

Financial Regulation: Weekly Update

21 December 2018

Regulation Unit

Highlights

EC publishes a set of unilateral absolute minimum contingency measures to prepare for a no-deal *brexit*. Several EU and UK agencies publish documents in relation to *brexit*. EC welcomes agreement on the NPLs package. Spanish Ministry of Finance proposes to establish a macroprudential authority. Federal Agencies proposes to soften stress testing requirements.

EUROPE

- EC implements “no-deal” contingency plan in the context of *brexit*

The [package](#) includes 14 measures in areas where a "no-deal" scenario would create major disruption in the EU27. These areas include financial services, air transport, customs, and climate policy, among others.

- EC welcomes political agreement on reduction and prevention of NPLs

EU Council and Parliament agree on the Commission’s package to address non-performing loans (NPLs) in the EU. Includes [prudential measures](#) that ensure that banks set aside funds to cover the risks associated with NPLs.

- EBA publishes annual report on risks and vulnerabilities in the banking sector

The [report](#) shows further improvement in EU banks’ resilience, with higher capital ratios and better asset quality. Challenges remain in the form of low profitability, maturing central bank funding and rising operational risk.

- EBA publishes guidelines on NPLs disclosure and impact report on IFRS9 implementation

Publishes: i) Final [guidelines](#) setting enhanced disclosure requirements for NPEs and forbore exposures applicable from 31 Dec 2019 and ii) [Preliminary observations](#) on the first stages of IFRS9 implementation.

- EBA calls for more action by financial institutions in *brexit* related communications to customers

As a follow-up to its June 2018 Opinion, [urges](#) financial entities to continue planning and to redouble their efforts in communicating to their customers how *brexit* will affect them.

- EBA consults on amending regulation on benchmarking of internal models

[Proposes](#) adjustments to simplify the portfolio's structure for the credit risk part of the exercise, and obtain more insight into the model used for pricing for the market risk. Deadline: 31 Jan 2019.

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- ESAs publish joint standards on Simple, Transparent and Standard (STS) securitisations under EMIR

[Publication](#) to amend current RTS on clearing obligation and risk mitigation techniques for non-cleared OTC derivatives providing a specific treatment for STS securitisations to ensure a level playing field with covered bonds.

- ESMA issues three consultations on measures to promote sustainability in EU capital markets

[Consultations](#) on sustainable finance: sustainability factors in [MIFID II](#) and [UCITS and AIFMD Directives](#). Deadline: 19 Feb 2019; and on disclosure requirements applicable to [credit rating agencies](#). Deadline: 19 Mar 2019.

- ESMA issues statements on equivalence recognition and *brex* implications for clients

i) [Establishing](#) conditions to recognize UK CCPs and CSDs under a no-deal *brex*, supporting the continuation of access and ii) [asking](#) firms to provide clients with more information on implications of *brex*.

- ESMA issues guidelines on non-significant benchmarks under the BMR

[Softens](#) requirements on the oversight function, input data, transparency of methodology and contributors' governance and control.

- EIOPA publishes the results of the 2018 Insurance Stress Test

The exercise [shows](#) a significant sensitivity to market and specific shocks for the EU insurance sector. However, in aggregate, the sector is adequately capitalised to absorb the prescribed shocks.

- EIOPA issues consultation on Solvency II reporting and report on the use of capital add-ons under Solvency II

[Consultation](#) on reporting and disclosure requirements as part of the 2020 Solvency II review. [Report](#) shows overall usage of capital add-ons by national competent authorities remains extremely limited. Deadline: 21 Feb 2019.

- SRB publishes resolution reporting requirements

[Includes](#) reporting requirements and deadlines for submitting several templates on resolution planning including the Liability Data Report (31 Mar 2019), Critical Function and FMI reports (30 Apr. 2019) and others (31 May 2019).

SPAIN

- MINECO consults on establishing a Macroprudential Authority and on new tools for supervisors

[Proposes](#) to establish a Macroprudential Authority ("AMCESFI") and macroprudential tools for Banco de España, CNMV and the Pensions and Insurance General Directorate. Deadline: 26 Dec 2018.

- BdE maintains the countercyclical buffer at 0% for 1Q2019

[Determines](#) that there is no generalised excessive credit growth in Spain. The credit cycle is turning expansionary, however it is still below the relevant credit thresholds.

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UNITED KINGDOM

- BoE issues statement on equivalence recognition for CCPs and CSDs

[Recognition](#) would allow UK CCPs to continue providing clearing services to EU members, and enables UK CSDs to be recognised so they can continue providing notary and settlement services for securities issued under EU law.

- BoE and PRA issues consultations to complete the UK resolution framework

Includes a [press statement](#) summarising the publications, an [introductory paper](#), a [BoE consultation](#) and a [PRA consultation](#) on their approach regarding the Resolvability Assessment Framework (RAF).

- FCA issues financial services contracts regime in the context of *brexit*

The [temporary permissions regime](#) will enable relevant firms and funds which passport into the UK to continue operating in the UK under a no-deal *brexit* and the passporting regime falls away abruptly when the UK leaves EU.

- FCA issues consultation and guidance on high-cost credit products

[Publishes](#) a consultation aimed at changing the way banks charge for overdrafts, home-collected credit, catalogue credit and store cards and a review of the retail banking market. Deadline 18 Mar 2019.

- HM treasury issues financial services legislation in the context of *brexit*

Includes changes in several of [statutory instruments](#) to retain the EU legislation and empowers the UK legislation to prevent, remedy or mitigate any failure of the regulatory framework to preserve financial stability in the UK.

- HM Treasury updates its guides for financial services in case of a no-deal *brexit*

Includes [legislation](#) and transitional arrangements for, among others: central securities depositories, credit rating agencies, trade repositories, data reporting service providers and depositories for authorised funds.

- HM Treasury releases draft statutory instrument on securitisation related to the *brexit*

It will [amend](#) the securitisation regulatory framework to ensure that the new regime continues to operate effectively in a UK context once the UK leaves the EU. HM Treasury intends to lay this SI before Parliament before exit.

UNITED STATES

- Federal agencies consults on rulemaking for Stress Testing (ST)

Aimed at receiving comments on the [proposed changes](#) to ST regulations such as raising the application threshold from \$10 billion to \$250 billion or revising the frequency of the exercises. Deadline: 19 Feb 2019.

- FRB Stability Oversight Council releases 2018 report

[Recommendations](#) include: to address threats to cybersecurity, to complete the transition to a new alternative reference rate, to monitor leverage and valuations and to evaluate regulatory overlap and duplication.

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- [Federal agencies announces resolution plan determinations and guidance](#)

Provides information on [resolution plan](#) weaknesses for four foreign-based banks and finalizes resolution plan guidance for the eight largest and most complex domestic banking organizations.

- [FRB issues bilateral \(USA-UK\) agreement on insurance & reinsurance sector](#)

[The agreement](#) will ensure continuity for UK insurers and reinsurers accessing the U.S market while maintaining prudential standards and will enable customers to protect themselves more efficiently against risks.

Recent publications of interest (in English and Spanish):

- [Press Article](#). Sovereign risk in the Eurozone and its treatment in banking regulation. December 2018
- [Working Paper](#). Policy priorities to promote financial development in the context of MI Trap. December 2018
- [Press Article](#). Central banks and sustainable finance: From exoticism to stoicism. November 2018
- [Regulation Watch](#). Global | 2018 G-SIBs list: the three key changes. November 2018

Previous editions of our Weekly Regulatory Update in [Spanish](#) and [English](#).

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