BBVA | RESEARCH

Financial Regulation Outlook

JULY 2016 | REGULATION AND PUBLIC POLICY UNIT

01 Brexit : Regulatory consequences

02 EU-wide stress test results

03 SSM: supervisory statement on governance

04 MAPO & MP: Unity Creates Strength

05 ECOFIN: Roadmap Banking Union

06 EBA: supervisory practices convergence

Index

Summary

Brexit: Regulatory consequences

Little short-term changes expected. On June 23, the UK held a referendum on their membership to the EU and the “Leave" side won. Despite the increased uncertainty, we should not expect a major change in regulation. There are two main reasons for this: the UK might seek a third country equivalence status (need to mirror EU rules), and it would still be a member of international regulatory agencies (need to comply global standards).

EU-wide stress test results

A heterogeneous melting pot. Stress test’s results are very positive for most banks: assuming the minimum regulatory capital is that of the previous exercise, only one Italian and one Irish bank show capital needs. The health of the entities improved after successive stress tests over the years, after most national restructuring processes have finished, and after European economies seem to be recovering strength.

SSM supervisory statement on governance and risk appetite

The Single Supervisory Mechanism (SSM) has published a report on internal governance and risk appetite framework. The report conveys some lessons from the thematic review conducted in 2015 across all significant institutions and describes good practices observed across the significant institutions. This report aims to support and guide institutions towards the implementation of international best practices.

MAPO & MP: Unity Creates Strength

Pulling in the same direction in a low interest rate environment. The persistency of low interest rates during a long period of time might put financial stability at risk by contributing to the formation of asset prices bubbles. Macroprudential policies have to help monetary policy in the current challenging environment of low global growth and inflation. In addition to that, it is of the utmost importance that policy measures are globally coordinated and assessed considering the cross-effects among them.

ECOFIN: Roadmap for the Banking Union

Delays toward a full Banking Union. On June 17, the Council of the ECOFIN released a roadmap to complete the Banking Union. There are two key conclusions: i) revisions on the treatment of sovereign exposures would wait for the Basel Committee, and ii) negotiation on EDIS are delayed until progress on risk reduction is made.

EBA reports on convergence of supervisory practices

The European Banking Authority (EBA) recently published the 2015 annual Report on the convergence of supervisory practices across the EU, comparing approaches and consistent outcomes in applying the Single Rulebook. The report covers the main activities undertaken by the authority to enhance supervisory convergence and notes the remaining challenges.

1 Regulatory consequences of Brexit

Little short-term changes expected

On June 23, the UK held a referendum on their membership to the EU. The Leave side won, triggering a very uncertain scenario for both the UK and the EU. Nevertheless, despite the increased uncertainty, we should not expect any major shift in financial regulation at least in the short run. Two of the main reasons are: i) UK might seek a third country equivalence regime, and ii) UK remains a member of international regulatory agencies and standards setters. Ultimately, any change would depend on the new EU-UK relationship

The UK referendum that led to Brexit had a widespread range of consequences. **Uncertainty has spread over many areas**, and the regulatory landscape is not the exception. The **final picture will depend on** the terms in which the UK leaves the EU, as well as on the final agreement on **the new relationship** between both. It is important to highlight that, despite the referendum result, **from a legal perspective the UK is still a full member of the EU**. And it will remain so; at least for two years after the British government notifies the EU its intentions to leave the Union (Art.50 TFEU). Then, UK firms continue are **still bounded by EU regulation**. Additionally, the February EU-UK agreement is no longer applicable.

Consequences on the UK: Unless a Norway-style agreement is reached (EEA membership), once Brexit is consummated, the **UK would lose its passporting rights**. This means that UK firms will need to establish subsidiaries in the EU to keep on providing the same sort of services. In order to partially mitigate this effect, the UK could get a **third country equivalence, which grants access to the EU market** for non-EU firms. The condition is that the home country has an equivalent regime: the UK would have to demonstrate that its regulatory framework is equivalent to that of the EU. The Commission, with the technical assistance of the ESAs, will assess the equivalence request. In principle, the UK regime should not find it very difficult to get such equivalence granted as all UK financial regulation stems from the EU. But this is mitigation tool is **an imperfect solution**, as it does not cover all services provided by the passport (e.g. those provided by the CRD on deposit taking, lending, etc.). Furthermore, in order to maintain its equivalence status, UK rules would have to **mirror any change in the EU regulatory landscape without any influence on it**.

