BBVA | Research

Financial Regulation Outlook

FIRST QUARTER 2018 | REGULATION UNIT

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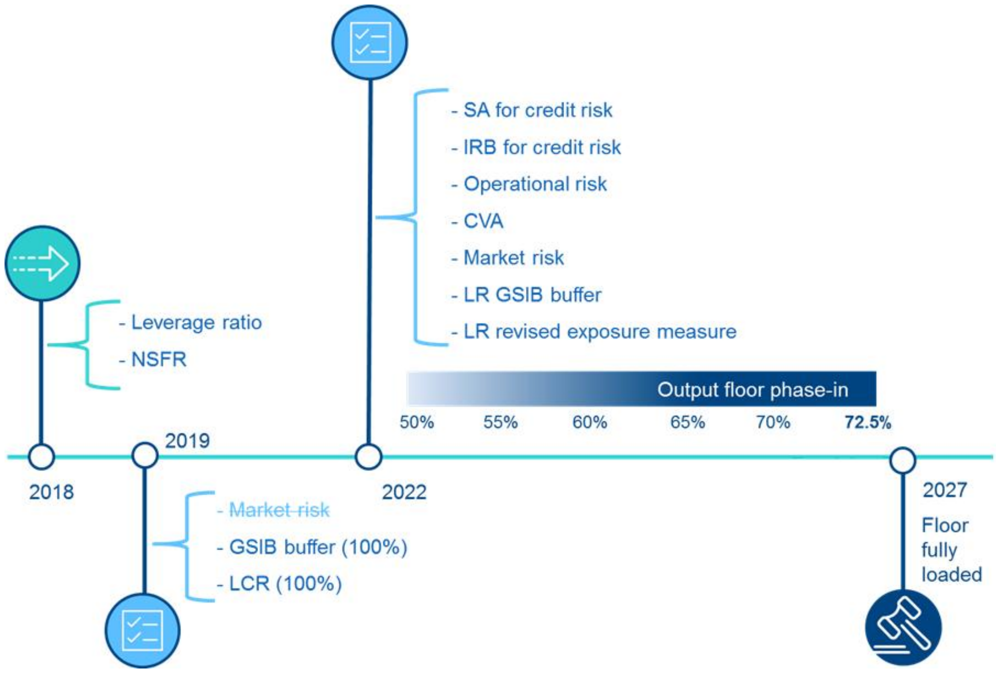
Closing date: **15 January 2018**

1. Basel III End Game

Santiago Muñoz and Pilar Soler

The Basel Committee on Banking Supervision (BCBS) announced on 7 December that an agreement had been reached on the finalisation of the Basel III framework. The calibration of the output capital floor had been the most significant pending element and the main focus of negotiations. The new standards are set to be implemented by January 2022. Additionally the Group of Central Bank Governors and Heads of Supervision (GHOS) stated that more time was provided for the review of the market risk framework (January 2022) and that no consensus had been reached on the treatment of sovereign risk. These announcements will help bring clarity to the banking regulatory framework and some stability in the design of regulation is to be expected.

Figure 1.1 Implementation timeline for finalisation of Basel III



Source: BBVA Research based on BCBS Basel III Finalising post-crisis reforms document

The main issues included in the finalisation package of Basel III are:

Review of the standardised approach for credit risk. The Basel Committee sought to reduce the excessive reliance on external credit ratings and improve the risk sensitivity of the standardised approach. This review was especially important since it is the base for the newly introduced capital floor. Some improvements on granularity are related to the recalibration of risk weights for banks, an updated lookup table for corporate exposures and greater risk weight sensitivity of real estate exposures.

Review of the internal models approach to credit risk. The use of the most advanced internally modelled approaches for low-default portfolios has been limited. Specifically, equity exposures can only use the standardised approach and exposures to large corporates (>€500m in revenues), banks and other financial institutions can no longer use the most advanced internally modelled approaches (Advanced IRB). Furthermore, the BCBS has established some floors to internal parameters such as loss given default (LGD) and exposure at default (EAD).

New operational risk framework. The existing approach did not cover all sources of risk and capital requirements were insufficient to cover some real operational losses. Therefore the BCBS decided to replace all approaches (including AMA) with a single standardised approach based on two components: the Business Indicator Component and the Internal Loss Multiplier. The first is a measure of a bank's income and assumes that operational risk increases with a bank's size. The second assumes that banks that have experienced greater proportional losses in the past will most likely experience greater losses in the future. The capital requirement is the multiplication of both components, however jurisdictions are allowed to set the loss multiplier at 1.

Revised CVA framework to cover potential losses from a deterioration in the creditworthiness of a counterparty in a hedged transaction (derivatives and securities financing transactions). This was a significant source of losses in the last financial crisis. The new framework enhances risk sensitivity by including the exposure component of CVA risk together with its associated hedges. It also limits the use of internal models for risks where modelling is not prudent and makes both the standardised and basic approach consistent with the new market risk framework.

Revised leverage ratio and GSIB buffer. In order to have a leverage ratio that is complementary to and consistent with the risk-weighted capital ratio framework, a GSIB buffer on the leverage ratio was missing. The GSIB leverage ratio buffer has been set at 50% of the GSIB's risk-weighted higher loss absorbency requirements. For example, if a GSIB is subject to a 2% risk-weighted capital buffer, the leverage ratio buffer is set at 1%. Refinements to the exposure measure of the leverage ratio are related to the treatment of derivatives and off-balance sheet exposures.

