

# Regulatory Outlook

Madrid, January 17, 2014  
Economic Analysis

- **EU resolution regime: final agreement**, a significant leap forward to the Banking Union.
- **Co-legislators set positions on Single Resolution Mechanism**, challenging negotiations ahead of April deadline.
- **Political agreement on EU Deposit Guarantee Scheme Directive**, another important step towards completing the crisis management framework.
- **ECB's AQR, stress test and bail-in**, the EU regulatory roadmap for the next months is clear.
- **New solvency rules for Spanish banks**, CRD IV Pack applies from 1 January.
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## Editorial

### Europe. EU resolution regime: final agreement

**A significant leap forward to the Banking Union.** Last December, EU authorities outlined the regulatory framework on the Bank Recovery and Resolution Directive (BRRD) that will be implemented by January 2015, with the exception of bail-in tool which will be applied from January 2016. The BRRD will help to reduce the fragmentation and restore confidence in Europe's financial sector.

### Co-legislators set positions on Single Resolution Mechanism

**Challenging negotiations ahead of April deadline.** In late December both the Council and the Parliament finalized their positions on the Single Resolution Mechanism, a key pillar of the Banking Union project. Negotiations seem to have gotten off to a bad start, given the few but key differences in the co-legislators' positions. The extremely tight deadline to pass the regulation (April) complicates things further.

### Political agreement on EU Deposit Guarantee Scheme Directive

**Another important step towards completing the crisis management framework.** The Lithuanian Presidency reached a provisional agreement with the European Parliament on the Deposit Guarantee Schemes Directive (DGSD) that makes available funds up to 0.8 % of covered deposit. Payouts are reduced from the current 20 working days to 7.

### ECB's AQR, stress test and bail-in

**The EU regulatory roadmap for the next months is clear.** Any public capital injection derived from the ECB comprehensive assessment's capital shortfall should be according to the State Aid rules of the EU Commission. However, there is no unanimity among European authorities in how to deal with potential capital shortfalls that may appear as a result of the AQR or the stress test.

### Spain. Entry into force of new solvency rules for banks

**CRD IV Pack transposition with effect from 1 January, 2014.** The Spanish legal framework has been adapted on time to comply with the European provisions that implement Basel III global recommendations for a sound prudential framework for banks. For this purpose, it has been necessary to issue the RD-L 14/2013 and a new Bank of Spain Circular. A new law expected in the first half of 2014 will unify various regulations affecting Spanish banks.

### Mexico. Financial reform

**A decisive step towards improving the Mexican banking sector.** At the end of 2013 the Mexican Congress approved the so-called financial reform. It achieves some advances in areas where discussions have been extended for more than 6 years, improves the prudential regulation incorporating the Basel III framework, the regulators' capabilities and the securities law. However, the expected positive effects on credit growth are not so clear.

### Structural Reforms

**Volcker Rule adopted, steps onward in UK.** December witnessed steps towards adopting national structural regulation both in the US (through the final adoption of the Volcker Rule) and in the UK (where the first piece of the banking reform has passed into law on 18 December). The European Commission is expected to release its own proposal by the end of January.

# 1. EU resolution regime: final agreement

## A significant leap towards Banking Union

On 12 December 2013, the European Parliament, the EU Member States and the Commission reached an agreement on the Bank Recovery and Resolution Directive (BRRD). The BRRD sets a common framework for all EU countries to pre-empt bank crises and resolve any financial institution in an orderly manner in the event of failure, whilst preserving essential bank operations and minimising taxpayers' costs. Once it has entered into force in 2015, the BRRD will help to reduce the fragmentation and restore confidence in Europe's financial sector.

### The bail-in tool is the BRRD's cornerstone

The bail-in tool in practice will imply that **banks' creditors will be written down or converted** into equity in case of resolution and, thereby, shoulder much of the burden to help recapitalize a failed bank instead of the taxpayers.

Since the EU Commission released the first draft regulation in June 2012, much of the discussions have focused on the **hierarchy of claims**. The final agreement follows this order: (i) Common Equity Tier1 instruments; (ii) Additional Tier 1 and Tier 2 instruments, (iii) senior debt and uncovered corporate deposits (up to 100.000 Euros), and, finally, (iv) uncovered SME and retail deposits (up to 100.000 Euros). That means that covered deposits have a super preference.

The key question in assessing its operational feasibility is the interplay **among bail-in, the use of resolution fund and government support**. In this regard, depending on the resolution needs, bail-in will be applied taking into account the following three levels: first, a bail-in of 8% of total liabilities is initially applied; second, the Bank Resolution Fund may absorb losses up to 5% of total liabilities; and third, if more capital is needed, bail-in will continue until all losses are absorbed.

