

Financial Regulation: Weekly Update

Salvador Bekiaropoulos, Matías Cabrera, Arturo Fraile, Salvador Portillo, Ana Rubio, Victoria Santillana, Pilar Soler

11 October 2019

Highlights

1. European Commission consults on alignment of capital rules to international standards
2. ECB releases results from liquidity stress tests, and its supervisory priorities for 2020
3. EBA and ESMA issue communications related to Brexit preparations
4. EBA publishes its risk dashboard and its 2020 work programme
5. Agencies finalize changes to simplify Volcker rule and FRB issues final rule for FBOs and domestic US banks

GLOBAL

▪ CPMI & IOSCO and FSB issue reports on governance arrangements for OTC derivative data

These [separate](#) reports [conclude](#) that the Legal Entity Identifier Regulatory Oversight Committee should become the International Governance Body for the UPI and Unique Transaction Identifier (UTI), and critical other elements other than UTI and UPI. Some adjustments to its existing governance are needed.

EUROPE

▪ EC consults on alignment of EU rules on capital requirements to international standards

[Consults](#) on specific topics regarding credit risk, market and operational risk, CVA risk, securities financing transactions and output floor. Deadline: 3 Jan 2020.

▪ ECB releases the results from its liquidity stress test

In general banks have sufficient [liquidity reserves](#) to withstand stress. It assessed the ability to handle a 6-month shock. It also finds some vulnerabilities regarding foreign currencies, data quality and collateral management.

▪ ESMA consults on MiFIR alignment following EMIR refit

It presents possible [amendments](#) on the trading obligation under MiFIR, after the introduction of EMIR refit (which modifies the scope of counterparties subject to clearing obligation). Deadline: 22 Nov.

▪ ECB issues list of supervised entities, supervisory priorities and risk assessment report

i) [The list](#) includes: significant institutions and less significant institutions. The total number of significant supervised entities is 116 as of 1 Sep 2019. ii) Key [drivers](#) of supervisory priorities are business model sustainability, cybercrime and IT deficiencies and economic and debt sustainability challenges. iii) The [report](#) comprises the 2020 supervisory risk map and covers the key risk drivers for European banking supervision.

- **EBA publishes work programme for 2020**

Main [areas of focus](#) are supporting the development of the risk reduction package, methodologies for supervisory convergence and stress testing and promoting an operational resolution framework, among others.

- **EBA issues communication on the preparations for Brexit**

It requests institutions to continue the progress on [contingency planning](#), urging them to guarantee that assets, staff and data are in place to support the relevant authorizations, and that customers are properly informed.

- **ESMA issues update on preparations for Brexit**

It updates the [reference date](#) for Brexit in all its previous measures (regarding the possibility of a no-deal) to 31 Oct 2019. It also updates public statements on: use of UK data, impact of no-deal Brexit, and operational plans.

- **EBA publishes risk dashboard**

In [Q2](#), capital ratios have remained stable (CET1 is at 14,4%), NPL ratios have declined from 3.1 to 3% and ROE stood at 7%. Low profits and high costs remain a key challenge for the EU banking sector.

- **ESMA issues final reports on CSDR and on set of RTS on the application of MAR**

i) Publishes [final report](#) on the guidelines on standardized procedures and messaging protocols, clarifying the scope of requirement under CSDR and providing guidance on procedures and standards used for compliance. ii) [Adopts](#) set of RTS covering cooperation arrangements between third-country authorities and NCAs.

- **ESAs issue joint opinion on money laundering and terrorist financing risks**

[Highlights](#) concerns about: i) weaknesses in financial institutions' control frameworks, ii) divergences in the national transposition of the Fourth Anti-Money Laundering Directive and, iii) use of new technologies and virtual currencies.

- **ESMA issues latest double volume cap data**

Updates [double volume cap data](#) and calculations for the period 1 Sep 2018 to 31 Aug 2019. In addition ESMA highlights that no previous suspensions of trading have been lifted.

- **ESMA issues opinion on the application of pre trade-transparency and price determination**

[Clarifies](#) the application of the pre-trade transparency requirements and the price determination process by frequent batch auctions (FBAs) systems, ensuring consistent application throughout the EU.

- **ESMA updates Q&As on MiFIR data reporting**

It provides [clarifications](#) regarding the requirements for submission of reference data and transactions, focusing on reporting of FX forward financial instruments.

SPAIN

- **BdE consults on draft circular regarding information about contributions to the DGS**

It [clarifies](#) how to gather the information to determine the basis for calculating the contributions to the Deposit Guarantee Fund in the corresponding statements. Deadline: 23 Oct.

UNITED KINGDOM

- **PRA issues consultation paper relevant to different firms**

Proposes some [amendments](#) to some parts of its Rulebook, supervisory statements, and templates. Relevant for banks, building societies, investment firms, credit unions, and insurance firms. Deadlines: 18 Nov and 9 Dec.

- **FCA issues interim report on the pricing of home and motor insurance**

It sets out potential [remedies](#) to tackle concerns about home and motor insurance pricing, which bring high premiums for consumers, discourage switching and harm long-term innovation.

UNITED STATES

- **FRB issues final rule tailoring requirements for domestic and foreign banks**

It tailors [regulations](#) to match more closely the risk profiles. It reduces compliance requirements for less risky firms, keeping stringent requirements for large and complex banks. Effective date: 60 days from publication in Federal Registry.

- **Agencies finalize changes to simplify Volcker rule**

The five financial [regulatory agencies](#) finalized the revision to simplify compliance with the Volcker Rule (tailoring requirements to the size of banks' trading portfolio). Effective date: 1 Jan 2020. Compliance date: 1 Jan 2021.

- **FDIC issues list of banks examined for CRA**

It issues the list of [state non-member banks](#) evaluated for compliance with the CRA in July 2019.

Recent publications of interest (in English and Spanish):

- [Press Article](#). *Nueva ley de contratos de crédito inmobiliario: de la teoría a la práctica* (in Spanish). June 2019.
- [Press Article](#). *Provisions for non-performing loans: how much is enough?* August 2019.
- [Press Article](#). *Climate Change: Tempus Fugit*. September 2019.

Previous edition of our Weekly Financial Regulation Update in [English](#).

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.

Any 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.

With 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 on 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.

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

This report has been produced by

Head of Financial Regulation

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

Salvador Bekiaropoulos Donate
salvador.bekiaropoulos@bbva.com
Salvador Portillo
salvador.portillo@bbva.com