From a regulatory perspective, we **should not expect a significant departure from the current setting**, as the UK will remain a member of other **international regulatory bodies**, such as the FSB. This means that they will need to comply with global standards. Additionally, in order to have **access to the EU financial markets**, the UK might seek to get the equivalence status from the Commission. This means that the British regulatory framework might have little room to significantly depart from the European one. Nevertheless, the UK might benefit from **withdrawing certain parts of legislation that were not desired in the first place**. A clear example could be the bonuses caps. Furthermore, the UK would not be bounded by the EU State Aid rules. This could facilitate government intervention to support financial institutions in cases of distress, providing a competitive advantage over its EU counterparts.

Consequences on the EU: It is **less clear** to what extent Brexit might affect the EU framework. The current regulatory landscape would not be affected by the UK departure. Nevertheless, there is a set of secondary consequences. For instance, with respect to the implementation of **TLAC**, it will certainly be **less likely that the EU follows the UK approach**. Additionally, EU supervisors might soften their current treatment for third countries, since the very extension of “third countries” would be enlarged by the inclusion of the UK. In addition, the financial turmoil caused by Brexit could be wielded as a justification to activate **exceptions to allow for public support** to the financial system. Finally, it is worth mentioning that more cooperation would be needed between EU and UK authorities, as the latter would no longer be a part of resolution colleges.

2 EU-wide stress test results

A heterogeneous melting pot

The results of the European stress test are very positive for most banks: assuming the minimum regulatory capital is that of the previous exercise, only one Italian and one Irish bank show capital needs. This is in line with expectations, as the health of the entities must have improved after successive stress tests over the years, after most national restructuring processes have finished, and after European economies seem to be recovering strength.

This year the sample only included around 50 banks (versus 140 in previous exercises) as authorities have decided to focus on larger entities for results to be comparable. However, 2016 **results show that the sample is not homogeneous, as there are big differences in the size of the impact of the adverse scenario and in the final capital ratio**. Among European banks there are white and black sheep, so there is no point in applying generalized measures, like a recapitalization to the whole system.

In this sense, a good example is that of Italian banks. There are still more than 600 entities in the country and they have more than €300bn of impaired assets. However, the results of the five entities that were subjected to the European test have been surprisingly good, as only one bank shows a clear weakness. In any case, *Monte dei Paschi*'s results were already expected, and half an hour before the stress test numbers were published the entity announced a capital injection plan and the securitization of a portfolio of non-performing assets. However, it is unclear whether they will find sufficient demand and plans will succeed. What should be done with the rest of Italian banks, which are not in a comfortable situation? **New European regulation should be respected, so that creditors should absorb losses before any capital injection and retail investors can be compensated in case of misselling**.

There have also been some **negative surprises** regarding banks that used to be white sheep and are becoming black sheep. **Some German and British banks show low capital ratios in the adverse scenario**, so further measures cannot be discharged.

In the case of **Spanish banks, they show more resilience**. This is the result of efforts made in the past, of the restructuring of the system and of balance-sheet cleansing. Markets should recognize this as soon as possible, as Spanish banks are currently as penalized as other peripheral entities in a worst situation.

The importance of this stress test cannot be underestimated. First, as market sentiment is currently negative regarding banks. Some analysts even assume that the difficulties of the Italian financial system are also present in all peripheral countries. Besides, this is **the first stress test since the ECB became single supervisor**, so results can demonstrate that authorities are monitoring European banks. Finally, for the first time the **stress test results will be incorporated in the SREP**, the supervisory annual exam to entities that sets the minimum capital required to each bank.

It is of utmost importance that all European banks are solvent. Once we have agreed on **progressing towards a banking union**, the mutualisation of risks is only possible if legacy burdens from the crisis are left behind. This is **why the problems of Italian banks should be solved as soon as possible**, but it is also why the solution should be in line with new European regulation. Only if European banks are solvent will they be able to support the ongoing economic recovery.