**Government stabilization** powers (temporary capital and equity support) to recapitalize failed banks are possible but only in cases of systemic risk and adverse effects on financial stability and subjected to a previously bail-in of the 8% of total liabilities.

Finally, it is worth mentioning that the **bail-in tool, will enter into force one year later, in 2016**.

### The MREL ratio will complement capital & leverage ratio in the future

With bail-in, the cost of senior debt and unsecured corporate deposits would likely increase and institutions may tilt towards issuing collateralized debt which is excluded from bail-in. Thus, setting a **minimum required eligible liability ratio** (MREL) avoids institutions structuring their liabilities in a manner that impedes the effectiveness of the bail in tool.

Additionally, the MREL definition should be flexible enough to reflect the resolution strategy which is appropriate to a group. In particular, the MREL should be required at the appropriate level in the group – at individual or consolidated level – in order to reflect a **multiple-point-of-entry (MPE) or single-point-of-entry (SPE) -approach**.

### The private resolution fund will be a new element in the EU financial sector

The resolution funds, which are **national except in the Eurozone (see next point on the SRM)**, would be available to support the resolution process via loans, guarantees, asset purchases or capital for bridge banks. In 2025, the available financial means of the financing arrangements has to reach **at least 1%** of covered deposits.

### Transposition into national laws: 2014 will be a tough year

The success in the implementation of the EU resolution framework will depend on the convergence and harmonization of national resolution regimes in each jurisdiction. This harmonization could require **complex and profound amendments to the domestic legal laws** and, in some cases, constitutional changes. Thus, 2014 will be a tough and critical year regarding the legislative burden in each country.

## 2. Council and EP set positions on SRM

### Challenging negotiations ahead of April's deadline

On 18 December ECOFIN reached a political agreement around a centralized Single Resolution Mechanism (SRM), covering all SSM banks and including both a Single Resolution Authority and a Single Resolution Fund. The SRM Regulation would enter into force on January 2015, with resolution functions on January 2016. The functioning of the Single Fund would be governed through a separate legal text, an Intergovernmental Agreement which shall be finalized by March and which faces strong opposition from the Parliament.

#### A Single Authority since 2015 but complex decision-making set up

According to the Council position, most resolution decisions would be taken by a new **Single Resolution Board** with representation of national resolution authorities (NRAs) plus an executive director and four full-time members appointed by the Council. **The SRB decisions would be automatically executed unless the Council opposes within 24 hours and always at the Commission request.**<sup>1</sup> NRAs would be in charge of resolving domestic and non-significant banks (provided the SRF is not to be used). However, the SRB can step in at the request of the NRA or on its own initiative in order to guarantee the well-functioning of the SRM. The NRAs would also be responsible for executing all resolution decisions, in full respect of national law, as well as for liquidating unresolvable banks, following the national insolvency laws.

#### A Single Fund since 2016 with progressive mutualization until 2026

- **Between 2016 and 2026 the SRF would comprise a national compartment for each MS and a progressive mutualization scheme for a ten-year transition period. Any public backstop would be primarily national.** The capacity of the concerned compartments (the national compartment of the relevant home and host MS) would be used in the first instance to cover the resolution costs remaining after the bail-in (Step 1). If this is not enough, then a part of all compartments (including those of the concerned MS) would be used (Step 2). If still insufficient, any remaining funds of the concerned compartments would be used (Step 3). The proportion of the use of the means used under Step 1 would decrease by 10% each year (from 100% in 2016 to 0% in 2026) while mutualization used in Step 2 would increase by 10% each year (from 10% in 2016 to 100% in 2026). If Steps 1 to 3 are still insufficient to cover costs, the concerned NRAs would be required to raise extraordinary bank levies on their banks (Step 4). After having used the SRF to cover costs equal to a 5% of the banks liabilities, a public "bridge financing" system would get activated (purely national but backed by bank levies or the ESM) (Step 5). Lending between compartments would also be possible at this stage.
- **From 2026 on, there would be a fully endowed Single Fund in place, with an ex-ante capacity around €55bn<sup>2</sup> and a common (European public) backstop.** Any use of public funds would be recovered ex-post through bank levies. There are no additional details on the design of this common backstop and the role to be played by ESM (The Council/Eurogroup shall agree on this in the future but no deadline have been set).

More specific **details governing the creation and functioning of the SRF will be further specified in an Intergovernmental Agreement** that will not be part of the SRM Regulation. This IGA, whose contents shall be agreed in Council by 1 March, would enter into force only after ratification of the national parliaments of MS representing at least an 80% of the SRF funds.