New capital output floor. The BCBS specified that the risk-weighted assets of banks using internal models should not fall below 72.5% of the aggregate risk-weighted assets as computed by the standardised approaches. Therefore the floor limits the regulatory capital benefits that banks can obtain from using internal models and helps to maintain a level playing field among banks using different risk models. A five-year phase-in period was agreed for the output floor beginning at 50% in January 2022 and reaching 72.5% by 1 January 2027.

Assessment

The announcement is very welcome. A final agreement on the review of Basel III provides much needed regulatory certainty, especially after almost a decade of regulatory activism. The banking system and markets needed to have greater clarity about the prudential framework that fully applies to banks.

Nevertheless, the implementation of the new standards is likely to be challenging. The new standards imply significant changes in banks' internal processes, which will now need to be adjusted. Moreover, the introduction of the aggregate output capital floor, with the need to disclose capital requirements under the standardised approach, will introduce significant compliance costs. Combining restrictions on parameters estimations, input floors and output floors may also end up introducing undue complexity to the capital framework.

2. CRD V: progress and outstanding issues

Pilar Soler

One year after the presentation of the Commission's proposal, negotiations are still going on in both the Council and the Parliament. Despite the efforts of the Estonian Presidency to reach an agreement before year-end, it was not possible to agree a common position on the overall package. The Parliament's report was finally presented on 11 December and amendments are due at the end of January. It is possible that an agreement in both institutions can be reached in 1H2018.

Negotiation in the Council

The Estonian Presidency aimed at reaching a general agreement on the package before year-end. Despite the efforts made to that end, an agreement on the overall package was not possible. The main issues on which there is no agreement are:

- **Pillar 2 and macroprudential framework**. The Commission's proposal included a clarification regarding Pillar 2 and its microprudential nature. Even though this clarification has been widely welcomed, some Member States felt that it should be accompanied by targeted changes to the macroprudential framework in order to ensure that macroprudential risks are properly covered.

- **Fundamental Review of the Trading Book**. Member States had concerns regarding the implementation period for the FRTB, given the complexity of the new framework and the work that is still being done in relation to significant aspects of the new standard. The implementation is proposed at 4 years and discussions continue regarding certain features of the phase-in, specifically its duration.

- **Net Stable Funding Ratio**. The treatment of derivatives and repos and reverse repos is still under discussion, with divergent views among Member States. The main source of disagreement derives from the stable funding requirement applicable to derivatives and whether it should be set at 5% or 20% after Basel permitted it to be lowered at the discretion of competent authorities.

- **Capital and Liquidity waivers**. The Commission's proposal tried to recognise the advances that had been made since the introduction of the Single Supervisory Mechanism, extending the possibility of granting capital and liquidity waivers to subsidiaries in Member States other than that of the Parent. Some Member States are concerned that this might end up being detrimental to financial stability, and thus oppose this recognition.

Negotiation in the Parliament

After several delays in the publication of the draft reports from Peter Simon (the rapporteur), these were finally presented on 11 December, with a shorter-than-expected period in which to submit amendments. Amendments are due on 23 January for the BRRD, 25 January for the CRR and 26 January for the CRD. The main issues included in Simon's report are:

- **Pillar 2**. The Parliament advocates for further flexibility for supervisors regarding the situations in which a Pillar 2 add-on can be required. Moreover, the Parliament also welcomes the clarification that the Pillar 2 is to be used to cover institution-specific risks, but is also of the opinion that this should be complemented with targeted amendments to the macroprudential framework.

- **Proportionality**. Proportionality is one of the main issues covered in Simon's report. It includes a more specific definition of what a small and non-complex institution is, and it includes a simplified Net Stable Funding Ratio and Standard Approach for Counterparty Credit Risk for these entities.

- **Fundamental Review of the Trading Book**. Similarly to the Council, the implementation of the FRTB has created concerns in the Parliament. Simon's report includes a 3-year implementation period together with a 4-year phase-in (60, 70, 80 and 90%).

- **Leverage ratio add-on.** A novelty in the Parliament's report is that it proposes a leverage ratio add-on fixed at 1% for G-SIIs in advance of what was decided in Basel on 7 December.

Next steps

On the Council side, the Bulgarian Presidency starting in January will resume the negotiations, based on the progress reports prepared by the Estonian Presidency. Given the great efforts made to advance as much as possible in the last months of the year, it is possible that a general agreement will be reached in the first quarter of the year. On the Parliament side, after the presentation of amendments, which is open until end-January, a first vote could be expected also for the first quarter of the year.

After both institutions have reached an internal agreement, 'trilogues' would begin in order to agree the final texts among the Council, the Parliament and the Commission. Most measures contained in the package are to be implemented two years after the approval of the texts.

Figure 2.1 Next steps in the negotiation of CRD V

Source: BBVA Research

3. EU's financial architecture: roadmap and challenge

Matias Daniel Cabrera / Álvaro Romero Mateu / Victoria Santillana

The way ahead for the European Union

During 2017 the European Commission launched a series of proposals to shape the future of the EU's supervisory architecture. The aim is to increase the role of regulators and supervisors, improving their coordination. Completing the banking union and the EMU are major objectives as well. But there are several remaining challenges in the future, such as those posed by Brexit.

Last October, the **European Commission presented a work programme** with a set of initiatives setting the path for the banking and finance areas in the future. One of the most pressing issues is the completion of the Capital Markets Union (CMU). In this regard the Commission has proposed a revision for the investment firms framework, an action plan on sustainable finance, a set of initiatives for Fintech, a framework for crowdfunding and P2P funding, and a European framework for covered bonds. All these initiatives are more important following Brexit, as a way to enhance the capital market on the continent. Another important subject on the Commission's programme is the completion of the European Monetary Union (EMU). In order to do this it presents the idea of transforming the European Stability Mechanism (ESM) into a European Monetary Fund (EMF) to be used as a dedicated euro area budget line or as a backstop within the Banking Union framework. Another issue discussed in the programme is the completion of the Banking Union. The creation of a secondary market for NPLs and the development of a framework for the creation of an EU sovereign bond-backed security are two of the subjects mentioned. But finalizing the European Deposit Insurance Scheme (EDIS), and setting a backstop for the Single Resolution Fund (SRF) are pressing issues as well.

