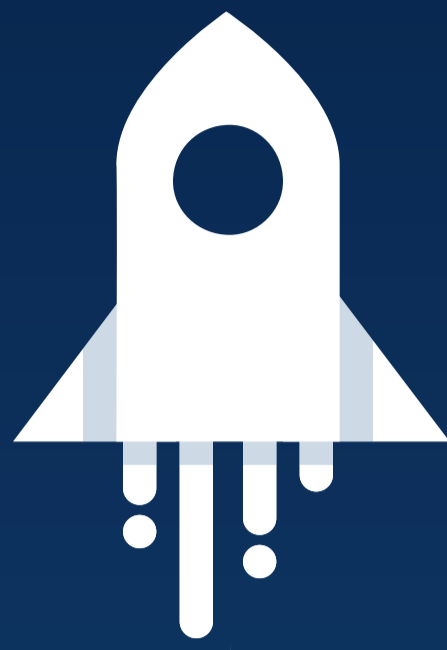


Financial Regulation Outlook 4Q18



European NPLs: a complex problem

- Asset quality has improved in the EU, and in particular in countries like Spain, where the outstanding volume of **NPLs has been cut by more than half** since 2013 peak
- Any measure on NPLs should take into account the characteristics of the country (real estate bubble) and the **bank**

- €114bn, -58%



IMF report on the Eurozone resolution framework

- The main IMF's recommendations to improve the resolution framework in the Eurozone are:

- Complete the Banking Union
- Improve the funding in resolution framework
- Harmonize insolvency regimes and grant SRB a common liquidation tool

UK proposal for financial services post Brexit

- The UK proposal for financial services is **less ambitious** than its industry's ambitions, and could serve as an upper bound for the aspirations of the british financial sector
- They propose a **bilateral framework** based on an **expanded equivalence** regime

The proposal has **three pillars**:

- 1** Common principles for governance of the relationship
- 2** Extensive supervisory cooperation and **regulatory dialogue**
- 3** Predictable, **transparent**, and robust processes

What to expect from the forthcoming Spanish financial sandbox?

- In July, the Spanish Treasury released a draft bill to create a regulatory sandbox. This is a **controlled environment for testing** innovative projects in the financial sector
- The regulatory sandbox can bring the following **benefits**:
 - Positioning as a **global hub** for innovation
 - Tool to improve regulation and supervision for the **authorities**
 - Opportunities for innovation by **all players**
 - A broader range of products and services for **consumers**

ESAs reform: slow legislative process in the EU institutions

- The **legislative process** of ESAs review proposal **continues** in the Council and in the European Parliament

July



- The **Parliament's draft** report was published in July

August



- The deadline for amendments was **31 August** 2018

November



- Expected final** vote to be confirmed

- Agreement in the Council seems difficult** because some Member States raise concerns about excessive transfer of competences to the ESAs from the national competent authorities

Three years from CMU: progress and challenges ahead

2015

It has been **3 years** since publication of the European Commission's action plan for a Capital Markets Union. Although the initial deadline for the CMU was 2019, **it is likely that it takes longer**

2018

What has been done? Progress has been made in the following areas:
 i) increasing funding opportunities for SMEs
 ii) increasing investment opportunities for retail investors and
 iii) achieving a more stable and resilient financial system

2019

But a lot still needs to be done to achieve the 2019 deadline:
 i) supervisory convergence and
 ii) integration in tax policies and insolvency regimes. **How will Brexit affect the completion of CMU?**