**The Council agreed position is a step in the right direction towards a Banking Union but the complexity of both the decision-making process and the arrangements to set up the SRF present significant risks.** Looking to the trilogues, which started on 8 January, two main obstacles stand out: (i) the Intergovernmental Agreement, which was key to unlock negotiations in the Council (mostly on the German side) but whose acceptance by the Parliament looks quite remote; and (ii) the role played by the Council in its own proposal (which formally acts as the ultimate Resolution Authority instead of the Commission), criticized by the Parliament because it introduces political interference and complicates an efficient and streamlined decision making process.

1: Decisions by the SRB will be taken by simple majority but for any use of the Fund a stronger majority is required.

2: All MS will transfer to the SRF a yearly amount equal to around 1% of their domestic covered deposits, which they would get from bank levies to be imposed over the banks, based on their relative size and risk.

### 3. Political agreement on DGSD

#### Another important step towards completing crisis management framework

On December 17, the European Parliament and the EU Member States reached an agreement on Deposit Guarantee Scheme Directive (DGSD). The main elements of the DGSD are the following:

- **Coverage level:** €100,000 per depositor and per bank.
- **Payment Role:** The guarantee will continue to be offered in the form of repayment in case of a bank's liquidation where deposits would become unavailable. The deadline for payouts is gradually reduced from 20 to seven working days by 2024.
- **DGS Financing:**
  - **Ex-ante target level** of 0.8% of covered deposits to be reached in 10 years (which can be extended by 4 years if there is a substantial disbursement of DGS funds during the phasing in period). A maximum of 30% of the funding can be made up of payment commitments.
  - **Ex-post financing:** DGS will collect ex post contributions from the banking sector in case of insufficient ex ante funds.
  - **Alternative funding:** If ex ante and ex post contribution are not enough, DGS will have access to alternative funding arrangements (loans from public or private third parties).
- **Risk based contributions:** Banks contributions to DGS will reflect individual risk profiles. Banks with risky activities are required to pay a relatively higher fee.

The agreed legal text for the Directive has not been published yet because it is subject to technical finalisation and formal approval by the co-legislators, expected within this legislature.

### 4. ECB's AQR/stress test and bail-in

#### A clear regulatory roadmap, albeit with some doubts

In August 2013, the new EU State Aid rule comes into force requiring a partial bail-in (up to and including subordinated liabilities) before any public support. Four months later, on 11 December 2013, European authorities agreed that the full bail-in tool, which applies to all unsecured liabilities (including senior debt), will come into force from 2016 onwards.

The EU regulatory roadmap for the next months is clear. Any public capital injection derived from the ECB comprehensive assessment's capital shortfall should be according to the State Aid rules of the EU Commission. Thus, before any public capital support, failed bank's creditors should suffer losses up to and including subordinated liabilities but excluding senior debt.

Despite a clear regulatory roadmap, there is no unanimity among European authorities in how to deal with potential capital shortfalls that may appear as a result of the AQR or the stress test. In fact, breaching regulatory capital under an AQR has been understood different than failing a hypothetical stress test exercise.

The Slovenian recapitalization process announced on 12 December has shed light on this matter. The solution adopted is in line with the EU COM's State Aid principles. The application has been harsher than in the case of Spain, since a 100% bail-in of junior debt has been required before any public capital injection.

Whether the bail-in of junior debt would be required under the AQR or stress test shortfall, their use should be consistent across Europe, ensuring the level playing field. Any potential bail-in exclusion should be carefully assessed providing certainty to debt investors and avoiding distortions in the financial markets.

## 5. New solvency rules for Spanish banks

### CRD IV Pack applies from 1 January

The Spanish legal framework has been adapted on time to comply with the European provisions that implement Basel III. For this purpose, it has been necessary to issue the RD-L 14/2013 and a new Bank of Spain Circular. A new law that will unify various regulations affecting Spanish banks will be issued in the first half of 2014. The core of the new prudential rules is an EU Regulation and several binding Technical Standards, that are directly applicable in all EU member states and promote a uniform application of Basel III in all MS, constituting a core element of the denominated Single Rulebook necessary for the Banking Union.

### Basel III will strengthen the resilience of the banking sector

The overarching goal of the new rules is to strengthen the resilience of the banking sector and with that aim the quality and the level of the capital base have been reinforced, and additional measures to limit liquidity and leverage risks and to bolster the effectiveness of the internal and corporate governance have been introduced. The new prudential rules will apply from 1 January 2014 onwards, but with a gradual transition to stricter standards, with full implementation as of 1 January 2019.