3 SSM supervisory statement on governance

The Single Supervisory Mechanism (SSM) has published a report on internal governance and risk appetite framework (RAF). The report conveys some lessons from the thematic review conducted in 2015 across all significant institutions (SIs), describing good practices. This report aims to support and guide institutions towards the implementation of international best practices.

Overview

For the SSM, **internal governance** is a key priority and one of the main elements of the Supervisory Review and Evaluation Process (SREP). Within the current environment in which banks face economic, financial, competitive and regulatory headwinds; internal governance and risk management have a significant impact on the overall risk profile and business model sustainability.

2015 Thematic Review

During 2015, an in-depth assessment of institution's management bodies and their RAF was conducted throughout a **thematic review**. This granted the chance to take stock of the governance frameworks of these institutions from a harmonised perspective, in line with the SSM principles. In addition, the SSM performed a **granular assessment of bank's management bodies** in charge of supervisory and management functions and their RAFs. Size, business models and complexity were taken into account. The thematic review provides guidance towards the implementation of international best practices. It is the starting point in the engagement of the boards with the SSM, fostering dialogue and interaction with management bodies, to promote adequate and sound governance. **Structured in two parts**, the thematic review was focused on: i) the assessment of the organisation and composition of the boards, and ii) the assessment of the RAF. This assessment followed a **two-layer approach:** i) compliance with national and European legislation, and ii) consistency with best international practices. Bank-specific assessments were benchmarked using a horizontal approach, in order to compare practices across peers and to ensure consistency, leading towards similar recommendations.

Functioning and effectiveness of boards

The overall composition of each board was assessed throughout the thematic review. It was aimed at assessing the "collective suitability" of the board regarding collective knowledge, expertise and diversity, without assessing individual members. Regarding the **board's composition**, the main areas of focus identified were: i) size and structure, ii) insufficient independence, iii) collective knowledge and diversity of board members, and iv) succession planning. In relation to the functioning and effectiveness of boards, the SSM expects the board to demonstrate capacity for strong, independent challenging and oversight of the management body. The thematic review concluded that the **quality of debate** could be further enhanced in a majority of institutions. On the **organisation of boards**, time of debate was identified to be too limited, documentation was not sent with sufficient time in advance, board members were not proactive in defining agendas and some information asymmetries were found. Regarding the **interaction among board members**, excessive concentration power was identified, reducing the quality of debate. The **quality of documentation** revealed a lack of conciseness, clarity and insufficient detail. **Oversight of internal control framework** must be further strengthened.

Risk appetite framework (RAF)

Management bodies of an institution are responsible for validating the RAF. Its **design** is a prerequisite for an effective implementation, formalising a summary statement to ensure a consistent risk management framework. Heterogeneity in the maturity of RAFs was identified. The **scope** was not always comprehensive, with material risk areas missing. Additionally, risk appetite metrics were not always properly adjusted to the business model and risk profile of the institution. Calibration and monitoring of **limits** has been identified as one area for improvement. Following the FSB's principles for an effective RAF, the SSM considers the RAF's establishment as a **strategic tool to reinforce a strong risk culture** in financial institutions. Regarding the thematic review, the RAF needs to be further integrated and embedded more closely into other structural processes of the institution. **Governance and deployment** of the RAF need to be better formalised.

Next steps

The thematic review identified that most SIs need further improvement of their governance and RAFs quality, as it is their responsibility to ensure a sound governance and high quality RAF. The SSM identified a set of follow-up supervisory actions for 2016, and deep-dive investigations will be performed for a sample of SIs.