In an earlier publication, and building on previous reports and consultations, the Commission presented in September a proposal to **revise the European Supervisory Authorities' framework** (EBA, ESMA and EIOPA). The proposal deals with issues such as: enhancing coordination among supervisors, changing the governance of institutions and changing the funding structure to include industry contributions. One overall objective is to set the basis for a single capital markets supervisor in the context of the CMU. The proposed package to revise the ESAs includes an "Omnibus Directive" which seeks to amend a number of EU regulations as well. For instance it proposes changes to the CCP oversight process, granting ESMA additional tasks and powers. Other proposed changes are related to MiFID II, Solvency II and the ESRB Regulation. The Commission has encouraged European institutions to treat the proposals "as a matter of priority" in order to ensure their entry into force before the end of the current legislative term of the Parliament in 2019. The improvement of the supervisory architecture of the EU is an important objective and is certainly a welcome objective. The duties of the supervisors should be enhanced. A clear example arises for the case of third country equivalences, a role of the ESAs that should be enhanced. For instance, the EBA should be given additional resources in order to continue its assessment of third-country equivalence without further delaying the process. Additionally, coordination with other supervisors should be strengthened in order to prevent potential conflicts on the regulatory front, thus contributing to the development and application of a truly single rulebook.

Finally, in December the **Commission issued a package with a more concrete roadmap** for deepening the EMU, which includes concrete steps to be taken over the next 18 months. In this regard, the Commission has put forward a number of initiatives: a proposal to establish an EMF, a proposal to integrate the substance of the Treaty on Stability, Coordination and Governance into the Union legal framework, a Communication on new budgetary instruments for a stable euro area within the Union Framework, and the creation of a European Minister of Economy and Finance who could serve as Vice-President of the Commission and chair the Eurogroup. Following the Euro Summit on 15 December, EU leaders agreed to move forward with a number of ideas on which there is a broad consensus. An example of this is the setting up of a common backstop for the SRF, possibly in the form of a credit line from the European Stability Mechanism (ESM). Another idea on which there is some degree of consensus is to further develop the ESM, possibly to create the so-called European Monetary Fund. EU leaders also agreed to further develop the Council's Roadmap from June 2016 on completing the banking union, including the gradual introduction of an EDIS.

Figure 3.1 Roadmap for deepening EMU over the next 18 months

2018	Mid-2019	2019-2025
	Financial Union	
• Adoption of the **remaining proposals on Banking Union** (Risk reduction, EDIS, common backstop for SRF) • COM proposal for an enabling framework for the European **Sovereign Bond-backed Securities for the Euro Area**	• Fully functional **backstop** to the SRF • Implementation of **EDIS** • Finalising all pending legislative initiatives for **CMU** • **Brexit** completed by March (transition period thereafter)	• Continuous implementation of **CMU** initiatives • Move towards the issuance of **European Safe Asset** • Changes to the regulatory treatment of **sovereign exposures**
	Economic and Fiscal Union	
• Adoption of the proposal to reinforce the Structural **Reform Support Programme** • Adoption of the targeted changes to the **Common Provisions Regulation** • COM proposals for the **post-2020 Multiannual Financial Framework**	• Adoption of the post-2020 proposals: ▪ **Structural reform** support ▪ Dedicated **convergence facility** for non-euro Member States ▪ **Stabilisation** function	• Implementation of the new **Multiannual Financial Framework** • Fully functional **stabilisation function** • Simplification of the rules of the **Stability and Growth Pact**
	Institutional framework	
• Discussion on **legislative proposals**: European Monetary Fund, Euro Area External representation and incorporate fiscal compact in EU law • **Discussion on** European Minister of Economy & Finance • Formalise practices between EP and EC	• **Adoption** of legislative proposals: ▪ **European Monetary Fund** ▪ Euro Area **External representation** ▪ Include **fiscal compact** in EU law • **Common understanding**: European Minister of Economy and Finance	• Fully-fledged **European Minister of Economy & Finance** as chair of the Eurogroup and Vice-President of the COM • Fully operational European Monetary Fund • Setting-up a **euro area Treasury**

Source: BBVA Research based on BCBS Basel III Finalising post-crisis reforms document. COM stands for European Commission,

Remaining challenges

A priority in the EU should be the finalization of the Banking Union: the creation of EDIS and a backstop for the SRF are needed to complete the architecture. Particularly with EDIS, it is necessary to move forward following a process of gradual increase in risk-sharing, in order to develop a fully-mutualized scheme. That must go hand in hand and in parallel with risk reduction measures.

The development of the CMU would be a challenge in the face of Brexit, as the EU would lose one of the most important players on this front. Nevertheless, the rationale for developing a CMU remains unchanged, and so efforts to pursue this goal should not be relaxed.