Under the new rules, banks will have to comply with a minimum risk sensitive capital requirement of 8% of RWAs, with a considerable increase in the share to be met with capital of the highest quality (6% Tier 1 and 4.5% CET1). Besides, the high quality capital to be held by banks must meet harsher criteria both in term of loss absorbency and in terms of more demanding deductions that lessen the amount of regulatory capital. At the same time, the new rules are more demanding, as they increase the capital requirements to cover certain risks, as is the case of counterparty credit risks.

On top of minimum capital requirements, additional capital of the highest quality (CET1) has to be held to comply with new capital buffer requirements from 2016 onwards. This is the case of the capital conservation buffer (2.5% of RWAs), the countercyclical buffer (0%-2.5% or higher) or the buffer for systemically important banks (1%-3.5% if globally systemic and up to 2% if domestically important). Additionally, MS retain ample flexibility to apply stricter requirements when needed on financial stability grounds. When an institution fails to meet the combined buffer requirement, the amount of dividend and bonus payments is limited to prevent the bank's capital to be further eroded.

Nevertheless, for all of the around 130 banks subject to the comprehensive assessment being carried out in 2014 by the ECB and the NCAs that participate in the SSM, the capital benchmark will be set at 8% CET1, well above the capital requirements for 2014 of the new solvency regulation, as it adds to the 4.5% minimum requirement a conservation buffer of 2.5% and a systemic buffer of 1%.

New rules to limit excessive leverage are being considered, with an initial implementation as part of the supervisory review process of banks and a likely final stage of a minimum leverage ratio (defined as Tier 1 capital divided by a measure of non-risk weighted on- and off-balance sheet items) as a binding requirement from 1 January 2018 onwards, but with public disclosure that starts on 1 January 2015. Besides, to promote the resilience of the liquidity risk profile of banks, they are required to hold an adequate stock of unencumbered high-quality liquid assets that can be converted easily into cash to meet their short term liquidity needs under stressed market conditions. With this aim liquidity supervision has been reinforced and a binding new LCR shall be implemented in a progressive way starting on 1 January 2015.

### Annual supervisory stress testing will assess banks' capital adequacy

The new regulation requires that supervisory stress test are conducted annually in the EU to evaluate the capacity of banks to withstand stressed conditions and evaluate their capital adequacy. Each supervisor will carry out regularly stress tests on institutions under its supervision, following EBA's guidelines to foster the use of common methodologies.



## 6. Financial reform in Mexico

### A decisive step towards improving the Mexican banking sector

At the end of 2013 Mexican Congress approved the so-called financial reform after a first draft was released by the Federal Government in May 2013. The project is formed by 13 decrees that cover practically the whole spectrum of the banking and financial sector. The process of developing the secondary regulations that will complement the reform begins in January 2014.

In general, the assessment of the reform is positive. First, it achieves some advances in some areas where discussions have been extended for more than 6 years and no step forward had been taken until now. Second, it improves the prudential regulation incorporating the Basel III framework and introduces a resolution regime for banks. And third, it improves the regulators' capabilities and the securities law. However, even if the regulatory advances are remarkable, the expected positive effects on credit growth are not so clear. This is because, in our opinion, low credit-penetration is more due to demand-driven factors.

#### Pillars of the reform

The macroeconomic situation of Mexico has facilitated the design and further implementation of this reform. Macroeconomic indicators were robust, banking institutions enjoyed solid capital ratios -even higher than those imposed by international financial regulation- and cooperation between political parties have improved. The reform, which covers more than 800 pages, is based on four pillars:

- **Strengthening the role for development banks to foster the financial system.** Strategic sectors with difficulties to obtain financing will have access to development banks. This should foster economic activity. The main uncertainty though is whether development banks will be able to expand their first-tier activities. In general, development banks should focus on second-tier activities.
- **Spur competition in the financial and banking system to reduce financial costs to end users.** In order to fulfill this aim, the financial reform suggests, among other things: i) the establishment of financial information sharing mechanisms with other financial authorities; ii) the publication of bad practices, complaints and sanctions by banks and the obligation for financial institutions to improve financial education; iii) the increase of client mobility within financial institutions and iv) an increase of SOFOMEs participation supervised by the CNBV (*Comisión Nacional de Banca y Valores*).
- **Generate additional incentives to increase credit flow.** To achieve this target, the financial reform proposes an enhanced surveillance of the role of financial institutions as lenders. To be more precise, banks should verify, through the "*Evaluación de Desempeño de las Instituciones de Banca Múltiple*" (e.g.: compliance assessment of banking institutions), that they support and promote the productive sector. In addition, the reform defines some limits to securities transactions that financial entities could do on their own account in order to free up some resources for lending activities.
- **Strengthen the resiliency of the banking and financial sector through the improvement of prudential regulation.** There are two measures worth mentioning. First, Mexican authorities have transposed, as law, international prudential rules of Basel III. And, second, the reform introduces a bank resolution process enhancing the role of the IPAB (*Instituto para la Protección del Ahorro Bancario*).