4 MAPO & MP: Unity Creates Strength

Pulling in the same direction in a low interest rate environment

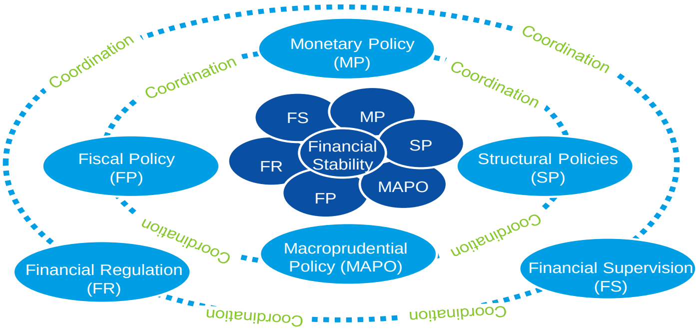
The persistency of low interest rates during a prolonged period of time might put financial stability at risk by contributing to the formation of asset prices bubbles. Macroprudential policies (MAPO), jointly with fiscal and structural policies, have to help monetary policy (MP) in the current challenging environment of low global growth and inflation. In addition to that, it is of the utmost importance that policy measures are globally coordinated and assessed considering the cross-effects among them.

MP has been the main lever to bolster economic growth after the last crisis, and it seems its room for manoeuvre is quite limited nowadays. Furthermore, financial regulation, while necessary, might have been rather excessive, causing some unintended effects in terms of financial stability -such as uncertainty and hindering the bank decision-making process. In view of this situation, to alleviate MP in promoting economic growth and increasing the margin of response towards achieving a stable and durable economic growth, **a coordinated and global response that considers the interaction among the different implemented policies seems to be the first best** - given the fact that *humility and hope* is not a policy response.

MAPO could play a key role, jointly with fiscal and structural policies with the support of an adequate financial regulation and supervision, for the sake of economic growth and financial stability in the current situation. More specifically, MAPO can be used for preventing and mitigating excessive risk taking in the search for yield that might cause formation of bubbles due to an incorrect price formation of assets. MAPO can also be a lever for ensuring a correct MP transmission mechanism. Similarly, MP could always consider –in normal conditions and in stress times- the financial developments that might have non-negligible consequences in terms of output for the business cycle and, thus, in the real economy. That is**,** a **symmetric policy that always considers MAPO and MP cross-effects** -this thesis seems to be shared by the BIS in its 2016 Annual Report and in its recent working paper on *monetary policy, the financial cycle and ultra-low interest rates*.

MAPO has three main goals for the banking sector in a low interest rate context: i) fostering its strength -increasing capital, liquidity and Pillar 2 buffers, higher weighting for RWAs and/or stress test exercises; ii) constraining risk appetite in the search for yield –rising the capital conservation buffer, toughening borrower side measures such as debt service to income, loan-to-value and loan-to-income ratios, shortening loan terms and applying more conservative loss given defaults; and iii) mitigating the procyclicality –via the countercyclical buffer. Most European countries have already implemented measures to achieve the first goal of increasing banks' resistance, and the tools towards limiting risk taking are increasing their relevance[1].

Figure 1
An adequate policy mix jointly with a proper regulation and supervision are needed in the current environment



Source: BBVA Research

1: ESRB's *Review of Macroprudential Policy in the EU in 2015 of May 2016 and ECB's first bi-annual Macroprudential Bulletin of March 2016*

5 ECOFIN: Roadmap for the Banking Union

Delays toward a full Banking Union

On June 17, the Council of the European Union held a meeting and discussed the future of the Banking Union. One of the main outcomes was a roadmap to complete the Banking Union. There are two key conclusions from the document: i) the revision on the regulatory treatment of sovereign exposures should wait for the outcome on the Basel Committee, and ii) political negotiation on the European Deposit Insurance Scheme (EDIS) would be delayed until progress on risk reduction measures is made.

The document presented by the Council starts by recognizing some of the major achievements on regards of the Banking Union, and the successful establishment of its first two pillars: the SSM in 2014, and the SRM, fully operational since 2016. Additionally, it recalls that most Member States had already transposed the CRDIV, BRRD and DGSD. Finally, the Council reaffirms the importance of completing the Banking Union, underling a set of key measures to achieve this goal.

