

Financial Regulation: Weekly Update

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Highlights

1. FSB issues report on the implementation of reforms to interest rates benchmarks
2. Council of the EU reaches agreement on taxonomy of sustainable finance
3. European Commission adopts delegated regulation for alternative standardized approach for market risk
4. EBA consults on standards on benchmarking of internal models, on staff with material impact on risk profile, and publishes 2020 stress test templates
5. SRB extends prior permissions procedure to reduce eligible liabilities instruments

GLOBAL

▪ FSB issues report on the implementation of reforms to interest rates benchmarks

The report [finds](#) that given the degree of risk arising from the continued reliance on LIBOR, regulated firms should expect increasing scrutiny of their transition efforts as the end of 2021 approaches.

▪ ISDA consults on fallbacks for Euro LIBOR and EURIBOR

[Consults](#) on spread and term adjustments on fallbacks and seeks feedback on whether the adjustments would be appropriate for lesser-used IBORs if ISDA implements fallbacks. Deadline: Jan 21, 2020.

▪ FSB publishes its 2020 work program

Sets its [priorities](#) on financial innovation developments; global stablecoins challenges, efficiency and inclusiveness of cross-border payment services, implementation of benchmark reforms and monitoring of post-crisis reforms.

▪ IOSCO publishes framework for monitoring leverage in funds

Sets a framework to facilitate monitoring of [leverage](#) in investment funds that could pose a risk to financial stability.

▪ IOSCO consults on measures to reduce conflicts of interests in debt capital-raising

Requests feedback on guidance to [prevent conflicts](#) of interest and conduct risks of market intermediaries in the debt capital-raising process. Deadline: Feb 16, 2020.

EUROPE

▪ Council of the EU reaches agreement on taxonomy of sustainable finance

The [classification](#) system will provide a common language to identify economic activities that are environmentally sustainable, encouraging private investment in sustainable growth and a climate neutral economy.

▪ EC adopts delegated regulation for the alternative standardized approach for market risk

Following the mandate on CRR 2, the EC adopts the final rule with [reporting requirements](#) for market risk under the standardized approach. Enters into force 6 months after publication in OJEU.

- **EBA publishes final draft standards on SA-CCR implementation**

Aim to ensure a smooth and harmonized [implementation](#) in the EU. It includes a method for identifying the material risk drivers of derivative transactions and the formula to calculate the supervisory delta of options.

- **EBA consults on standards on benchmarking of internal models**

To [adjust](#) the portfolios and reporting requirements for the upcoming benchmarking exercise. On the credit risk side, the introduction of IFRS 9 is the main change. The market side remains unchanged. Deadline: Jan 21, 2020.

- **EBA publishes 2020 stress test templates**

After collecting feedback from the industry, the [templates](#) are ready for the stress-tests to be launched on Jan 2020.

- **EBA consults RTS on the identification of staff with material impact on risk taking**

It sets the [criteria](#) to identify all categories of staff whose professional activities have a material impact on the institutions' risk profile. Deadline: Feb 19, 2020.

- **SRB extends prior permissions procedure to reduce eligible liabilities instruments**

Procedures to assess applications to reduce [eligible liabilities](#) instruments will remain until the EBA's RTS come into force. Banks need prior permission to continue performing market-making and secondary market activities.

- **ESMA provides information on pending applications for benchmark administrators**

The information [published](#) by ESMA enables EU supervised entities using benchmarks to be aware of which applications for authorization / registration of EU-based administrators are pending.

- **ESAs issue joint guidelines on cooperation in AML/CFT**

[Establishes](#) colleges of AML/CFT supervisors for first time in the EU to ensure effective cooperation and information exchange between competent authorities.

- **ESMA issues report on undue short-termism in securities markets**

Makes [recommendations](#) in disclosures of ESG factors and institutional investor engagement, in response to a request made by the EC to investigate sources of undue short-termism on corporations.

- **ESMA issues report on accepted market practices under MAR**

Provides an [overview](#) on the establishment and application of accepted market practices in the EU after the entry into force of MAR (Market Abuse Regulation).

- **EBA updates list of CET1 instruments**

In its regular revision of instruments classified as CET1 by competent authorities, EBA has classified a new type of capital instruments as [CET1](#).