#### Assessment of the reform

In general, the financial reform is a decisive step to improve the Mexican financial sector. This reform covers the main aspects of the financial sector: i) increases the resiliency of banks adopting the Basel III framework; ii) improves the institutional framework by enhancing CONDUSEF role and iii) increases transparency that may end up reducing costs for end users. However, one of the main targets (i.e.: credit growth) is under scrutiny. The reduced credit penetration in Mexico is more related to structural demand-factors. In addition, a potential concern are the evaluations that the government will conduct on how banks support the productive sector.



## 7. Structural Reforms

### Volcker Rule adopted, steps onward in UK

After a long period of standby due to hard negotiations, the December month witnessed steps onward in the legislative process to adopt national structural regulation both in the US and in the UK. In the US, the Volcker Rule which adopts the perspective of activity prohibition has finally been adopted by all the five US financial agencies on 10 December. In the UK, the first piece of the banking reform which defines the basics of the ring-fencing of investment activities has passed into law on 18 December. The European Commission is expected to release its own proposal by the end of January.

#### US: Volcker Rule finally adopted

The Volcker Rule which opts for the prohibition of risky trading activities has been adopted on 10 December after three years of negotiations mainly due to the difficulties met to draw the line between prohibited and permitted activities. It prohibits deposit taking entities from engaging in proprietary trading and from maintaining any exposure to hedge and private equity funds. In order to protect activities essential to the real sector, US authorities set a list of permitted activities that includes inter-alia underwriting, market-making and risk-mitigating hedging. The Volcker Rule has a strong extraterritorial reach since in addition to being applied to US Bank Holding Companies, its scope also includes any domestic or foreign entities that control a US insured deposit bank, their affiliates and subsidiaries. The Rule does not set up any ex-ante mechanism to strictly define which activities belong to both prohibited and permitted categories. Instead, strict reporting requirements are required with the aim to prove the nature of each undertaken activity. In addition, CEO responsibility is now increased: compliance programs must be established with written procedures and CEOs must annually attest compliance through written certification.

Calendar: full implementation by July 2015, reporting requirements will apply from June 2014 for bigger and more complex banks.

#### UK: primary legislation passed into law but key details still to be defined

In Europe, the trend turns towards the option of separation of risky trading activities from traditional banking, rather than prohibition such as in the United States.

On 18 December, the primary legislation of the UK banking reform received Royal Assent. Among the different issues handled in this part of the reform, UK authorities define the basics of the framework that will require banks to separate their risky trading activities from their retail ones into a stand-alone subsidiary. However, the key details of the reform such as the scope of banks subject to ring-fencing, the scope of activities both excluded and allowed in the retail entity and the intensity of separation will be defined in secondary legislation that is currently under discussion and expected to be agreed in 2014. The UK authorities are very likely to adopt the recommendations of the Independent Commission on Banking that proposed a separation of nearly all investment activities applied to nearly the whole banking system. This means the stricter reform among all European initiatives.

#### The adequate design of structural regulation?

While structural regulation would somehow strengthen financial stability, its costs remain uncertain. Indeed, any form of structural regulation could create incentives to shift speculative activities into unregulated vehicles like hedge funds, which could increase systemic risk with an adverse effect on financial stability, especially if the related activities are considered as highly risky. However, in Europe there is a proliferation of divergent national initiatives (UK, Germany, France, etc.) that creates a need for harmonization. The European Commission is expected to release its own proposal by the end of January. The reform is likely to be twofold: (i) prohibition of proprietary trading; and (ii) ring-fencing of trading activities when banks breach certain thresholds that are still not defined. This would apply to banks designated as Global Systemically Important Banks and those with a significant share of trading activities. It is worth noting that structural regulation must avoid a flawed design by (i) preserving the activities that provide valuable services to the real economy such as market-making and underwriting and (ii) avoiding penalizing the universal banking model.

