BBVA | RESEARCH

Financial Regulation Outlook

APRIL 2016 | REGULATION AND PUBLIC POLICY UNIT

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Summary

FSB's priorities for 2016: building trust is a must

Short-, medium- and long-term economic growth is a top priority. On 27 February, the FSB released its work programme for 2016 and a letter to G20 Ministers and Governors. The focus was on the progress of the financial reforms and on the "to do list" for the next G20 Summit, which will be held in Hangzhou on 4 and 5 September. The main goal is to achieve a resilient and stable financial system that bolsters credit and investment for the sake of sturdy economic growth.

Basel's second round on credit and operational risks

More moderate for credit risk and strict rules for operational risk. The BCBS has finished a second consultation on the Standardised Approach for credit risk. It includes significant changes from the first one, with the result of a more moderate impact on capital requirements. Regarding operational risk (consultation open until 3 June), the BCBS intends to eliminate the use of internal models. Final rules are expected by the end of 2016, after a comprehensive calibration.

EBA on Basel III Monitoring Exercise

Improvements in capital ratios and liquidity. On 2 March, the EBA (Europe) and BCBS (Global) published the results from the 9th Basel III Monitoring Report using figures as of June 2015. Improvement continued in capital, liquidity and leverage for both Group 1 and Group 2 banks. The EBA estimates the total capital shortfall fell to EUR 17.7 billion and the additional liquid assets shortfall to EUR 32.6bn, almost half the shortfalls observed in the previous exercise.

MREL: UK vs EU

The British exception. The UK has taken the lead as the first member state of the EU to release a proposal in order to implement the EU's MREL in national law. Although it is based on the EBA's unfinished RTS, this version of MREL includes additional features, the most important being the implementation of the FSB's TLAC requirement. European authorities will no doubt take it into account for the upcoming MREL review.

CMU: Solvency II and venture capital

Removing barriers to investment. The Action Plan on building a Capital Markets Union included five short-term initiatives. After analysing in previous editions the proposal on securitisation, the consultation on covered bonds and the call for evidence on the cumulative impact of financial legislation, we now focus on long-term investment and venture capital.

European Parliament's report on Banking Union

Improvements welcomed but some issues pending. On March 10, the plenary session of the European Parliament approved the 2015 annual report on Banking Union (BU). The report, prepared by the Economic and Monetary Affairs Committee, assesses the current situation of the BU and the developments on its three pillars. In general, the report welcomes the improvements in these areas, arguing that the BU is important to guarantee financial stability.

2016 EU-Wide Stress Test Methodology

No single capital threshold has been defined. The European Banking Authority (EBA) has published the methodology for the EU-wide stress tests. The novelty of this exercise, compared to the last one performed in 2014, is that no single capital thresholds have been defined, as these results will be part of the

Supervisory Review and Evaluation Process (SREP). This year's exercise is expected to be released in early Q3 2016.

Green Paper on retail financial services

Further regulatory harmonisation is needed to build a true EU Single Market. Digitalisation offers a great opportunity to strengthen the Single Market for financial services. Yet further regulatory harmonisation is needed since, at present, divergent consumer protection rules and requirements for identity verification impose high compliance costs on cross-border activity.

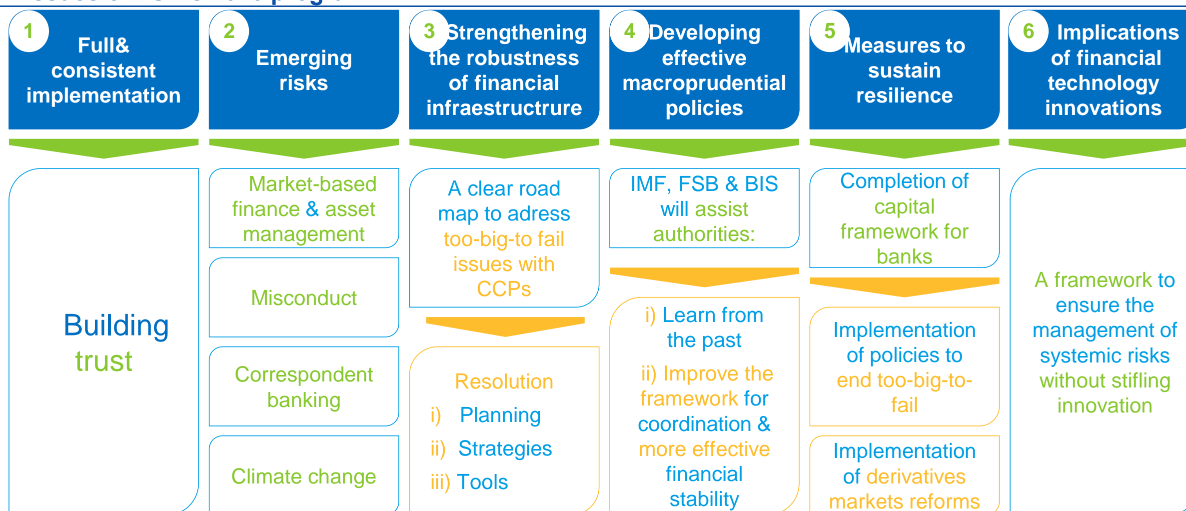
1 FSB's priorities for 2016: building trust is a must