The Roadmap: In order to complete the Banking Union, the Council proposes the following steps as a roadmap:

1) The Commission should put forward a set of proposals to further reduce risks during 2016:
   i. Amendments on the legislative framework in order to **implement TLAC and MREL**;
   ii. A proposal for a **common creditor hierarchy framework** to be used in the resolution framework;
   iii. Amendments on the CRR/CRD IV to further **harmonize options and national discretions**, as well as **finalizing the remaining Basel reforms** (particularly the leverage ratio and the net stable funding ratio);
   iv. A proposal for a minimum level of harmonization of **insolvency law**;
2) Start working on a common backstop for SRF by September 2016, if all Member States successfully transpose BRRD;
3) **Wait for the discussion in Basel on sovereign exposures**, before any European alternative is considered;
4) Postpone any political negotiation on **EDIS** until progress is made on **risk reduction** measures. Furthermore, the Council notes some Member States' intention to recourse to IGAs;
5) Annual assessment of these measures aimed at completing the Banking Union

Assessment: There are at least two main takeaways from the Roadmap presented by the Council. On the one hand, the discussion on the **revision of sovereign exposures** in the European context is delayed. The Council seems to have adopted a **"wait and see" strategy**. The result would depend on the proposals by the Basel Committee (in which there seems to be uncertainty about the final outcome). This seems to be a reasonable approach, since any European solution for the sovereign problem without a global consensus could lead to an **unlevel playing field** as previous experience has shown. On the other hand, and counterbalancing the previous remark, the **EDIS proposal was essentially put on indefinite hold**: the political discussion is **conditional on risk reduction** measures. Furthermore, **the Council does not commit to any specific timeline or milestones** to start such political negotiations. Some of these measures are indeed important, but **preconditioning EDIS on them would only result in an unnecessary delay** for the much needed third pillar. Additionally, if the Council decides to move forward via Intergovernmental Agreements (IGA), granting a veto power to individual Member States, the EDIS might be further delayed.

Conclusion: **Building the third pillar to complete the Banking Union could prove a difficult task** if it is preconditioned on improvements on a set of risk reduction measures with no specific milestones to achieve, and the negotiation process follows and IGA form.

6 EBA reports on convergence of supervisory practices

The European Banking Authority (EBA) recently published the 2015 report on the convergence of supervisory practices across the EU. It compares approaches and the consistency of outcomes in applying the Single Rulebook. The report covers the main activities undertaken by the authority to enhance supervisory convergence, and notes the remaining challenges.

Background

An enhanced convergence of regulatory and supervisory activities is key for the effective functioning of the Single Market. Divergent supervisory practices pose a potential risk to an effective oversight of cross-border groups, as well as to the development of a level playing field in financial services. EBA's mandate[2] regarding the convergence of the Supervisory Review and Evaluation Process (SREP) is extended to the scope of supervisory convergence and supervisory measures. Following this, the EBA has collected information, analysed relevant supervisory practices, and engaged in the development of regulatory tools promoting their convergence.

Assessment on supervisory practices - tools and scope

There are three components of supervisory convergence: compliance with rules, **comparability of supervisory practices,** and consistency of supervisory outcomes. The second component refers to the monitoring and understanding of whether competent authorities (CAs) apply comparable supervisory practices and consider a degree of flexibility (proportionality and supervisory judgement). The EBA uses several tools **to assess supervisory practices of highest concern**: i) SREP practices and approaches to determine specific prudential requirements on capital and liquidity, ii) practices in the assessment of selected material risks, iii) assessment of selected governance elements, iv) review of benchmarking and internal models, v) assessment of recovery plans.

Outcome of the 2015 assessment

The **EBA Guidelines on common procedures and methodologies for the SREP** have had a positive impact on the understanding of the SREP elements. CAs have made a significant progress in implementing the SREP. Overall they are in line with EBA's SREP Guidelines. Most CAs have adequately implemented this process, considering the specificities of their markets, the categorization of institutions, the **business model analysis** (BMA), the **internal governance and quality assurance**, the planning and intensity of supervisory activities (following the proportionality principle), and the review of **the recovery plans assessment**. Regarding other areas under the EBA remit, progress has been made in the supervisory use of **benchmarking** for the on-going review, the initial authorization of **internal models**, and the assessment of **remuneration practices**. Despite the progress made, some areas still face challenges to converge, particularly on the setting of institution-specific **capital requirements**, and common **scoring of risks and viability**. These differences combined with the application of automatic restrictions on distributions, might lead to a differential treatment for some banks and investors, jeopardizing the Single Market. Divergences in supervisory approaches generate uncertainty among institutions and investors, occasionally affecting temporarily capital planning and investment decisions. A key element supporting the convergence of supervisory practices is a solid regulatory framework, consistently implemented across the EU. The EBA has continued developing a number of regulatory products supporting the convergence. An important way to channel these **new policy products** has been the **participation of the EBA in the colleges of supervisors** of main cross-border banking groups.