# Main regulatory actions around the world

	Recent issues	Upcoming issues
Global	On 27/17/13 Supervisory Colleges established for internationally active <b>Credit Rating Agencies</b>	On 15/11 Australia will host the <b>G20 Leaders Summit</b>
	On 04/12/13 SIFMA, ISDA and IIB filed Lawsuit Challenging Commodity Futures Trading Commission's <b>Cross-Border Rule</b>	
	On 13/12/13 IOSCO issued a report on regulatory issues raised by <b>changes in market structure</b>	
	On 13/12/13 BCBS revised its policy framework for capital requirements for banks' <b>equity investments in funds</b>	
	On 17/12/13 BCBS presented a second report on <b>Risk-Weighted Assets</b> for market risk in the trading book	
	On 18/12/13 BCBS reported on progress in adopting its principles for effective risk data aggregation and <b>risk reporting</b>	
	On 18/12/13 CPSS and IOSCO issued a consultation on the assessment methodology for the <b>oversight expectations</b> applicable to critical service providers	
	On 19/12/13 BCBS issued a second consultative paper on revisions to the Basel <b>securitisation framework</b>	
	On 20/12/13 IAIS launched a consultation on Proposal for <b>Basic Capital Requirements</b> for G-SIFIs	
	On 08/01/14 FSB and IOSCO Proposed Assessment Methodologies for Identifying <b>Non-Bank Non-Insurer G-SIFIs</b>	
Europe	On 12/01/14 BCBS issued the full text of Basel III's <b>leverage ratio</b> framework and disclosure requirements	
	On 12/01/14 BCBS issued proposed revision to the Basel <b>NSFR</b>	
	On 12/01/14 BCBS presented final requirements for banks' <b>LCR-related disclosure</b> , published Guidance for supervisors on market-based indicators of liquidity and improved <b>High Quality Liquid Assets( HQLA)</b> definition	
	On 04/12/13 Council agreed its position on UCITS	On 02/14 EC is expected to publish its proposal on bank structural reform ( <b>Liikanen</b> )
	On 04/12/13 EP and Council on 20/12/13 adopted their positions on the <b>Directive on Payment Accounts</b>	On 25/02/14 EP is expected to vote on <b>BRRD</b>
	On 10/12/13 EP adopted Mortgage <b>Credit Directive</b>	On 03/14 EP is expected to vote on <b>money laundering and terrorist financing Directive</b>
	On 11/12/13 EP and Council reached an agreement on the <b>BRRD</b>	On 11/03/14 EP is expected the final vote on <b>SRM Regulation</b>
	On 17/12/13 EP and Council reached an agreement on the <b>DGSD</b>	Before 01/03/14 EZ MS shall agree on the <b>Intergovernmental Agreement</b> related to the <b>SRM Regulation</b>
	On 17/12/13 EP and Council reached an agreement on the EU <b>Audit Market Reform</b>	On 04/14 EP is expected to vote on revision of the <b>Payment Services Directive</b> and on Regulation on <b>Multilateral Interchange Fees</b>
	On 17/12/13 EP adopted its position on <b>SRM Regulation</b>	On 04/14 EP will hold its <b>last Plenary Session</b> before 22/05/14 <b>EP general elections</b> .
Mexico	On 18/12/13 Council adopted its position on <b>SRM Regulation, the Intergovernmental Agreement and the SRM backstop statement</b>	On 07/14 EP will hold the <b>first Plenary Session</b> after <b>EP general elections</b>
	On 20/12/13 EP and Council of the EU reached an agreement on the revision of the <b>MAD</b>	On 10/14 ECB will present the results of the Banking Comprehensive Assessment ( <b>AQR and Stress Test</b> )
	On 01/01/14 Greece assumed the Presidency of the Council	On 04/11/14 ECB will start the <b>direct supervision</b> of the European significant banks (around <b>85% of EZ, assets</b> )
	On 01/01/14 <b>CRD IV</b> came into effect in the EU	
	On 09/12/13 the Central Bank published <b>new regulations</b> to improve the efficiency of the transfer network via <b>mobile devices</b> and promote competition in the market	The <b>Banking and Securities Commission</b> is proposing, the introduction of the <b>Basel III principles for liquidity risk management</b>