Short-, medium- and long-term economic growth is a top priority

On 27 February, the FSB released its work programme for 2016 and a letter to G20 Ministers and Governors. The focus was on the progress of the financial reforms and on the "to do list" for the next G20 Summit, which will be held in Hangzhou on 4 and 5 September. The main goal is to achieve a resilient and stable financial system that bolsters credit and investment for the sake of sturdy economic growth.

A successful completion of the existing reforms, while at the same time remaining alert to possible new threats, is a necessary condition to accomplish the aforementioned main objective and to restore agents' trust in the financial system. In that vein, a heat map for the required means to perform monitoring tasks is being drawn up by the FSB in conjunction with other international bodies.

Chart 1.1
Main issues of FSB's 2016 program



Source: BBVA Research based on FSB

Referring to the finalization of the capital framework for banks, the target is not substantially harsher than capital requirements. In this vein, the FSB asserts that there will be no Basel IV. Moreover, the FSB is assessing the progress of the reforms and whether or not they have had the desired positive effects. In that vein, it notes the relevance and the difficulties in considering combined effects and interaction across sectors.

For the next G20 Summit six main documents are expected: i) a consultation on structural weaknesses related to the asset management business; **ii)** the conclusions about the capacity of adequate incentives for minimizing misconduct risk focusing specially on fixed income, currency and commodity markets; **iii)** the advances in the FSB's correspondent banking action plan[1] due to the decline in this activity; **iv)** high-level guidance and a consultation about central counterparty clearing houses' (CCPs) resilience, recovery and resolution; **v)** the developments on resolution reforms for ending the too-big-to-fail issue; and **vi)** an analysis of macroprudential policy frameworks and tools based on international empirical evidence.

In a nutshell, it is time to stop talking the talk and start walking the walk to fruitfully accomplish the reform started in 2008 in the first G20 Summit of Washington; to be ready to minimise unexpected forthcoming systemic risks and, last but not least, **to bolster a coordinated and cooperative global strategy**.

1: The plan has three main pillars: i) the analysis of its dimensions and implications; ii) making clearer regulatory expectations to provide more certainty and confidence; and iii) strengthening customer due diligence, tools and controls in home jurisdictions.

2 Basel's second round on credit and operational risks

More moderate for credit risk and strict rules for operational risk

The BCBS has finished a second consultation on the Standardised Approach for credit risk. It includes significant changes from the first one, with the result of a more moderate impact on capital requirements. Regarding operational risk (consultation open until 3 June), the BCBS intends to eliminate the use of internal models. Final rules are expected by the end of 2016[2], after a comprehensive calibration.

Revision to the Standardised Approach (SA) for credit risk

Following the input from the first consultation and the impact study undertaken, the Committee has reintroduced the use of external ratings for exposures to banks and corporates to calculate the capital required, but trying to avoid its mechanistic use through a new due diligence requirement. The framework has been recalibrated, with a significant reduction in the expected overall impact on RWAs in comparison with the current framework (increase of 5% compared to the 45% of the first proposal). Therefore, this second proposal is more aligned with BCBS's declared intention of not significantly increasing overall capital requirements. The proposal has been simplified, after disregarding the use of several risk drivers given the inconsistency of the outcome at global level. Nevertheless, the BCBS needs to consider alternative ways to increase risk sensitivity, for example: i) considering to a larger extent the term of exposures; ii) developing more fit-for-purpose rules in the case of some types of activity (e.g. project finance linked to infrastructure financing); and iii) increasing the number of bucket considered (e.g. mortgage credit with Loan-To-Value lower than 40%). A low risk-sensitive SA would do little to improve the comparability of capital ratios for SA users and could have a more general impact if plans for the SA, to serve as a reference for a minimum requirement when internal models are used, go ahead. Uncertainty remains on the final rules, as a more comprehensive calibration that considers all the revisions to Basel III is expected.

Revision to the operational risk capital framework

The capital requirement for operational risk, that is, to cover risks associated with cyber-attacks, IT failures, fraud or fines, was introduced in 2006 for the first time and altogether accounts for around 15% of capital requirements. Instead of the various approaches currently allowed, a single non-model-based Standardised Measurement Approach (SMA) is proposed that considers that operational risk increases with the complexity and size of balance sheets (Business Indicator). Additionally, an adjustment is allowed in the case of medium and large banks to consider each bank's past loss experience(Loss Component), giving place to lower/higher capital needs than those derived from the Business Indicator.