2: EBA's founding regulation, Capital Requirements Directive and Article 107 of Directive 2013/36/EU.

Next steps

The SREP represents the core instrument of the on-going prudential supervision. The EBA will continue monitoring the implementation of the EBA SREP Guidelines. Key activities for 2016 include further consistency of the SREP outcomes and development of methodologies for emerging risks (where monitoring of practices shows a need for additional guidance or standards have been updated). The main areas of future work are: additional guidance on technological risks, benchmarking of internal models and recovery planning.

Main regulatory actions around the world over the last months

	Recent issues	Upcoming issues
GLOBAL	**On 31 May IOSCO** issued survey report on audit committee oversight of auditors **On 01 June IOSCO** and **IFRS** announced a Statement of Protocols to promote transparency within capital markets **On 06 June FSB** released guidance on resolution planning for SIIs **On 07 June IOSCO** issued Statement on Non-GAAP Financial Measures to assist issuers in providing clear disclosure for investors **On 16 June BCBS** published implementation assessments on frameworks for SIBs **On 22 June FSB** published recommendations to address structural vulnerabilities from asset management activities **On 22 June IOSCO** issued statement with priorities in the asset management industry **On 26 June BCBS** published its 2015/16 Annual Report **On 28 June ISDA** published the German Jurisdictional Module, within the ISDA Resolution Stay Jurisdictional Modular Protocol **On 28 June CPMI-IOSCO** published Third update to Level 1 assessment report, on the monitoring of Principles for financial market infrastructures **On 29 June CPMI-IOSCO** released guidance on cyber resilience for financial markets **On 11July BCBS** published an updated standard for the regulatory capital treatment of securitisation exposure, including STC **On 14 July ISDA** published a protocol for the Bail-in Article 55 of the BRRD **On 19 July FSB** published a report on the implementation of recommendations to reform major interest rate benchmarks **On 21 July the FSB** met in Chengdu **On 25 July FSB** published its 2015/16 Annual Report	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 leverage ratio applicable in Jan 2018
EUROPE	**On 01 June EC** issued Commission Delegated Regulation specifying on application of write-down or conversion powers is necessary under Article 44(3) of the BRRD has been published in OJEU **On 01 June ESMA** published responses to consultation on future MAR list of information on commodity and spot markets **On 02 June ESMA** published Statement financial firms of their responsibility to act in their clients' best interests when selling bail-in-able financial instruments **On 02 June EC** adopted three sets of draft (RTS) under MiFID2 and MiFIR: draft RTS 13, draft RTS 14, draft RTS 16 **On 02 June EC** launched consultation on barriers to the cross-border distribution of investment funds, including AIFs and UCITS funds, across the EU **On 02 June EC** issued Communication on collaborative economy which providing guidance to MS to promote it **On 02 June EC** adopted proposal to incorporate ESAs into EEA Agreement **On 02 June the EU and the United States** have signed an 'umbrella' agreement on the protection of personal data **On 02 June EBA** published decision on data for supervisory benchmarking **On 03 June EC** Implementing Regulation on the calculation of technical provisions and basic own funds for reporting with from 31 March until 29 June 2016 in accordance with the Solvency II Directive published in OJEU **On 06 June EC** adopted four Delegated Regulations under MiFID2 setting out RTS (i) on requirements to ensure fair and non-discriminatory co-location services and fee structures; (ii) on the level of accuracy of business clocks; (iii) on the data to be published by execution venues on the quality of execution of transactions; (iv) on the annual publication by investment firms of information on the identity of execution venues and on the quality of execution **On 06 June ESMA** issued a report on order duplication and liquidity measurement in EU equity markets **On 06 June ESMA** and **the US CFTC** have signed a memorandum of understanding under EMIR **On 07 June EP**'s plenary session has approved the E's proposal to delay the application of MiFID2/MiFIR by one year **On 07 June EC** adopted a draft Delegated Regulation setting out RTS on information on financial contracts and the circumstances in which the requirement should be imposed under the BRRD **On 08 June ESMA** published its Final Report and draft RTS for the European Long-Term Investment Fund Regulation (ELTIF) **On 08 June Coreper** agreed a stance on new rules on prospectuses **On 08 June EC** Implementing Regulation extending transitional periods related to own funds requirements for exposures to CCPs under the CRR and EMIR **On 09 June EC** launched a public consultation on the Financial Conglomerates Directive and its implementation to date **On 08 June EC** Implementing Regulation extending transitional periods related to own funds requirements for exposures to CCPs under the CRR and EMIR	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

