

# Financial Regulation: Weekly Update

11 January 2019

Regulation Unit

## Highlights

EBA issues its assessment on the consistency of internal models. ECB issues recommendation on dividend policy. ESAs issue a report on sandboxes. EBA issues a report on crypto-assets and its risk dashboard. EC issues communication on STS under CMU. ESMA issues RTS on supervisory cooperation for securitization. FRB consults on company run stress testing requirements.

## EUROPE

- [EBA releases annual assessment on consistency of internal models](#)

Analyses [consistency](#) in Risk Weighted Assets (RWAs) in entities using internal models. The assessment covers credit and market risk and results confirm that the majority of RWA variability is explained by fundamentals.

- [ECB issues recommendation on dividend distribution policies and guide to licence application assessment](#)

i) It provides [recommendations](#) for establishing prudent and conservative dividend distribution policies in order to meet applicable capital requirements. ii) The guide [promotes](#) awareness and transparency of the assessment criteria and processes for the establishment of a credit institution within the SSM.

- [ESAs publish report on regulatory sandboxes and innovation hubs](#)

It includes a [comparison](#) of the different innovation facilitators in the EU and a set of best practices for the design and operation of these innovation facilitators.

- [EBA issues report on crypto-assets](#)

Analyzes the architecture of [crypto-assets](#) under EU law. It finds some risks not addressed at EU level. Invites the EC to deepen the review of associated risks, although currently they do not compromise financial stability.

- [ESMA issues advice on crypto-asset regulatory framework](#)

Clarifies to EU institutions the [existing rules](#) applicable to crypto-assets that qualify as financial instruments, and raises its concerns regarding the current regulatory framework for such assets.

- [EBA issues report on cost and performance of structured deposits](#)

[Analyzes](#) cost and past performance of the main retail investment, insurance and pension products. Finds that market for structured deposits is limited in size, and data on costs and performance is not widely available.

## Creating Opportunities

Regulation Weekly – 11 January 2019

- [EC issues communication on the new securitisation rules under the CMU framework](#)

It [reminds](#) that the new rules on simple, transparent and standardised (STS) securitizations are directly applicable in all EU Member States as of 1 Jan 2019.

- [EBA updates risk dashboard for EU banking](#)

[Confirms](#) improvements in asset quality and capital ratios, while profitability remains subdued. The loan to deposit ratio remains broadly stable and two out of three banks plan to increase issuance of MREL eligible instruments.

- [ESMA issues RTS on supervisory cooperation under the securitisation regulation](#)

[Final RTS](#) on cooperation between competent authorities and ESAs in order to achieve an effective system of supervision for securitisation transactions in the EU. The Commission now has three months to endorse them.

- [ESMA updates Double Volume Cap data and Q&As on MiFID II / MiFIR transparency topics](#)

i) [Updates](#) data for 1 Dec 2017 to 30 Nov 2018. New breaches: 40 equities for the 8% cap, applicable to all trading venues, and 13 equities for the 4% cap, applicable to individual TVs. ii) [Q&As](#) on: publication of the request for market transaction, default transparency regime for equity instruments, default LIS and SSTI thresholds for bonds.

- [EIOPA publishes monthly technical information](#)

Relevant [risk free rate](#) term structures for the month of December.

## UNITED KINGDOM

- [BoE consults on eligibility of financial collateral for credit risk mitigation purposes](#)

It sets out [proposed](#) changes to its previous supervisory statement, clarifying its expectations on the eligibility of financial collateral. Deadline: 10 Apr.

- [PRA issues policy statement regarding liquidity and regulatory reporting](#)

It provides [responses](#) on previous consultation regarding liquidity reporting, and the correct level of consolidation for reporting requirements.

- [FCA issues statement on TPR and consultation contract regimes in the context of Brexit](#)

i) Notifies that the [application](#) period for Temporary Permissions Regime is open, allowing EEA firms to continue operations in the UK post-Brexit. It closes in 28 March. Similarly, it opens [application](#) for credit rating agencies and trade repositories. ii) Consults on [proposals](#) regarding contractual continuity and on the costs of regulating securitization repositories post-Brexit. Deadlines: 29 Jan and 11 Feb.

- [HM Treasury issues SI preparing for Brexit](#)

Draft Statutory Instrument that seeks to [adapt](#) retained EU law regarding financial benchmarks to a post-Brexit situation.