Figure 2.1
Capital required to cover operational risk

Source: BBVA Research

The BCBS plans to remove the use of internal models for operational risk (AMA) due to considerations of the excessive variability observed in associated RWAs across banks and the complexity of the models developed, making it difficult to issue rules in order to achieve greater convergence. In this regard, the BCBS departs from the approach followed so far regarding the use of internal models, which has focused on amending them to mitigate possible flaws but trying to preserve the benefits of their higher risk-sensitivity. Nevertheless, despite the proposal to remove AMA, banks should not disregard the usefulness of operational risk models to prevent and manage operational risks in a context of further digitalization in banking.

2: For an overview of changes expected in 2016, see the article "From Basel III to Basel IV", Financial Regulatory Outlook, January 2016.

3 EBA on Basel III Monitoring Exercise

Improvements in capital ratios and liquidity

On 2 March, the EBA (Europe) and BCBS (Global) published the results from the 9th Basel III Monitoring Report using figures as of June 2015. Improvement continued in capital, liquidity and leverage for both Group 1 and Group 2 banks[3]. The EBA estimates the total capital shortfall fell to EUR 17.7 billion and the additional liquid assets shortfall to EUR 32.6bn, almost half the shortfalls observed in the previous exercise.

Takeaways from the EBA exercise for European banks

Capital: the average fully loaded capital ratio (CET1) for G1 banks increased by 20pb to 11.6% in June 2015 with regards to the previous exercise (Dec 2014) and was explained by an increase in banks' capital. The EBA estimates a EUR 0.7bn capital shortfall for G1 banks in order to reach the 7% capital ratio requirement, which is less than half the observed shortfall in Dec 2014. The EBA estimates an even smaller capital shortfall for G2 banks (EUR 0.3bn) which is attributed to a few small and medium-sized banks in the sample. As of June 2015 almost all European banks have largely converged to the fully implemented capital requirements.

Liquidity: all G1 banks met the 70% LCR requirement and only a few failed to meet the 100% requirement set for Jan 2018. However, 11% of G2 banks have to improve their liquidity positions in order to comply with the 70% LCR requirement. The EBA estimates a total LCR shortfall of EUR 32.6bn to comply with the 100% requirement, of which EUR 25.2bn corresponds to G1 banks and EUR 7.5bn to G2 banks. The total shortfall represents 1.0% of total assets of non-compliant banks. The NSFR has continued to improve, albeit at a slower pace, as 70% of G1 banks and 79% of G2 banks already fulfil the minimum NSFR requirement of 100% to be in place by Jan 2018. The need for stable funding is approximately EUR 341bn or 3.9% of total assets of all non-compliant banks.

Leverage: all G1 banks are compliant with the 3% minimum Tier-1 leverage ratio and only 10 small G2 banks are non-compliant (out of 114). On average, LR for both groups continued to improve and remains above 4%. The EBA estimates that the LR is the binding constraint for 39% of G1 banks (44% for G-SIBs) and 33% of G2 banks.

Chart 3.1
G1 Capital CET1 ratio (%)

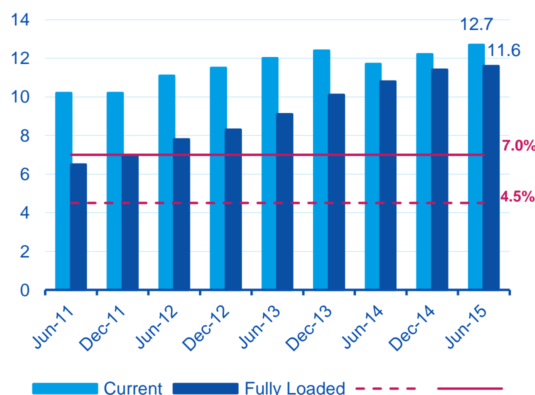
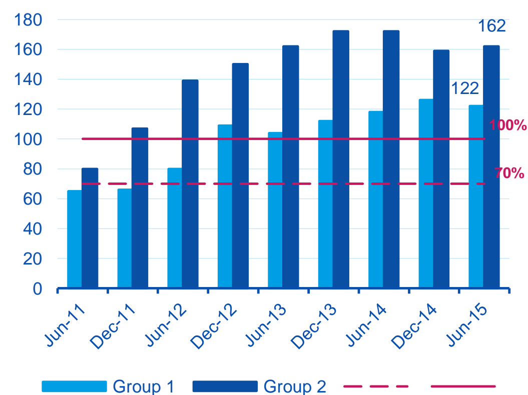


Chart 3.2
LCR



Source: BBVA Research based on EBA report on Basel III monitoring exercise for the European banking system

3: Group 1(G1) banks have Tier-1 capital in excess of EUR 3 billion and are internationally active. All other banks are categorised as Group 2 (G2).