Finally, both the industry and supervisors should prepare for the outcome of the Brexit negotiations. Given the high degree of interconnection between the EU and UK financial sectors, it is important to take into consideration a set of potential issues that could arise. For instance, given that UK financial firms are likely to lose their passport, some activities might seek to relocate in order to maintain access to the single market. In this regard, EU authorities should prepare for a potential increase in applications from firms seeking to establish new subsidiaries, as their supervisory capacity could be exceeded. The review of the ESAs and their enhanced supervisory powers should take this into consideration. But the possible relocation of firms has other implications as well: incoming banks would be under the scope of national deposit insurance funds and resolution funds. Then, arrangements must be made to guarantee that these schemes are properly funded, otherwise the EU’s crisis management framework might be jeopardized. The deep interconnection between the EU-UK financial systems calls for an enhanced cooperation between their supervisory and resolution authorities. Joint supervision of certain activities that involve both economic blocks could alleviate tensions arising from cross-border activities. Lastly, it is worth stressing the problems that might arise on the CCP front, as the UK concentrates a very large proportion of clearing activities from EU parties. In a cliff-edge scenario EU banks would no longer be allowed to use (for regulatory purposes) UK-based CCPs. The equivalence regime might alleviate this problem, but is not a long term solution. A sufficiently long transition period would be advisable to give financial institutions time to adapt to such environment.

4. Sustainable Finance: Here to Stay

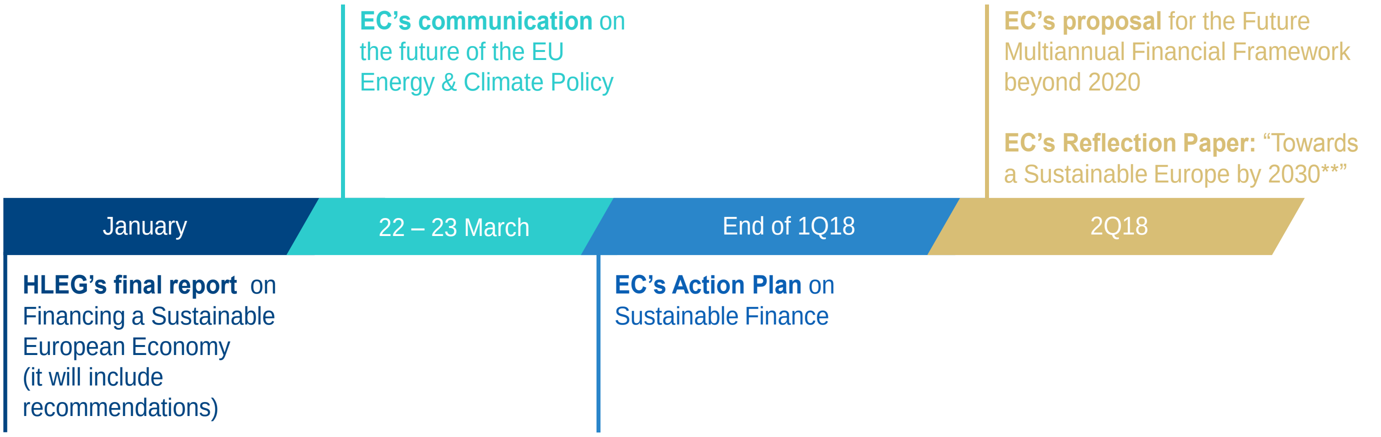
Arturo Fraile

The One Planet Summit of last December has confirmed the irreversible, global and coordinated commitment towards embedding sustainability at the core of the whole financial system. Sustainable finance continues to evolve from the talk to the walk. However, there is still much work to be done to achieve a solid common framework that allows for long-term financial stability.

A financial regulation and supervision catch-up

There are at least three recent public documents that confirm the aforementioned engagement that are worth noting: **i)** It is the first time that eight Central Banks and Supervisors[1] have released a **Joint Statement** for Greening the Financial System to react to environmental and climate challenges at a global level. **ii)** The European Commission (EC) has launched **ten initiatives** for a modern and clean economy that involve all the players of the EU financial system. Last but not least, **iii)** the European Parliament has published two **Draft Reports**[2] that explicitly refer to sustainability issues - i.e.: climate-related risks to be integrated in the risk management of institutions and to be disclosed under Pillar II / the SREP[3]; even more, it is proposed to introduce green and social discount factors for the capital requirements associated with those asset classes/projects - analogously to the already existing support factors to SMEs and infrastructure loans.

Figure 5.1 The next most relevant landmarks at EU level in the short-term



Source: BBVA Research based on the EC's *EU Invests in the Planet: Ten Initiatives for a Modern and Clean Economy The Juncker Commission's contribution to the One Planet Summit*[4]

1: Banco de Mexico, the Bank of England, the Banque de France and Autorité de Contrôle Prudentiel et de Résolution (ACPR), De Nederlandsche Bank, the Deutsche Bundesbank, Finansinspektionen (The Swedish FSA), the Monetary and Authority of Singapore and the People's Bank of China.
2: **i)** On the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013. **ii)** On the proposal for a directive of the European Parliament and of the Council amending Directive 2013/36/EU. Rapporteur: Peter Simon.
3: Pillar II: Risk management and supervision. SREP: the supervisory review and evaluation process.
4: Paris, 12 December 2017. * EU High-Level Expert Group on Sustainable Finance (Secretariat provided by the European Commission (EC) Commission. ** *Towards a Sustainable Europe by 2030, on the follow-up to the UN Sustainable Development Goals, including on the Paris Agreement on Climate Change".*

An overview of the markets' positioning

Markets have a role of the utmost importance towards filling the significant sustainable finance gap. Therefore, they need adequate information to correctly measure the risks and opportunities and to be able to compare. As such, there is an expanding demand for transparency and for disclosure. Globally, there are 237 companies with a market capitalization of over $6.3 trillion[5] already committed to following the Task Force on Climate-Related Financial Disclosures (TCFD) voluntary **recommendations** on climate-related financial disclosures. In addition to that, it has to be noted that some of the most prominent investment managers requested 60 of the largest banks to follow the TCFD recommendations last September[6].