- **EIOPA issues results of its Occupational Pensions stress test**

[Shows](#) vulnerabilities due to underfunding, there is a severe reduction in investment assets' value in the adverse scenario, and the long-term of their obligations and investments enable them to resist short-term volatility.

- **EIOPA issues reports on capital add-ons, long-term guarantees, and asset and liability management**

Publishes: i) annual report on the use of [capital add-ons](#) by National Competent Authorities under Solvency II; ii) fourth annual [analysis](#) on use and impact of long term guarantees and equity risk measures; and iii) report on [insurers'](#) asset and liability management in relation to illiquidity of liabilities.

- **EIOPA issues advice on short-term pressures, consults on ICT, and updates portfolios for volatility adjustments**

i) Does not find evidence of [short-termism](#) in insurance and pension; ii) provides guidance to NCAs and participants on [ICT](#) security and governance. Deadline: Mar 13, 2021. And iii) updates representative [portfolios](#) to calculate volatility adjustments to the Solvency II risk-free interest rate term structure.

- **OJUE publishes the legislative package on Covered Bonds**

The two pieces of legislation ([Directive](#) & [Regulation](#)) will enter into force on 8 Jan 2020. The national transition period will last until Jul 8, 2021 and measures shall be applied starting at the latest from Jul 8, 2022.

UNITED KINGDOM

- **BoE publishes financial stability report and stress test results**

Analyzes global [developments](#), domestic vulnerabilities and Brexit, capital requirements, market liquidity, and Libor transition. Stress test shows that UK banks can continue lending in a recession worse than the financial crisis.

- **BoE issues consultation on stress test and climate change**

It presents a proposal for [stress-testing](#) the financial stability implications of climate change, for the 2021 Biennial Exploratory Scenario exercise. Deadline: Mar 18, 2020.

- **HM Treasury issues statutory instrument for equivalence framework in financial services**

Statutory Instrument outlining the UK's framework for [equivalences](#) post-Brexit. HM Treasury will be responsible for making equivalence decisions, while the FCA, BoE and PRA will be able to provide information or advice.

- **PRA issues policy statement on Pillar 2 liquidity**

Provides [feedback](#) to previous consultation paper on reporting frequency threshold related to Pillar 2 liquidity, but the PRA has decided not to change the proposed policy. It will be implemented on May 1, 2020.

- **FCA issues call for input on open finance**

Launches a discussion on opportunities and risks arising from [open finance](#) in the general insurance, cash savings and mortgage markets. Deadline: Mar 17, 2020. Feedback statement: summer 2020.

UNITED STATES

- **FED and FDIC issue statement regarding resolution plans**

The agencies do not find any [deficiencies](#) in the plans submitted by the largest banks, but they find shortcomings (less severe) in 6 out of 8 plans. Plans to address the shortcomings should be submitted by Mar 31, 2020.

- **Agencies publish final rule on high volatility commercial real estate**

It revises the [capital rule](#) to make the definition of high volatility commercial real estate exposures consistent with the statutory definition. Effective date: Apr 1, 2020.

- **FDIC issues consultation on brokered deposit restrictions**

It seeks to modernize the [regulatory framework](#) in order to remove disincentives to offering deposit accounts to customers through different channels. Deadline: 60 days after publication in the Federal Registry.

- **SEC adopts rules for uncleared security-based swaps**

It adopts [risk mitigation](#) techniques for uncleared security-based swaps, establishing certain requirements SBS (security-based swap) entities. Effective date: 60 days after publication in the Federal Registry.

- **FRB announces annual adjustment to the asset-size threshold in Regulation I**

Federal Reserve Act requires adjusting the [asset-size threshold](#) (according to GDP Price Index changes), so that banks whose consolidated assets are above the new threshold will receive the dividend set in Section 7(a)(1).

- **FRB extends comment period on risk-based capital requirements for insurance companies**

Asks for comments on its proposal to establish risk-based capital requirements for certain [insurance](#) companies supervised by the FRB. New deadline: Jan 22, 2020.

Recent publications of interest (in English and Spanish):

- [Press Article](#). *Climate Change: Tempus Fugit*. September 2019.
- [Press Article](#). *The Banking union: something's at play*. November 2019.

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

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