4 MREL: UK vs EU

The British exception

The UK has taken the lead as the first member state of the EU to release a proposal in order to implement the EU's MREL in national law. Although it is based on the EBA's unfinished RTS[4], this version of MREL includes additional features, the most important being the implementation of the FSB's TLAC requirement. European authorities will no doubt take it into account for the upcoming MREL review.

The Bank of England's (BoE) intention is to set the MREL according to the EBA's definition, that is, the sum of a loss-absorbing amount and a recapitalisation amount and the maximum of either the own funds requirement, the leverage ratio or the Basel I floor. However, unlike the EBA's RTS, the BoE **identifies three categories of banks** depending on their size and resolution strategy and sets different MREL requirements for each of them. Larger banks (those with more than £15bn to £25bn in assets), whose preferred resolution strategy is bail-in, will be required to comply with a minimum MREL of twice their capital requirements (Pillar 1 and Pillar 2A[5]) minus post-resolution adjustments. If Pillar 2A is greater than 1%, this means that the requirement will be higher than the FSB's minimum TLAC (at its highest version of 18%). Furthermore, the Bank of England **does not make any direct reference to an MREL floor** of 8% in terms of total assets.

Another difference compared to the EU version is the **requirement of debt subordination**. The Bank of England requires large banks to structurally subordinate their debt (issuing MREL-eligible liabilities from a holding company). This departs from European legislation, which does not include a subordination obligation (so far), and the FSB's TLAC term sheet, which allows other types of subordination (statutory and contractual). The **eligibility of instruments** to count towards the UK MREL is more similar to that of the FSB's TLAC than the EU MREL. Indeed, besides the subordination requirement (with no exceptions) for senior debt instruments, structured notes are also excluded.

Regarding the capital **buffers treatment**, the BoE delegates the decision to the PRA (which launched a parallel consultation). Its intention is to copy the TLAC term sheet by requiring the combined buffer to sit "on top" of the MREL requirement. Banks will not be able to double count CET1 to cover MREL and that same CET1 to cover the combined buffer. The main idea is that a breach of the MREL requirement cannot happen before the buffers are depleted.

There is also an important difference in the **compliance calendar** between the EU and the UK MREL. The former will be fully binding by 1 January 2020 with increasing mandatory target levels before that date. The UK MREL will also be fully binding from that date (although G-SIBs will be required to comply with it one year earlier), but the BoE does not expect to set an MREL higher than the minimum capital requirements before 2020. UK banks will not have to comply with an additional requirement until then.

All in all, the most distinguishing feature of the UK MREL is the proposed implementation of the FSB's TLAC characteristics and related features. In summary, the BoE's proposal to set MREL to all UK banks with TLAC characteristics for UK G-SIBs is an original yet proportionate approach. In October 2016 the EBA will carry out a review of the EU MREL. On the basis of that report the Commission will most likely publish a legislative proposal to amend MREL and implement TLAC in Europe. EU authorities will surely take into account the UK's MREL proposal.

4: Once the RTS is approved by the Commission and ratified by the EU Parliament and Council, it will be binding and directly applicable in all EU countries.
5: Similar to Pillar 2, the additional amount of capital institutions should hold to cover risks not captured in Pillar 1 (e.g. interest rate risk).

5 CMU: Solvency II and venture capital

Removing barriers to investment

The Action Plan on building a Capital Markets Union included five short-term initiatives. After analysing in previous editions the proposal on securitisation, the consultation on covered bonds and the call for evidence on the cumulative impact of financial legislation, we now focus on long-term investment and venture capital.

Solvency II

Aimed at promoting long-term investments and infrastructure funding the Commission presented, together with the Action Plan, a number of amendments to the Solvency II Delegated Regulation. These changes seek to ensure that capital charges for insurance companies adequately reflect the real risk of this kind of investment. The main changes concern:

- **Infrastructure**: the amendments introduce a new asset category ("qualifying infrastructure investments") to ensure that investments meeting certain criteria will benefit from lower capital charges.
- **Investments in European Long-Term Investment Funds** (ELTIFs) and **equities traded in multilateral trading facilities**, which will now be subject to the same capital charges as equities traded on regulated markets
- **Unlisted equities**, to which a transitional measure will be extended to prevent a sudden withdrawal from equity.

Venture Capital

Given the importance of venture capital as a fund provider for businesses and SMEs, the Commission launched a consultation on European Venture Capital Funds (EuVECAs) and European Social Entrepreneurship Funds (EuSEFs) regulation to identify targeted changes that could help to improve the development and performance of these funds.