A "solution of the market and for the market", as stated by Mark Carney recently.[7]

So what?

Two years after the Paris Agreement, there seems to be a clear consensus among all of the agents (regulators, supervisors, governments, companies and investors) on the fact that a sustainable financial system is needed for the improvement of the aggregated welfare function of the societies in which companies and markets perform our activities.

A sustainable financial system can have a direct positive impact on the real economy by promoting innovation, job creation and economic growth. For example, the EC estimates that "clean energy for all Europeans can create 900 thousand new jobs and unlock EUR 177 bn of investment every year"[7].

Two necessary short-term conditions for achieving that are: a commonly accepted taxonomy and framework, both aimed at promoting long-term financial stability, and allowing the measurement and comparison of risks and opportunities. In that vein, at an EU level, the High-Level Expert Group's final recommendations which will be released in a few days' time are expected to shed some valuable light on both of them.

This is a long-distance run. As such, it is important to advance with firm steps towards the finish line, being swift, ambitious and prudent at the same time. It is important to adequately dose the effort and the speed according to each point of the race. One false step at the beginning of the race could have non-negligible undesired consequences during the rest on the run.

5: Source: TCFD. Mike Bloomberg and FSB Chair Mark Carney Announce Growing Support for the TCFD on the Two-Year Anniversary of the Paris Agreement.
6: Source: Financial Times. *Big investors take aim at banks over climate change risk.*
7: EC's *EU Invests in the Planet*: *Ten Initiatives for a Modern and Clean Economy The Juncker Commission's contribution to the One Planet Summit.*

5. ECB's supervisory priorities

André Soutinho

Similar concerns for the year ahead

On 18 December 2017 the SSM (Single Supervisory Mechanism) updated its priorities for the upcoming year of 2018. When comparing with the previous year, it is easy to understand that they remain rather similar, broadly speaking.

The supervisor remains vigilant as regards banks' business models and profitability, given that they continue to struggle to return to competing levels with other international peers. The ECB will also keep a close eye on interest rate levels, evaluating the findings of a recently performed analysis of sensitivity to interest rate risk in the banking book. Monitoring the development of credible strategies that support the decrease of the stock of NPLs remains as a key point as well. This will be achieved through continuous support from the NPL Task Force to the JSTs and their ongoing supervisory dialogue with each bank. The supervisor also marks the real estate sector as one to pay particular attention to, in terms of concentration of exposures.

Moreover, the continuation of the supervision of risk management activities, including the Targeted Review of Internal Models, remains a top priority, as well as finalising a guidance for ICAAP and ILAAP, and works for the improvement of risk-by-risk Pillar 2 requirements. A follow-up on banks' readiness for recent regulatory changes such as IFRS 9, and others is also among the priorities.

A few exceptions

Nonetheless, there are a few new additions, and one of them concerns what is arguably one of the main geopolitical events of recent years - Brexit. The UK referendum created a lot of uncertainty as to how future relations *vis-à-vis* the EU on a whole range of topics such as trade and movement of people, among others, would develop.

Financial institutions are also affected by this situation, which poses a challenge for their current business models. The ECB has been adamant in ensuring that European banks are prepared to implement the strategies developed as part of their contingency plans. The ECB is particularly attentive to the establishment of *shell-institutions* within the SSM countries; those interested in operating in the region will have to establish governance and risk management mechanisms proportional to the scale, nature and complexity of the institution.

Another novelty in this year's list is stress-testing. One managed by the EBA focused on a sample of large institutions; and the other, managed by the ECB, aimed at testing institutions that were not included in the EBA's sample. The results will feed into this year's SREP. In a nutshell, the supervisory intensity of the SSM and the main topics to be supervised will remain as they were in previous years.

6. Prospects in digital regulation

Lucía Pacheco

An intense year head

Digitisation is changing the configuration of the financial sector and the way financial providers engage with their clients, and this is giving rise to opportunities and challenges. In this new setting, it is not only banks and financial institutions that need to embark on a transformation process: regulatory and supervisory frameworks also need to evolve and adapt. Several issues have shaped the regulatory agenda in 2017, and are likely to continue doing so in 2018.

The **payments industry** is probably the area that has seen the greatest number of innovations in recent years. In January 2018 a new EU directive, the Payment Services Directive, or PSD2, will enter into force, although the full application of related regulatory technical standards will have to wait until 2019. This new regulatory framework seeks to enhance competition while reinforcing the security of payments in Europe. To that end, the Directive lays down rules on access to clients' payment accounts by third parties, which will be allowed to offer information aggregation services and initiate payments on behalf of clients.

In line with the above, the **access, use and protection of data** is another topic that has marked the discussion in 2017. Digitisation makes storing, processing and sharing large amounts of data technically feasible, which on the one hand facilitates the adoption of technologies (e.g. big data and artificial intelligence), with a great potential to expand access to financial services. At the same time, however, it raises concerns as regards how to ensure privacy and integrity of customers' data. In the EU, this has materialised in two new regulations: the new General Data Protection Regulation (GDPR), which will come into force in May 2018, and the e-Privacy Regulation, still being discussed and expected to be approved in 2018.

Furthermore, given the growing relevance of data, ensuring the integrity of information has become more important than ever. The increase in the frequency and sophistication of cyber attacks has placed **cybersecurity** among the top concerns for the financial industry. In Europe, the new cybersecurity framework is contained in the **Directive on security of network and information systems (NIS Directive)**, in force since August 2016, which now needs to be implemented by the Member States. Also, PSD2 and GDPR include elements that reinforce the cybersecurity toolkit. Going forward, authorities and the financial sector need to continue working on strengthening harmonisation and reinforcing cooperation across both sectors and borders.

