directive On **26 Oct EC** adopted a Delegated Regulation with regard to regulatory technical standards (RTS) for prudent valuation under the Capital Requirements Regulation (CRR) On **27 Oct EC** published its work programme for 2016, setting out the list of actions it will take in the coming twelve months On **27 Oct EBA** published draft guidelines on disclosing information in summary and collective form under the Bank Recovery and Resolution Directive (BRRD) for consultation On **29 Oct EP** voted to adopt the proposed Regulation on reporting and transparency of securities financing transactions (SFTs) On **5 Nov ESMA** published a consultation on indirect clearing arrangements under the European Market Infrastructure Regulation (EMIR) and the Markets in Financial Instruments Regulation (MiFIR) On **5 Nov EBA** published its draft methodology for the 2016 EU-wide stress test and list of 53 participating banks, of which 39 are Single Supervisory Mechanism (SSM) banks On **6 Nov EC** issued guidance covering the transfer of personal data following the ruling which declared the EU – US Safe Harbour Decision invalid On **6 Nov EBA** launched a consultation on its draft guidelines on stress tests of Deposit Guarantee Schemes (DGSs) On **9 Nov EU Council Presidency** published the first compromise text of the proposed Regulation on creating a European framework for simple, transparent and standardised securitisation	On **9 Dec EC** is expected to launch a public consultation on retail financial services, insurance and consumer policy issues In **2015 EC** will publish a proposal on an EU framework for recovery and resolution of systemically important financial infrastructures such as CCPs

Continued on next page

Main regulatory actions around the world over the last month (cont.)

	Recent issues	Upcoming issues
EUROPE	On **9 Nov EU Council Presidency** published the first compromise text of the proposed Regulation on creating a European framework for simple, transparent and standardised securitisation On **10 Nov ECOFIN Council** reached a political agreement on financial support for the Single Resolution Fund (SRF) under the Banking Union, which will become operational from 1 January 2016 On **10 Nov EBA** launched a consultation on its draft ITS on common procedures, forms and templates for the consultation process between the relevant competent authorities under the Capital Requirements Directive (CRD IV) On **11 Nov Joint Committee of the ESAs** published two final draft implementing technical standards (ITS) on mapping external credit assessment institutions (ECAIs) under the Capital Requirements Regulation (CRR) and the Solvency II Directive On **13 Nov ESMA** submitted its review of the technical standards on reporting obligations under EMIR to the EU Commission On **17 Nov ESMA** published a letter and a note on the implementation timeline of MiFID2 and MiFIR On **24 Nov EC** proposed a European Deposit Insurance Scheme (EDIS) and has set out further measures to reduce remaining risks in the banking sector	
MEXICO	On **29 Oct National Banking and Securities Commission (CNBV)** adjusted its banking capitalisation rules, enabling smaller banks a gradual compliance with the new operational risk requirements, along with several minor changes in the securitisation and counterparty risk treatments, among others	The **CNBV** is expected to issue its implementation of the D-SIB regime in time for the 2016 international entry date; likewise, it will set its leverage ratio rules (which would be enforceable in 2018, but disclosed by banks during 2016)
LATAM	On **29 Oct, in Brazil, the National Monetary Council (CMN)** and the Central Bank of Brazil announced some measures to allow the alignment of the domestic regulatory framework to international standards, including the definition of additional capital for systemically important institutions in the domestic sphere. The implementation schedule will extend until 2019 In **Nov, in Colombia, the central bank** created new measure to assess the FX exposure of the financial system. The new regulation establishes the creation of three new FX exposure indicators and its limits. This regulation will start to apply in May 2016 In **Nov, in Peru, the central bank** announced new limits for the total stock of loans in foreign currency. Banks have been requested to fulfil them no later than December 2016.	**Colombia's Ministry of Finance** is working on two studies that evaluate the implementation of Basel III's capital buffers in Colombia and the composition of regulatory capital and solvency requirement for pension funds, stockbrokers, fiduciary and insurance companies. Publication expected during 4Q15 **Colombian Congress** is studying a legislative reform that forbids charges for ATM withdrawals for accounts with average monthly transactions lower than three minimum monthly wages
USA	On **28 Oct Fed** published a consultation on proposed rule that require US G-SIBs and subsidiaries of foreign G-SIBs to have loss-absorbing capacity instruments On **30 Oct Federal Agencies** finalise swap margin rule in accordance with the Dodd-Frank Act that applies minimum requirements for swaps and security-based swaps that are not cleared through a clearing house On **30 Oct SEC** adopts final rules on the offer and sale of securities through crowdfunding that allow investment in such securities with limits and establish a regulatory framework to facilitate transactions	Regulators are working to **complete some of the pending reforms outlined by the Dodd-Frank Act** before the next administration takes office (2017)
TURKEY	In **15 Sep** subsidiaries' accounting method has changed to the "Equity Method" in accordance with Turkish Accounting Standards 27 (TAS 27). Transition to TAS27 will help reflect the subsidiaries' contribution to bank-only result; likewise, it has a positive impact on bank-only CAR. As there is no impact on consolidated CAR, the gap with bank-only CAR has widened In **19 Nov** FSB published peer review of Turkey: highlight RCAP process has been started in 3Q15 and recommended Turkish authorities to do additional work on the resolution framework	**BRSA (Banking Regulation and Supervision Agency)** has proposed to increase the number of monthly instalments that can be made on white goods, furniture and tuition payments, raising the limit from 9 to 12 **Central Bank of Turkey** stated that Financial Stability Committee will study regulations in CAR so as to prevent the negative impacts on banks of the new regulation and to conserve FX liquidity reserves
ASIA	On **6 Nov, China Securities Regulation Commission (CSRC)** restarted the IPOs of a number of companies, which had previously been halted due to the stock market crash in July On **17 Nov, the Reserve Bank of India** allowed Indian corporates to issue rupee-denominated bonds outside India. Also called 'Masala Bonds', such issuances are expected to bridge funding gaps for Indian companies without exposing them to foreign currency risk	

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

This report has been produced by:

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

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

Arturo Fraile
arturo.fraile@bbva.com

Javier García Tolonen
javierpablo.garcia@bbva.com

Rosa Gómez Churruca
rosa.gomezc@bbva.com

Georgi Ivanov Naydenov
georgi.ivanov@bbva.com

Santiago Muñoz
santiago.munoz.trujillo@bbva.com

Lucía Pacheco
lucia.pacheco@bbva.com

Victoria Santillana
mvictoria.santillana@bbva.com

Pilar Soler
pilar.soler.vaquer@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

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

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

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

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Turkey
Alvaro Ortiz
alvaro.ortiz@bbva.com

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

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
juliocesar.pineda@bbva.com

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

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

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

Digital Regulation
Álvaro Martín
alvarojorge.martin@bbva.com

Global Areas

Economic Scenarios
Julián Cubero
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

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

Contact details:

Calle Azul, 4
La Vela Building - 4 and 5 floor
28050 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com