The Commission questioned six specific issues:

- **Management of the funds:** regarding the possibility for managers authorised by AIFMD to offer EuVECA and EUSEF funds to their clients. The Commission also questioned the possibility of third-country managers using the EuVECA and EuSEF designation and under which conditions it should be granted.
- **Investment threshold**, to allow managers with total assets or EuVECA and EuSEF portfolios over €500 million to continue using these labels without the need for authorisation under AIFMD.
- Regarding the **threshold for investing in EuVECA and EuSEF funds**, the Commission asked whether a lowering in the minimum investing amount required would help in the take-up of these funds and whether this lowering is compatible with maintaining adequate consumer protection.
- **Set-up** of the funds, regarding whether costs relating to fund registration and other requirements for the set-up of the funds are proportionate to the potential benefits of obtaining the EuVECA and EuSEF passport.
- **Eligible assets** for EuVECA and EuSEF funds, to find and comment on the effects of a potential widening of the assets in which these funds are allowed to invest.
- Finally, the Commission sought an opinion on the current obstacles to the **cross-border activity** of these funds.

6 European Parliament's report on Banking Union

Improvements welcomed but some issues pending

On March 10, the plenary session of the European Parliament approved the 2015 annual report on Banking Union (BU). The report, prepared by the Economic and Monetary Affairs Committee, assesses the current situation of the BU and the developments on its three pillars. In general, the report welcomes the improvements in these areas, arguing that the BU is important to guarantee financial stability.

Roberto Gualtieri (Rapporteur to the Parliament) presented the report, which revolves around the **three pillars of the BU:**

I) The Single Supervisory Mechanism (SSM). The report deems the implementation of the **SSM as successful** both in operational terms (recruitment process, IT infrastructure, etc.) and in supervisory quality. Nevertheless, it acknowledges that the SSM could improve its effectiveness by reducing the operational burden on its administrative structure (e.g. by delegating decisions on particular issues). Similarly, the report emphasises that administrative burdens on credit institutions (particularly the smaller ones) should be avoided.

The report calls for a **revision of the stress test methodology** applied to supervised banks. On this matter, the report **highlights the problem posed by NPLs**, which prevent banks from granting new loans to the economy, particularly to SMEs. Hence, the report advocates for a solution to this issue, for instance by establishing asset-management companies (as was the case of Spain or Ireland).

In a similar vein, the report notes that the **structural reform of the banking sector should be finally completed** by a “swift legislative agreement”. Additionally, it argues that in the short run, **excessive capital requirements might lead to undesired consequences** in terms of banks' lending capacity. **Stabilizing the regulatory framework** should be a priority to restore investors' confidence.

With respect to the **Maximum Distributable Amount (MDA), the report calls for a certain degree of flexibility** to prevent it from being “too rigid”, undermining the AT1 market. In this regard, the report claims that further legal clarification on the MDA issue is needed.

Finally, regarding the **sovereign exposure treatment**, the report argues that medium-term changes **should be carefully analysed, to prevent unintended consequences** in terms of financial stability, market/competition distortions, or reducing available funding for Member States. It is stressed that this should be a globally coordinated effort.

II) The Single Resolution Mechanism (SRM). SRB's efficient organization is welcomed by the report, which calls for **further progress** on the set-up of **resolution plans, transposition of the BRRD, and the technical standard for MREL** (at least 8% and consistent with the TLAC). A bridge financing mechanism should be established as swiftly as possible to provide funds if necessary. Finally, it recalls the ECOFIN pledge to create a **common fiscal backstop to support the Single Resolution Fund** as a last resort.

III) European Deposit Insurance System (EDIS): the report acknowledges that the **ability to uniformly protect deposits, regardless of their location, is a key feature** of the BU that would contribute to breaking the bank-sovereign vicious circle. Hence, the **EDIS proposal is welcomed**. Risk sharing should be accompanied with risk reduction measures to prevent moral hazard. The report argues that the implementation of EDIS requires further steps to reduce risk besides the implementation of the BRRD and DGSD by all Member States. In this line, a **proper implementation of the bail-in tool would be an important mechanism for risk avoidance**.

7 2016 EU-Wide Stress Test Methodology

No single capital threshold has been defined

The European Banking Authority (EBA) has published the methodology for the EU-wide stress tests. The novelty of this exercise, compared to the last one performed in 2014, is that no single capital thresholds have been defined, as these results will be part of the Supervisory Review and Evaluation Process (SREP). This year's exercise is expected to be released in early Q3 2016.

Overview

The stress tests are designed to provide supervisors, banks and other market participants with a common analytical framework for assessing the resilience of EU banks to economic shocks. The methodology released by the EBA aims to provide banks with adequate guidance; which does not cover the quality assurance process or possible supervisory measures that should be put in place following the stress test outcome. In comparison to the 2014 exercise, the novelty for this year lies in the decision of not defining any single capital thresholds, as the results will be included in the 2016 SREP and associated decisions. The EBA is responsible for coordinating the exercise and will act as a data hub for the final dissemination of the results in line with its commitment to enhancing the transparency of the EU banking sector. The competent authorities (CAs) will check the quality of the results and decide whether any necessary supervisory reaction measures should be put in place as part of the SREP process. The sample of entities that will be covered by the exercise will be around 50 entities (covering 70% of SSM assets), fewer than the 123 that were included during the 2014 Stress Tests.