## Creating Opportunities

Regulation Weekly – 11 January 2019

- BoE issues note on the application of the SM&CR in the TPR

It clarifies the [proposal](#) for application to the Senior Managers and Certification Regime to firms under the Temporary Permissions Regime.

## UNITED STATES

- FRB issues consultation on company run stress testing requirements

The [proposal](#) would: raise the threshold from \$10bn to \$250bn for banks to conduct their company-run stress tests, reduce the frequency from annual to bi-annual, and eliminate the adverse scenario. Deadline: 19 Feb.

- OCC issues CRA evaluations and revision of Asset Threshold

i) Issues monthly [performance evaluations](#) for December 2018. List contains national banks and federal savings association: 28 are rated satisfactory, and 3 are rated outstanding. ii) The [revisions](#) adjust the asset-size threshold amounts used to define Small and Intermediate Small Bank and Savings Association. Effective date: Jan 1 2019.

- CFPB issues reports on the effectiveness of certain rules

In order to help stakeholders, it [assesses](#) whether the “Ability to Repay and Qualified Mortgage Rule” and the “Mortgage Servicing Rules” meet their purposes and goals.

## Recent publications of interest (in English and Spanish):

- [Working Paper](#). Digital transformation and finance sector competition. Jan 2019
- [Working Paper](#). Sovereign risk in the Eurozone and its treatment in banking regulation. Dec 2018
- [Press Article](#). What will be the trends in financial regulation in 2019? Dec 2018
- [Press Article](#). Central banks and sustainable finance: From exoticism to stoicism. Dec 2018

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

## DISCLAIMER

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

Estimates this document may contain have been made in accordance with generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, whether 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. Nor shall this document or its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that in no circumstances should they base their investment decisions on the information contained in this document. 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.

The content of this document is protected by intellectual property laws. Its reproduction, transformation, distribution, public communication, provision, extraction, reuse, forwarding or use of any nature by any means or process is forbidden, except in cases where it is legally permitted or expressly authorised by BBVA.

## Regulation

Lead Economist  
Ana Rubio  
arubiog@bbva.com

Arturo Fraile  
arturo.fraile@bbva.com

Victoria Santillana  
mvictoria.santillana@bbva.com

Matías Daniel Cabrera  
matiasdaniel.cabrera@bbva.com

Pilar Soler  
pilar.soler.vaquer@bbva.com

Javier García Tolonen  
javierpablo.garcia@bbva.com

Willians Ruiz  
willians.ruiz@bbva.com

Salvador Bekiaropoulos Donate  
salvador.bekiaropoulos@bbva.com

## BBVA Research

Chief Economist BBVA Group  
Jorge Sicilia Serrano

Macroeconomic Analysis  
Rafael Doménech  
r.domenech@bbva.com

Digital Economy  
Alejandro Neut  
robertoalejandro.neut@bbva.com

Global Macroeconomic Scenarios  
Miguel Jiménez  
mjimenezg@bbva.com

Global Financial Markets  
Sonsoles Castillo  
s.castillo@bbva.com

Long-Term Global Modelling and Analysis  
Julián Cubero  
juan.cubero@bbva.com

Innovation and Processes  
Oscar de las Peñas  
oscar.delaspenas@bbva.com

Financial Systems and Regulation  
Santiago Fernández de Lis  
sfernandezdelis@bbva.com

Digital Regulation and Trends  
Álvaro Martín  
alvaro.martin@bbva.com

Regulation  
Ana Rubio  
arubiog@bbva.com

Financial Systems  
Olga Cerqueira  
olga.gouveia@bbva.com

Spain and Portugal  
Miguel Cardoso  
miguel.cardoso@bbva.com

United States  
Nathaniel Karp  
nathaniel.Karp@bbva.com

Mexico  
Carlos Serrano  
carlos.serranoh@bbva.com

Middle East, Asia and Big Data  
Álvaro Ortiz  
alvaro.ortiz@bbva.com

Turkey  
Álvaro Ortiz  
alvaro.ortiz@bbva.com

Asia  
Le Xia  
le.xia@bbva.com

South America  
Juan Manuel Ruiz  
juan.ruiz@bbva.com

Argentina  
Gloria Sorensen  
gsorensen@bbva.com

Colombia  
Juana Téllez  
juana.tellez@bbva.com

Peru  
Francisco Grippa  
fgrippa@bbva.com

Venezuela  
Julio Pineda  
juliocesar.pineda@bbva.com

## Creating Opportunities

Regulation Weekly – 11 January 2019