During 2017 the **regulatory debate on FinTech**[8] and its implications gained momentum. Financial regulators and supervisors at the EU level (Commission, Parliament and EBA), and the international level (Basel Committee or FSB) published consultations or reports analysing this topic, which will serve to guide the priorities and action plans in the years to come. In Europe, for instance, the European Commission intends to issue a detailed "Fintech Action Plan",

8: Pacheco, L. Fintech: implications for regulation and supervision. BBVA Research Digital Economy Outlook, December 2017.

expected in March, to guide the work ahead. Along with this action plan, the Commission is expected to start working as early as the first quarter of 2018 in several fields, including a legislative proposal to regulate crowdfunding and P2P lending in the EU. Also, the action plan might detail which measures European authorities may take to foster innovation while facilitating regulatory compliance (such as innovation hubs). Finally, other proactive regulatory innovations might come from the European Supervisory Authorities or from individual Member States.

Also, in 2018 the debate might move to other regions beyond Europe, such as Latin America. For instance, a draft law to regulate the use of financial technology was presented and discussed in Mexico in the last quarter of 2017. Although the draft law could not be passed last year, the discussion will likely be resumed during 2018. And once this project is approved, Mexican authorities will face the challenge of shaping a large set of secondary rules.

Going forward, the priority should be to define **common principles at global level** that help to avoid fragmentation across countries when defining the regulatory approach to Fintech. To this end, the work of **international regulators**, and more prominently the **Financial Stability Board**, in guiding the regulatory debate will be crucial in 2018.

Main regulatory actions around the world over the last months

	Recent issues	Upcoming issues
GLOBAL	**On Oct 3,** FSB publishes consultation on Unique Product Identifier (UPI) governance **On Oct 6,** BCBS issues statement on NSFR and derivative liabilities treatment **On Oct 6,** FSB publishes work plan for 2018 **On Oct 10,** FSB issues report on the reform of interest rate benchmarks **On Oct 11,** IOSCO issues report on CRA products used to make decisions **On Oct 13,** G7 issue their fundamental elements for effective assessment of cybersecurity **On Oct 13,** FSB publishes report on Financial Sector Cybersecurity Regulation **On Oct 18,** BCBS publishes thirteenth progress report on adoption of the Basel regulatory framework **On Oct 18,** BCBS publishes four country reports assessing implementation of LCR **On Oct 25**, BCBS publishes guidelines on identification and management of step-in risk **On Nov 1,** FSB issues report on Artificial Intelligence (AI) and machine learning in financial services **On Nov 3,** IOSCO publishes updates to peer reviews of regulation of MMF and securitization **On Nov 8,** IOSCO reports on implementation of G20/FSB recommendations on securities markets **On Nov 9,** ISDA issues response to the proposals made by the EC in the EMIR review **On Nov 21,** FSB publishes 2017 G-SIBs and G-SIIs list and BCBS provides further information **On Nov 23,** IOSCO publishes report on good practices for the termination of investment funds **On Nov 30,** FSB consults on proposed guidance to support resolution planning and promote resolvability **On Dec 7,** BCBS publishes discussion paper on regulatory treatment of sovereign exposures **On Dec 7**, BCBS publishes cumulative quantitative impact study on reviewed Basel III accord **On Dec 14,** International standard-setting bodies launch surveys on incentives to centrally clear OTC derivatives trades **On Dec 20,** BCBS consults on stress testing principles, and a range of practices report **On Dec 21,** BCBS consults on proposed amendments to the NSFR **On Dec 21,** FSB issues consultation regarding resolution regimes in insurance **On Dec 21**, BCBS issues progress report regarding the principles for effective supervisory colleges	
EUROPE	**On Oct 7,** a Commission Delegated Regulation (EU) 2017/1800 amending Delegated Regulation (EU) 151/2013 supplementing Regulation (EU) 648/2012 was published in the OJEU. **On Oct 7**, a Commission Delegated Regulation (2017/1799) supplementing MiFIR as regards the exemption of certain third countries' central banks in their performance of monetary, foreign exchange and financial stability policies from pre- and post-trade transparency requirements was published in the OJEU **On Oct 14,** a Commission Implementing Decision (EU) 2017/1857 on the equivalence of the legal, supervisory and enforcement arrangements of the USA for derivatives transactions supervised by the Commodities Futures Trading Commission (CFTC) to certain requirements under Article 11 of EMIR was published in the Official Journal **On Oct 16**, two sets of RTS and two sets of ITS under MiFID2 have been published in the OJEU. **On Oct 6**, EC has adopted RTS under the Interchange Fees Regulation **On Oct 11,** EC published a communication on completing the Banking Union **On Oct 13,** The U.S. CFTC and the EC have announced a common approach for the mutual recognition of EU and US derivatives trading venues **On Oct 10,** The EC has published an impact assessment on its legislative proposal for an EU framework on crowd and peer to peer (P2P) finance **On Oct 10,** ECON voted in favour of a proposed Directive amending BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy **On Oct 26,** EP adopted a package of proposals for simple, transparent and standardized (STS) securitization. **On Oct 9,** ESMA has updated its list of recognized central counterparties (CCPs) based in third countries. **On Nov 1,** EBA published final guidance on supervision of significant branches **On Nov 11**, Commission Delegated Regulation (EU) 2017/2055 setting out RTS for the cooperation and exchange of information between competent authorities relating to the exercise of the right of establishment and the freedom to provide services of payment institutions was published in the Official Journal.	