Continued on next page

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

	Recent issues	Upcoming issues
EUROPE	**On 09 June EC** launched a consultation on Financial Conglomerates Directive **On 10 June the EU Council Presidency** published its proposal for a general approach with regard to the proposed Regulation on MMFs **On 10 June EC** Implementing Regulation laying down ITS on content of the description of group financial support agreements in accordance with the BRRD has been published in OJEU **On 10 June EC** Delegated Regulation on clearing obligation under EMIR **On 13 June EBA** publishes final draft RTS on specialised lending exposures **On 13 June EC** adopted three Delegated Regulations (RTS 3, RTS 5, RTS 8)that set out RTS under MiFIR and MiFID2 **On 14 June ESMA** updated its list of recognised CCPs based in third countries **On 15 June ESMA** published its Annual Report for 2015 **On 15 June EBA** published its 2015 Annual Report **On 17 June Council of the EU** adopted amending Directive and amending Regulation on a one-year postponement of the transposition and application deadlines for MiFID2 and MiFIR **On 17 June** Commission Implementing Regulation laying down ITS on identification and transmission of information by competent authorities and resolution authorities to the EBA under the BRRD published in OJEU **On 17 June EC** six Commission Regulations setting out RTS under MAR **On 17 June ESMA** issued Opinion in response to the EC on intended changes on a draft ITS on disclosure of inside information under the MAR **On 21 June Council of the EU** agreed on a draft Directive intended to prevent tax avoidance by large companies **On 23 June ESMA** published responses to DP on UCITS share classes **On 28 June EP**'s plenary session adopts a resolution on the decision to leave the EU resulting from the UK referendum **On 29 June EC** a Regulation amending CRR on exemptions for commodity dealers has been published in OJEU **On 29 June EC** Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds has been published in OJEU **On 29 June EC** published a report on the appropriateness of Article 3(1) of the Financial Collateral Directive (Directive 2002/47/EC - FDC) with regards to formal acts required to provide credit claims as collateral **On 29 June EBA** launches consultation on Guidelines on disclosure requirements for the EU banking sector **On 30 June EP Representatives Committee** an agreement with the EP on institutions for occupational retirement provision **On 01 July EC** adopted rules to fight insider dealing and market manipulation **On 06 July ECB** published list of less significant institutions **On 07 July EC** issued proposal to amend Anti-Money Laundering Directive **On 12 July The Council** found that Portugal and Spain have not taken effective action to reduce their excessive deficits **On 12 July Council of the EU** EU and Monaco signed an agreement aimed at improving tax compliance by private savers, contributing to efforts to clamp down on tax evasion **On 13 July EC** published framework for cross-border cooperation on audit supervision **On 13 July ESMA** consults on proposed central clearing delay for small financial counterparties **On 13 July ECB** published guide on assessing the eligibility of IPSs **On 13 July the SRB** published its first Annual Report. **On 14 July EC** launched rules to support investment in venture capital and social enterprises **On 14 July EC** published responses to consultation on retail financial services **On 15 July EBA** launched data collection to support the new prudential framework for investment firms **On 19 July EBA** launched public consultation public on the MREL **On 20 July EC** accepted commitments by ISDA and Markit on CDSs **On 21 July EBA** published final draft RTS on assessment methodology **On 22 July EBA** provided updates on NPLs in EU banking sector **On 25 July EBA** consults on target level of resolution financing arrangements **On 25 July ESRB** published its Annual Report	