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	Recent issues	Upcoming issues
Latam	<p>On 10/12/13 BCBS found <b>Brazil</b> to be overall a "Compliant jurisdiction", with its capital standards aligned with the international minimum requirements</p> <p>On 20/12/13 <b>Brazil</b> set guidelines to facilitate <b>loan portability</b> to increase the efficiency of the financial system</p> <p><b>Argentina</b> established for the <b>first half of 2014</b> a new line of <b>credits for productive investment of SMEs</b> with interest rates below market level</p>	<p><b>At the beginning of 2014 Brazil's</b> Supreme Court will deliberate about whether banks should <b>reimburse depositors for the losses</b> stemming from anti-hyperinflation policies adopted in the 1980's and 1990's</p>
USA	<p>On 06/12/13 Fed issued a final rule to align Board's market risk capital rule with the <b>Basel III revised capital framework</b></p> <p>On 10/12/13 <b>Agencies</b> issued Final Rules Implementing the <b>Volcker Rule</b></p> <p>On 10/12/13 <b>FDIC</b> Board released <b>Resolution Strategy</b> for Public Comment</p> <p>On 13/12/13 <b>Agencies</b> issued a statement on <b>supervisory approach</b> for qualified and non-qualified <b>mortgage loans</b></p> <p>On 23/12/13 <b>Fed</b> invited public comment on the amendment of the Fed's <b>emergency lending authority</b></p> <p>On 24/12/13 <b>Fed</b> approved a final rule clarifying the treatment of uninsured US branches and agencies of <b>foreign banks (swaps push out provision)</b></p> <p>On 06/01/14 <b>US Senate</b> voted the confirmation of <b>Janet L. Yellen</b> to be Chair-woman of Fed</p>	<p>On 01/02/2014 <b>Janet L. Yellen</b> is due to be sworn in to office as Chair-Woman of the Fed</p> <p><b>Fed's 2014 fee schedules</b> for payment services are expected to be approximately <b>1% higher than 2013</b>, and the agency expects to make a 2.3% profit</p> <p>An advisory committee created by the Dodd-Frank law has voted to recommend that the <b>SEC</b> adopt a rule imposing a <b>fiduciary duty on stockbrokers</b> who give advice to retail investors</p> <p><b>Fed</b> officials are considering cutting <b>bank-reserve interest rates</b></p> <p>The <b>updated CFPB</b> Agenda does not show signs that the Bureau will slow the pace of <b>regulatory reform</b>.</p> <p><b>Fed</b> will increase the number of banks undergoing <b>stress tests</b> from 18 to 30 in 2014.</p>
Turkey	<p>On 31/12/13 <b>Turkey</b> presented the final regulatory package setting limits on the <b>loan-to-value ratio</b> on auto loans, <b>maximum maturities</b> and limits to the number of instalments for <b>credit cards payments</b></p>	<p>Potential inclusion of <b>commercial deposits</b> under the Saving Deposit Insurance Fund scheme coverage</p> <p>Details on <b>upper band and the type of commissions</b> are still pending from BRSA</p> <p>Limitation for credit card and consumer loan monthly instalment payments to <b>45%</b> of consumers' monthly income</p>
Asia	<p>On 13/12/13 <b>Philippines</b> amended the capital framework for <b>foreign bank branches</b></p> <p>On 20/12/13 <b>Indonesia</b> announced plans to require local banks to <b>strengthen their capital</b> to boost resilience against <b>external shocks</b></p> <p>On 20/12/13 <b>Australia</b> released its final position on implementation of the main elements of the Basel III liquidity reforms (<b>LCR in 2015, NSFR in 2018</b>)</p> <p>On 23/12/13 <b>Australia</b> released an information paper on its framework for dealing with <b>D-SIBs</b> (will come into effect from 01/01/ 2016)</p> <p>On 31/12/13 <b>Indonesia</b> officially transferred its micro-prudential <b>banking supervision</b> responsibilities from the Central Bank to the newly created Financial Services Authority</p> <p>On 06/01/14 <b>Chinese</b> media reported that the Chinese government plans to implement new measures to <b>slow the pace of shadow bank lending</b></p> <p>On 07/01/14 <b>Hong Kong</b> started a first stage of consultation on proposals for establishing an <b>effective resolution regime of financial institutions</b> (final version for endorsement in 2015)</p> <p>On 08/01/14 a Reserve Bank of <b>India</b> panel recommended establishing <b>differentiated banks</b> in India in order to enhance <b>financial inclusion</b></p> <p>On 08/01/14 <b>China</b> ordered 13 large commercial banks to report their financial information under the <b>requirements of SIBs</b></p>	<p><b>Indonesia</b> plans to allow financial institutions to broaden their business scope by allowing financial firms to expand into areas such as <b>project financing</b> and help them branch out of crowded sectors for continued growth</p> <p><b>China</b> listed commercial banks will be allowed to <b>issue contingent convertible bonds</b> in the domestic bond market to supplement capital, in line with Basel III capital rules</p> <p>Central bank of <b>Philippines</b> is expected to <b>sustain banking reform</b> momentum in 2014</p>