On Nov 11, EBA published methodology for the 2018 EU-wide stress test
On Nov 16, Regulations (I & II) and Decisions (I & II) of the European Central Bank (ECB) relating to oversight of systemically important payment systems (SIPS) have been published in the Official Journal.
On Nov 21, Commission Delegated Regulation (EU) 2017/2154 supplementing the Markets in Financial Instruments Regulation (MIFIR)
On Nov 25, Two (I & II) Commission Implementing Regulations amending aspects of the reporting regime under Solvency II have been published in the Official Journal
On Nov 28, Commission Delegated Regulation (EU) 2017/194 regarding the treatment of package orders under Article 9(6) of MiFIR was published in the Official Journal.
On Nov 14, EC adopted Delegated Regulations with regard to RTS under the BRRD
On Nov 14, EC adopted an Implementing Regulation, amending Regulation (EU) No 680/2014 on implementing technical standards (ITS) on supervisory reporting, on templates and instructions under the Capital Requirements Regulation (CRR)
On Nov 15, The COREPER, on behalf of the EU Council, approved an agreement with the EU Parliament on the proposed Directive amending the BRRD as regards bank creditor hierarchy and the draft Regulation on transitional arrangements to phase in the regulatory capital impact of IFRS 9, which will amend the Capital Requirements Regulation (CRR)
On Nov 15, Joint Committee of the ESAs published its work programme for 2018
On Nov 17, EC adopted a Delegated Regulation with regard to regulatory technical standards (RTS) on the trading obligation for certain derivatives under MiFIR
On Nov 20, EU Council adopted a package of proposals for simple, transparent and standardized (STS) securitization
On Nov 21, EU Council has announced that Paris will be the new seat for the EBA
On Nov 27, EC adopted a Delegated Regulation with regard to RTS on strong customer authentication (SCA) and common and secure open standards of communication under the recast PSD2
On Nov 28, EU Council Presidency has published a compromise text on the proposed regulation amending EMIR
On Nov 29, EU Council Presidency has published a progress report on the package of banking legislative proposals, which comprises amendments to the CRR and CRD 4, the BRRD and SRMR
On Dec 4, EC has adopted a Delegated Regulation with regard to RTS on several areas under the European Long-Term Investment Fund (ELTIF) Regulation
On Dec 6, EC Implementing Decision (EU) 2017/2238 on the equivalence of the legal and supervisory framework applicable to designated contract markets and swap execution facilities in the United States of America in accordance with MiFIR was published in the OJEU.
On Dec 6, EC published a roadmap setting out steps for deepening Europe's Economic and Monetary Union (EMU) alongside a package of measures
On Dec 6, ESAs published draft technical standards to strengthen group-wide management of money laundering and terrorist financing risks
On Dec 7, commission Implementing Regulation (EU) 2017/2241 on the extension of the transitional periods related to own funds requirements for exposures to CCPs set out in the CRR and the European Market Infrastructure Regulation (EMIR) was published in the Official Journal
On Dec 7, The EU Council adopted the final texts of the fast-tracked risk-reduction measures: a Directive on the ranking of unsecured debt instruments in insolvency proceedings; and a Regulation on transitional arrangements to phase in the regulatory capital impact of the IFRS 9 international accounting standard
On Dec 7, ESAs publish amended technical standards on the mapping of ECAIs
On Dec 7, EBA welcomes the revised Basel framework and provides an overview of its impact in the EU
On Dec 12, EBA issues revised list of ITS validation rules
On Dec 12, EC adopted an Implementing Decision on the equivalence of the legal and supervisory framework applicable to designated contract markets and swap execution facilities in the United States of America in accordance with MiFIR
On Dec 13, commission Delegated Regulation (EU) 2017/2295 supplementing the Capital Requirements Regulation (CRR) as regards regulatory technical standards for the disclosure of encumbered and unencumbered assets was published in the OJEU
On Dec 13, commission Delegated Regulation (EU) 2017/2294 amending Delegated Regulation (EU) 2017/565 as regards the specification of the definition of systematic internalizers for the purposes of MiFID II was published in the OJEU
On Dec 13, EC adopted three Implementing Decisions on the equivalence of the legal and supervisory frameworks in Australia, Hong Kong and the United States of America relating to the trading obligation under MiFID II
On Dec 14, EBA publishes its standardized data templates as a step to reduce NPLs