Continued on next page

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

	Recent issues	Upcoming issues
EUROPE	**On 26 July EBA** published guidelines on communication between supervisors and statutory auditors **On 26 July EBA** launched consultation on credit risk management practices and accounting for expected credit losses	
MEXICO		**The CNBV** is expected to issue special accounting standards that will allow banks leeway in provisioning credits to clients and regions affected by the financial hardship experienced by Pemex. **The CNBV** is expected to issue its leverage ratio rules, in line with the international standards according to a public review.
LATAM	**On 06 June, Peruvian Government** issued a law that allows people using up to 25% of their private pension fund for the initial fee on the purchase of a first home or prepay the loan of their first house. **On 23 June, the Central Bank of Argentina** announced on, that it would raise the ratio of Net Position in Foreign Currency to Equity to 15% for spot and would remove the limit on positive exposure to term positions. **On 30 June, the National Monetary Council of Brazil** approved a resolution adopting FSB recommendations regarding the preparation and implementation of recovery plans for systemically important financial institutions. **On 01 July, the Central Bank of Argentina** adapted local Minimum Capital Requirements to the Basel rule on Liquidity Coverage Ratios as of end July 2016. Also, to comply with Basel regulations on capital requirements, the Central Bank ruled that exposure to the national government in foreign currency (100% ceiling) will now require 150% risk weight if the sovereign rating is below B-	**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 modified the mandatory pension fund investment regime, modifying the limits for alternative investments
USA	**On 03 June Fed** launched a consultation on capital standards for insurance companies **On 10 June Fed and FDIC** permitted 84 firms to file reduced content resolution plans **On June CFTC** approved amendments to final rule relating to swap data recordkeeping **On 17 June Agencies** issued host state Loan to deposit Ratios **On 17 June federal regulatory agencies** issued statement on new accounting standard on financial instruments **On June the FSOC** released 2016 annual report **On 22 June** FDIC adopted Proposed Rulemaking to remove references to credit ratings form the FDIC's International Banking Regulations **On 23 June FRB** released stress test results for 33 largest bank **On 29 June Fed** released Comprehensive Capital Analysis and Review **On 07 July Fed** extended for one year implementation of certain parts of the Volcker Rule **On 21 July Fed** announced changes to part II of the Fed Policy on Payment System Risk **On 22 July Agencies** issued proposal on method to adjust threshold for exempting small loans from special appraisal requirements **On 22 July Fed and CFPB** issued proposal on method to adjust thresholds for exempting certain consumer credit and lease transactions	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 Oct. 2016.
TURKEY		**The Central Bank of Turkey** stated that the FSC will study regulations on CAR so as to prevent the negative impacts on banks of the new regulation and to conserve FX liquidity reserves Draft" regulation regarding auto-enrolment in the private pension system will require the participation of all employees aged 45 or less for six months. After the lock-up period, employees will be granted the option of leaving.
ASIA		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 Transferrable Securities Directive
FSAP	Financial Sector Assessment Program		

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report prepared by BBVA or obtained from or based on sources we consider to be reliable and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

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

Matías Daniel Cabrera
matiasdaniel.cabrera@bbva.com

Javier García Tolonen
javierpablo.garcia@bbva.com

Santiago Muñoz
santiago.munoz.trujillo@bbva.com

Victoria Santillana
mvictoria.santillana@bbva.com

Pilar Soler
pilar.soler.vaquer@bbva.com

Pablo Fernández Oliva
pablo.fernadez.oliva@bbva.com

Head of Supervisory and Regulatory Affairs-Frankfurt Office
Matías Viola
matias.viola@bbva.com

Chief Economist for Digital Regulation
Álvaro Martín
alvarojorge.martin@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
alvaro.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