Key features: methodology and scenario

In order to ensure consistency, the methodology contains key constraints such as a static balance sheet assumption, which precludes any mitigating actions by banks and a series of caps and floors. In 2016, no pass or fail threshold has been included as the objective is to use the stress test as a supervisory tool, whose results will be discussed with individual banks during the SREP; mitigating actions may also be considered. In addition, two different scenarios have been defined (i.e. base and adverse scenario) with a time horizon from 2016 to 2018, aiming to assess the resilience of the banks on a common macroeconomic baseline and an adverse scenario. The European Commission produces fully fledged European Economic Forecasts, which cover the principal macroeconomic aggregates for the EU Member States. The forecast published on 5 November 2015 provides the stress test baseline scenario for 2015-2017 for most variables. This baseline scenario is extended to 2018 through a model-based approach or technical assumptions. The ESRB was in charge of designing the adverse scenario. It reflects the four systemic risks that are currently assessed as representing the most material threats to the stability of the banking sector: i) an abrupt reversal of compressed global risk premiums; ii) weak profitability prospects for banks and insurers in a low nominal growth environment; iii) rising of debt sustainability concerns in the public and non-financial private sectors, amid low nominal growth; and iv) prospective stress in a rapidly growing shadow banking sector, amplified by spillover and liquidity risk. Regarding the risks included in the exercise apart from credit and market risk, other new risks will also be assessed, such as FX lending (i.e. operations in currencies different from the borrower's local currency) or conduct and operational risks.

Assessment

The stress test comes at a crucial moment for the future of the sector, at a time of negative market sentiment around European banks. Although market turbulences are caused by a variety of factors the exercise could reinforce confidence regarding the situation of European banks. However, some doubts still remain as there is no clarity on how both the SREP and the stress test will interconnect. In addition, the results of some banks will be released (those subject to the EBA Stress Test) so the ECB should assess how the communication process will take place to give clarity to the market and avoid misinterpretations of the results.

8 Green Paper on retail financial services

Further regulatory harmonisation is needed to build a true EU Single Market

Digitalisation offers a great opportunity to strengthen the Single Market for financial services. Yet further regulatory harmonisation is needed since, at present, divergent consumer protection rules and requirements for identity verification impose high compliance costs on cross-border activity.

In December 2015, the European Commission (EC) launched a Green Paper on retail financial services, aimed at overcoming existing EU market fragmentation for insurance, loans, payments, current and savings accounts and other retail investments. **The Commission finds evidence of fragmentation** in the limited cross-border activity (less than 3% of consumers have already purchased credit cards, current accounts or mortgages from another member state), the differing prices across countries for identical or similar products and the constrained choices available to consumers in some member states.

As a first step in the roadmap for the Green Paper, the EC has gathered views from all relevant stakeholders on existing barriers to cross-border activity and possible solutions. Taking account of these views, the Commission envisages releasing an **Action Plan around the summer of 2016**. Specific legislative and non-legislative measures are expected in the following years to strengthen the Single Market.

Technological developments in the financial services sector offer a great opportunity to increase cross-border activity within the EU. Banks are now able to cost-efficiently reach new geographically dispersed customers through digital channels, without having to expand their physical presence. However, regulatory and administrative differences between EU member states significantly increase compliance costs and prevent financial institutions from making full use of the digital capabilities to offer their services across the EU.

Consumer and investor protection laws differ across the 28 Member States (and even within the same country, if regional rules are applicable) and companies need to act in most cases in accordance with the host countries' regulations and supervisory measures. Moreover, diverse national tax regimes prevent banks from designing pan-European retail products.

Regarding Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), national transpositions of the EU Directive and national supervisory criteria lead to significant differences across countries in the methods banks may use to remotely verify the identity of new customers. Not all member states allow the use of real-time and easy-to-implement methods (e.g. video call or biometric techniques). This makes it difficult for banks operating in certain member states to remotely verify the identity of cross-border customers. Moreover, the use of national eID systems is nowadays restricted by the software and hardware requirements imposed by smart chip-based cards and by the absence of a clear interoperability framework for the private sector to use the national eID systems across the EU.

Given the existing of burdensome divergences, **further efforts are needed to achieve an EU-harmonised regulatory framework** that simplifies the cross-border provision of services and ensures an equivalent level of protection to financial customers across the EU. A single set of rules should apply across the EU and be homogeneously implemented; to that end, Regulations are preferred to Directives. Anyway, efforts should focus on avoiding national divergences in the implementation of EU rules already in place. Moreover, when operating across the EU, firms should only be subject to the supervision of the competent authorities of their home Member State.