	On Dec 15, The EC has adopted guidelines for second phase of Brexit negotiations **On Dec 15,** The EU Parliament and EU Council reached a political agreement on the EU Commission's proposed revisions to the fourth AMLD 4 **On Dec 19,** a Commission Delegated Regulation (2017/2361) on the final system of contributions to the administrative expenditures of the SRB was published in the OJEU **On Dec 19,** EU Council Presidency published a compromise text on the proposal for a regulation on a framework for the recovery and resolution of CCPs **On Dec 19,** ESAs published final draft technical standards amending margin requirements for non-centrally cleared OTC derivatives **On Dec 20,** EBA updates its quantitative analysis on MREL **On Dec 20,** a Commission Implementing Regulation (2017/2382) laying down implementing technical standards (ITS) on passporting under MiFID II was published in the OJEU **on Dec 20,** EC adopted a proposal for a regulation and a proposal for a directive to amend the current EU prudential rules for investment firms **On Dec 20,** EU Council Permanent Representatives Committee confirmed the political agreement between the Council Presidency and the EU Parliament on the EU Commission's proposed revisions to the fourth Anti-money Laundering Directive (AMLD 4) **On Dec 20**, EU Council agrees its position on the Proposal regarding a framework for the free flow of non-personal data in the EU **on Dec 20,** EC adopted a proposal for a regulation and a proposal for a directive to amend the current EU prudential rules for investment firms **On Dec 20**, EBA publishes full impact assessment of Basel reforms on EU banks
MEXICO	**On July 21, CNBV** amended its Issuer Handbook in order to adopt OECD and G20 recommendations regarding gender discrimination. The rules require issuers to disclose the gender composition of their boards and directors and the existence or lack thereof of gender inclusive policies. The reform also eases requirements for subsequent offerings if restricted to institutional and qualified investors. **On August 29, the CNBV** published rules to combat identity theft. The amendment defines accepted identification methods for entering into of contracts, requesting means of payment, and for cash withdrawals and transfers. It also establishes verification measures, especially biometric validation and consultation against the National Electoral Institute's database. The rule also provides for the possibility of remote identification (digital onboarding). **On September 19, the Fintech law** was formally presented for public review. The project is expected to pass through Congress in the current session.
LATAM	**Argentina:** **On Nov 30**, the Central Bank of Argentina (BCRA) authorized the opening of special corporate sight accounts for foreign investors, exclusively with the purpose of carrying out operations related to special investment accounts. **On Nov 10**, the BCRA eliminated the obligation to bring export proceeds to Argentina and settle them in the local FX market. **On Nov 16**, the Insurance Supervisory body introduced changes to the investment regime whereby insurance companies will be required to gradually replace bills issued by the Central Bank in their portfolio with other assets **Brazil:** **On Oct 10**, the National Monetary Council approved a new resolution to simplify prudential regulation that applies to lower-risk institutions. **On Oct 10**, in line with Basel recommendations, the National Monetary Council established new limits for banks' exposures to a client or group of connected clients. **On Nov 30**, the National Monetary Council established the use of a liquidity indicator (NSFR) as well as leverage requirements, both in line with the standards set by Basel III. **Peru:** **On Dec 2017**, the Central Bank cut reserve requirements in foreign currency (both average and marginal rates) from 40% to 39% (as of January 1st, 2018)

USA	**On Oct 6,** the U.S. Department of the Treasury released a report detailing how to streamline and reform the U.S. regulatory system for the capital markets. **On Oct 13,** the Fed, on behalf of the Governance Framework Formation Team, announced the 27 members of the collaborative industry short-term work group that will focus on developing a governance framework for faster payments in the U.S. **On Oct 26,** the U.S. Treasury released a report that examines the current regulatory framework for the asset management and insurance industries. **On Oct 27,** the Office of the Comptroller of the Currency announced it is seeking comments on a notice of proposed rulemaking amending the OCC's Annual Stress Test rule. **On Nov 17,** the Federal Reserve Board extended the comment periods for two related proposals until February 15, 2018. One would enhance the effectiveness of boards of directors. The other would implement a new ratings system for large financial institutions. **On Nov 21,** the federal banking agencies finalized a rule for certain banking organizations by extending the existing capital requirements for mortgage servicing assets and certain other items **On Dec 4,** the FRB requested public comment on a proposal to amend its Regulation A, which governs extensions of credit by Federal Reserve Banks, to make certain technical adjustments including to reflect the expiration of the Term Asset Backed Securities Loan Facility (TALF) program **On Dec 7,** the FRB requested comment on a package of proposals that would increase the transparency of its stress testing program **On Dec 7,** The federal banking agencies announced their support for the conclusion of efforts to reform the international bank capital **On Dec 18,** The FRB announced the repeal of one regulation and the revision of a second to reflect the transfer of certain consumer protection rulewriting authority to the CFPB	
TURKEY	Omnibus Bill published in the Official Gazette: • 22% corporate tax over the next three years for all sectors. • Income from derivatives will be exempted from the banking and insurance transactions tax (BITT) (as of Jan'18). • The corporate tax exception rate was reduced from 75% to 50% for income from the sale of property held for 2 years or acquired as a result of foreclosure. The upper limit and the tranches for the FX maintenance facility within the reserve options mechanism have been lowered to 55 percent from 60 percent. With this revision, approximately TL 5.3 bn of liquidity is expected to be withdrawn from the market and approximately USD 1.4 bn of liquidity to be provided to banks. CBRT launched non-deliverable forwards (NDF) to help manage the corporate sector's FX risk. The main goal of the tool seems to be to reduce TL volatility by both enhancing liquidity and increasing financial depth in the currency market. By this tool, the difference between the forward exchange rates set on the contract day and the spot rate on the settlement day will be paid in TL. On 14 Dec, MPC meeting. The CBRT decided to raise the late liquidity window rate by 50 bps to 12.75% (market consensus was for a 100 bps hike). Thus, the average funding cost, which has been 12.25% since 22 November, reached 12.75%. CBRT did not change its other interest rates.	Repayments of rediscount credits due by February1, 2018, can be made in TL at constant exchange rates determined by the CBRT, provided that they are paid at maturity.
ASIA	On 30 Sep Chinese authorities banned Bitcoin transactions in China and labelled them as illegal fund-raising. On 11 Nov the People's Bank of China (PBoC) said it would remove foreign ownership limits on banks while allowing overseas firms to take majority stakes in local securities ventures, fund managers and life insurance companies. On 17 Nov China's central bank imposed new restrictions on financial institutions in respect of their asset management business, including: (1) clarification of the classification of asset management products; (2) prohibition of "capital pools"; (3) leverage limits for asset management products; (4) an end to implicit guarantees against investment losses. On 1 Dec the People's Bank of China (PBoC) implemented regulations on online micro lending firms. Unlicensed organizations and individuals are not allowed to conduct a lending business.	

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