Source: BBVA Research

# Abbreviations

<b>AIFMD</b>	Alternative Investment Fund Managers Directive	<b>FROB</b>	Spanish Fund for Orderly Bank Restructuring
<b>AQR</b>	Asset Quality Review	<b>FSAP</b>	Financial Sector Assessment Program
<b>BCBS</b>	Basel Committee on Banking Supervision	<b>FSB</b>	Financial Stability Board
<b>BIS</b>	Bank for International Settlements	<b>FTT</b>	Financial Transactions Tax
<b>BoE</b>	Bank of England	<b>IAIS</b>	International Association of Insurance Supervisors
<b>BoS</b>	Bank of Spain	<b>IASB</b>	International Accounting Standards Board
<b>BRRD</b>	Bank Recovery and Resolution Directive	<b>IHC</b>	Intermediate Holding Company
<b>CCAR</b>	Comprehensive Capital Analysis and Review	<b>IIF</b>	Institute of International Finance
<b>CCP</b>	Central Counterparty	<b>IMF</b>	International Monetary Fund
<b>CET</b>	Common Equity Tier	<b>IOSCO</b>	International Organization of Securities Commissions
<b>CFTC</b>	Commodity Futures Trading Commission	<b>ISDA</b>	International Swaps and Derivatives Association
<b>AMC</b>	Company for the Management of Assets proceeding from Restructuring of the Banking System (Bad bank)	<b>ITS</b>	Implementing Technical Standard
<b>CNMV</b>	Comisión Nacional de Mercados de Valores (Spanish Securities and Exchange Commission)	<b>Joint Forum</b>	International group bringing together IOSCO, BCBS and IAIS
<b>COREPER</b>	Committee of Permanent Representatives to the Council of the European Union	<b>LCR</b>	Liquidity Coverage Ratio
<b>CPSS</b>	Committee on Payment and Settlement Systems	<b>LEI</b>	Legal Entity Identifier
<b>CRA</b>	Credit Rating Agency	<b>MAD</b>	Market Abuse Directive
<b>CRD IV</b>	Capital Requirements Directive IV	<b>MIFID</b>	Markets in Financial Instruments Directive
<b>CRR</b>	Capital Requirements Regulation	<b>MIFIR</b>	Markets in Financial Instruments Regulation
<b>CSD</b>	Central Securities Depository	<b>MMFs</b>	Money Market Funds
<b>DGSD</b>	Deposit Guarantee Schemes Directive	<b>MoU</b>	Memorandum of Understanding
<b>DFA</b>	The Dodd-Frank Wall Street Reform and Consumer Protection Act	<b>MPE</b>	Multiple Point of Entry
<b>EBA</b>	European Bank Authority	<b>MS</b>	Member States
<b>EC</b>	European Commission	<b>NRAs</b>	National Resolution Authorities
<b>ECB</b>	European Central Bank	<b>NSAs</b>	National Supervision Authorities
<b>ECOFIN</b>	Economic and Financial Affairs Council	<b>NSFR</b>	Net Stable Funding Ratio
<b>ECON</b>	Economic and Monetary Affairs Committee of the European Parliament	<b>OJ</b>	Official Journal of the European Union
<b>EFSF</b>	European Financial Stability Facility	<b>OTC</b>	Over-The-Counter (Derivatives)
<b>EIOPA</b>	European Insurance and Occupational Pensions Authority	<b>PRA</b>	Prudential Regulation Authority
<b>EMIR</b>	European Market Infrastructure Regulation	<b>QIS</b>	Quantitative Impact Study
<b>EP</b>	European Parliament	<b>RRPs</b>	Recovery and Resolution Plans
<b>ESA</b>	European Supervisory Authority	<b>RTS</b>	Regulatory Technical Standards
<b>ESFS</b>	European System of Financial Supervisors	<b>SCAP</b>	Supervisory Capital Assessment Program
<b>ESM</b>	European Stability Mechanism	<b>SEC</b>	Securities and Exchange Commission
<b>ESMA</b>	European Securities and Markets Authority	<b>SIB (G-SIB, D-SIB)</b>	Global-Systemically Important Bank, Domestic-Systemically Important Bank
<b>ESRB</b>	European Systemic Risk Board	<b>SIFI (G-SIFI, D-SIFI)</b>	Global-Systemically Important Financial Institution, Domestic-Systemically Important Financial Institution
<b>EU</b>	European Union	<b>SII (G-SII, D-SII)</b>	Systemically Important Insurance
<b>EZ</b>	Eurozone	<b>SPE</b>	Single Point of Entry
<b>FASB</b>	Financial Accounting Standards Board	<b>SRB</b>	Single Resolution Board
<b>FBO</b>	Foreign Bank Organizations	<b>SREP</b>	Supervisory Review and Evaluation Process
<b>FCA</b>	Financial Conduct Authority	<b>SRF</b>	Single Resolution Fund
<b>FDIC</b>	Federal Deposit Insurance Corporation	<b>SRM</b>	Single Resolution Mechanism
<b>Fed</b>	Federal Reserve	<b>SSM</b>	Single Supervisory Mechanism
<b>FPC</b>	Financial Policy Committee	<b>UCITS</b>	Undertakings for Collective Investment in Transferable Securities Directive

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