The EU-harmonised regulatory framework ought to be holistic, bringing together both the financial and technological perspectives, and future-proof, which means being flexible enough to not become outdated by rapidly evolving technologies and a dynamic business ecosystem. Achieving such a regulatory framework requires a permanent interaction between the private and the public sector

Main regulatory actions around the world over the last month

	Recent issues	Upcoming issues
GLOBAL	**On 24 Feb ISDA** published principles for achieving comparability on mutual recognition of US and EU trading platforms **On 27 Feb FSB** sent a letter to G20 Ministers and Governors with its priorities for 2016 **On 02 Mar BCBS** published the results of its latest Basel III monitoring exercise **On 04 Mar BCBS** published a consultative document on the standardised measurement approach to operational risk **On 11 Mar BCBS** issued a consultation on the Pillar 3 disclosure framework **On 15 Mar BCBS** publishes Basel III implementation assessments of Russia and Turkey **On 18 Mar FSB** published the second thematic Peer Review on Resolution Regimens **On 24 March BCBS** released a consultative document on constraints on the use of internal model approaches for credit risk.	In **Sep 2016 China** will host the **G20** Leaders' **Summit** in Hangzhou In **2016 BCBS** will finalise its review of internal models and calibration of the leverage ratio applicable in Jan 2018
EUROPE	**On 19/02 EC** agrees new settlement for UK within the EU. **On 23/02 ECON** published a draft report on virtual currencies and Distributed Ledger Technology (DLT) **On 23/02 ECB** published an opinion on draft provisions on the hierarchy of creditors of credit institutions **On 24/02 EBA** launched the 2016 EU-wide stress test exercise and published the common methodology and macroeconomic scenario **On 25/02 EBA** published the revised work programme for 2016 **On 26/02 EC** adopted a draft Delegated Regulation on accepted market practice under the Market Abuse Regulation **On 1/03 EC** adopted a draft Delegated Regulation on the clearing obligation set out in the EMIR **On 1/03 ESMA** published a report on systemic risk and cost implications of interoperability arrangements between CCPs established under EMIR **On 4/03 EC** Delegated Regulation (EU) 2016 on approval and publication of the prospectus was published in the OJEU **On 4/03 EBA** launched a consultation on the IR 680/2014 relating to the inclusion of prudent valuation in the Guidelines on COREP **On 8/03 ESAs** published an RTS on margin requirements for non-centrally cleared derivatives under the EMIR **On 8-9/03 EC** adopted three sets of RTS and EC Implementing Regulation on insider lists in the context of the Market Abuse Regulation **On 11/03 ESMA** issued a discussion paper on Level 2 measures under the Securities Financing Transactions Regulation (SFTR) **On 16/03 EC** Implementing Decision (2016/377) determining that the US CFTC has equivalent requirements to the EU in regulating CCPs under EMIR was published in the OJEU On 17/03 EC IR (2016/378) with regard to the timing, format and template of the submission of notifications to competent authorities under the Market Abuse Regulation has been published in the OJEU **On 18/03 EC** adopted a Delegated Regulation on arrangements to be protected in a partial property transfer under Article 76 of the BRRD **On 22/03 EBA** launched a consultation on the calculus of the modified duration, as defined in the CRR, in order to reflect the prepayment risk **On 22/03 ECB** published its second annual report on supervisory activities under the Single Supervisory Mechanism **On 23/03 EC** launched a consultation on ensuring an effective insolvency framework in the EU, as part of the CMU action plan **On 23/03 EC** adopted a Commission Delegated Regulation with regard to certain RTS under the BRRD	In **Oct 2016 EBA** will publish reports on the implementation of the MREL In **2016 the EC** will present concrete legislative proposals on the Digital Single Market In **2016 EU institutions** will start working on the design of a common fiscal backstop for the SRF In **2016 the EC** will bring forward a legislative proposal on TLAC **Member States** are committed to striking a final deal on FTT by **June 2016**
MEXICO	**On 11 Mar** the **Central Bank** issued rules for a new payment clearing house, the *Sistema de Pagos Interbancarios en Dólares (SPID)*. The system will enable dollar-denominated payments between Mexican bank accounts held by legal persons	**The CNBV's** countercyclical and capital conservation buffer rules have passed the mandatory public review process and should be issued in the coming weeks

Continued on next page

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

	Recent issues	Upcoming issues
LATAM	**On 01 Mar in Argentina**, the ceiling in foreign currency which was due to be lifted to 20% of net worth for spot positions and 10% for NDF's, was maintained at 15% as in the previous months **On 01 Mar in Argentina** the Central Bank widened the range of debtors that can apply for loans in dollars funded by dollar-denominated deposits to export-related sectors, not exclusively exporters themselves. The same conditions will apply to loans originating in financial inflows from abroad **On 19 Feb** the Financial Regulation Unit of the Ministry of Finance of **Colombia** sent for comments a regulation project focused on modifications to the Resolution Mechanisms of FOGAFIN and the request of the deposit insurance **In Mar** the Financial Superintendency of **Colombia** received comments for the regulation regarding the forms and modifications made to chapter XXVIII of the Financial and Accounting regulation that will be used for the stress test that will be performed on banks this year	**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 **The Government of Colombia** will present a decree that modifies the mandatory pension fund investment regime, modifying the limits for alternative investments
USA	**On 19 Feb Federal Banking Agencies** expanded the number of banks and Savings Associations qualifying for an 18-Month Examination Cycle **On 04 Mar Fed** proposes rule to address risks associated with excessive credit exposures of large banking institutions to a single counterparty **On 04 Mar Federal Banking Agencies** issue advisory on property evaluations by banks **On 15 Mar FINRA** reports on effective practices for digital investment advice **On 16 Mar Fed** requested comments on proposed rules that would establish single-counterparty credit limits for domestic and foreign bank holding companies with $50bil or more in total consolidated assets **On 16 Mar CFTC** approved a substitute compliance framework for dually registered central counterparties (CCPs) located in the EU, together with a comparability determination with respect to certain EU rules **On 21 Mar Agencies** released guidance to Issuing Banks on applying Customer Identification Programme requirements to holders of prepaid cards **On 29 Mar Fed** announced the selection of McKinsey & Company to support Faster Payments Task Force efforts to assess faster payments solution proposals from various providers across the United States payments industry	Regulators are working to **complete some of the pending reforms outlined by the Dodd-Frank Act** before the next administration takes office (2017) The **Consumer Financial Protection Bureau** expects to issue final rules on **consumer protection for prepaid cards** in the spring of 2016 and on mortgage servicing by mid-2016 The **SEC** will publish a notice of proposed rule-making for **fiduciary standards** in October 2016
TURKEY	In Dec the CBRT raised the remuneration rate of USD-denominated required reserves, reserve options and free reserves held at the Bank from 0.24% to 0.49%	**The Central Bank of Turkey** stated that the Financial Stability Committee will study regulations on CAR so as to prevent negative impacts on banks caused by the new regulation and to conserve FX liquidity reserves
ASIA	**On 14 Mar CSRC** approved the establishment of Shengang Security Corp. This is the first joint venture security firm between Mainland China and Hong Kong/Macau **On 02 Mar the Reserve Bank of India** eased rules on core capital requirements under upcoming Basel III rules. According to official estimates, Indian banks need to raise about $17 billion from markets over the next four years to meet total funding requirements	**China** may be considering the establishment of a new cabinet office to co-ordinate financial and economic policy. The new cabinet would fall under the State Council

Source: BBVA Research

Abbreviations

AIFMD	Alternative Investment Fund Managers Directive	**FSB**	Financial Stability Board
AMC	Company for the Management of Assets proceeding from Restructuring of the Banking System (Bad bank)	**FTT**	Financial Transactions Tax
AQR	Asset Quality Review	**G-SIB**	Global Systemically Important Bank
BCBS	Basel Committee on Banking Supervision	**G-SIFI**	Global Systemically Important Financial Institution
BIS	Bank for International Settlements	**IAIS**	International Association of Insurance Supervisors
BoE	Bank of England	**IASB**	International Accounting Standards Board
BoS	Bank of Spain	**IHC**	Intermediate Holding Company
BRRD	Bank Recovery and Resolution Directive	**IIF**	Institute of International Finance
CCAR	Comprehensive Capital Analysis and Review	**IMF**	International Monetary Fund
CCB	Counter Cyclical Buffer	**IOSCO**	International Organization of Securities Commissions
CCP	Central Counterparty	**ISDA**	International Swaps and Derivatives Association
CET1	Common Equity Tier 1	**ITS**	Implementing Technical Standard
CFTC	Commodity Futures Trading Commission	**Joint Forum**	International group bringing together IOSCO, BCBS and IAIS
CNMV	Comisión Nacional de Mercados de Valores (Spanish Securities and Exchange Commission)	**LCR**	Liquidity Coverage Ratio
COREPER	Committee of Permanent Representatives to the Council of the European Union	**LEI**	Legal Entity Identifier
CPSS	Committee on Payment and Settlement Systems	**MAD**	Market Abuse Directive
CRA	Credit Rating Agency	**MiFID**	Markets in Financial Instruments Directive
CRD IV	Capital Requirements Directive IV	**MiFIR**	Markets in Financial Instruments Regulation
CRR	Capital Requirements Regulation	**MMFs**	Money Market Funds
CSD	Central Securities Depository	**MoU**	Memorandum of Understanding
DFA	The Dodd–Frank Wall Street Reform and Consumer Protection Act	**MPE**	Multiple Point of Entry
DGSD	Deposit Guarantee Schemes Directive	**MREL**	Minimum Requirement on Eligible Liabilities and own Funds
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	**OJEU**	Official Journal of the European Union
EDIS	European Deposit Insurance Scheme	**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	**TLAC**	Total Loss-Absorbing Capacity
FROB	Spanish Fund for Orderly Bank Restructuring	**UCITS**	Undertakings for Collective Investment in Transferable Securities Directive
FSAP	Financial Sector Assessment Program		

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