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Financial Regulation Outlook

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Financial Systems and Regulation Area

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Summary

FSB Second Annual Report

Finalising the financial reform agenda. The Financial Stability Board (FSB) continued to centre its efforts on four fronts: improve the resiliency of financial institutions and markets, address the too-big-to-fail problem, prevent regulatory arbitrage and build a framework for robust market-based financing.

An overview of Turkey's regulatory framework

Right on track. As member and current president of the G-20, Turkey is committed to fully implement the agreed international standards. The country has gone a long way in that endeavour, and as a result the Turkish regulatory framework is now largely aligned with Basel rules and built on a sound institutional framework. Yet some areas of reform remain unfinished and therefore additional work is still needed.

Operationalising macroprudential policy in the banking sector

Focus on the leverage ratio. On 25 June, the ESRB published an *addendum* on the leverage ratio to be added to its *Handbook on Operationalising Macroprudential Policy in the Banking Sector*. On 20 July, the ESRB released its *2014 Annual Report*. It included a subsection on developing guidance on the use of instruments, with a specific rubric for the leverage ratio. In addition to that, on 21 July the EBA launched a report *on the range of practices regarding macroprudential policy measures*. It points out that the macroprudential use of the leverage ratio is not explicitly considered in either the CRD IV or the CRR.

Business model analysis and governance

Breaking down the SREP. This process requires supervisors to review the arrangements, strategies, processes and mechanisms implemented by institutions. Built upon four elements (business model analysis, governance, capital and liquidity levels), the overall SREP score will reflect the institutions' risks and viability, leading supervisors to determine whether remedial actions should be put in place. This article describes the first two elements of the supervisory process carried out by the SSM.

MREL and TLAC: same goal, different attributes

MREL and TLAC require banks to have enough loss-absorbing liabilities in resolution. Regulators worldwide have been trying to achieve effective resolution regimes for financial institutions, especially G-SIFIs. An important novelty in the crisis management framework is the bail-in tool, which seeks to ensure that banks have enough liabilities to absorb losses in the event of a bank's failure to recapitalise. The two most important initiatives are the FSB's TLAC ratio and the EU's MREL. Although they share the same purpose, they present material differences.

The Payment Systems Regulator

A new regulatory framework in the UK. Given the increasing number of financial transactions that are being conducted annually through payment services (either withdrawing money from a cash machine or making high-value payments), the UK has seen the time to innovate and endow this industry with its own regulator, the first to have been created for this purpose. As a result of a series of reviews, reports and consultations, the new Payment Systems Regulator (PSR) was established by the Financial Services Act and it became fully operational in April 2015.

Fast retail payments

A glance at pioneering European experiences. Fast retail payment infrastructures are currently been developed in several European countries – including Spain – as well as at the pan-European level. They are vital to satisfy customers' new expectations within the banking system, ensuring both payment security and financial integrity. Here, we take a glance at the pioneering European experiences in the UK, Poland, Sweden and Denmark to see how their fast retail payment systems work.

1 FSB Second Annual Report (April 2014 – March 2015)

Finalising the financial reform agenda

The Financial Stability Board (FSB) continued to centre its efforts on four fronts: improve the resilience of financial institutions and markets, address the too-big-to-fail problem, prevent regulatory arbitrage and build a framework for robust market-based financing.

Consolidating Basel III reforms was the centrepiece of the FSB's work in order to **improve the resilience of financial institutions**. During 2014, it concentrated its efforts on implementing the leverage ratio and the liquidity components of Basel III. In January 2015, the liquidity coverage ratio (LCR) requirement was adopted and set to follow a phasing-in schedule until 2019. At the start of 2015 the leverage ratio began to be disclosed, and it will be binding in 2018. The final standard for the net stable funding ratio (NSFR) was agreed upon in November 2014 and will be in place by 2018.

On **improving the resiliency of markets**, the FSB focused on the over-the-counter (OTC) derivatives market, for which it worked on increasing standardisation, adopting central clearing, promoting organised platform trading and reporting to trade repositories. All this should help reduce the opacity of these markets.

Figure 1.1
FSB's main objectives

Source: BBVA Research based on Financial Stability Board 2nd Annual Report

Ending too-big-to-fail continues to be the FSB's main priority. In order to do so, the probability and impact of a systemically important financial institution (SIFI) failure must be reduced through higher loss-absorbing capacity, better resolution planning and more intensive coordinated supervision. To make international resolution effective, the FSB published in November 2014 a document on cross-border recognition of resolution and a second peer review of resolution regimes for banks in April 2015, whose results will be published in 2016. Regarding global SIFIs, the priority is to make their resolvability a viable option. In this vein, the total loss-absorbing capacity (TLAC) term sheet was published in November 2014 and an impact assessment is underway to determine the final calibration of TLAC, that will be published in advance of the G20 summit in November 2015. Finally, the FSB is extending the SIFI framework to the insurance sector, to central counterparties (CCP) and other non-bank non-insurers (NBNIs).

Preventing regulatory arbitrage is fundamental to impede financial activities moving into unregulated sectors. Rigorous monitoring and peer reviews allow for the evaluation of progress in implementing global financial standards across jurisdictions and encouraging their adherence to prudential and supervisory standards in a consistent and coordinated manner. Additionally, the FSB completed four country peer reviews (Indonesia, Germany, Netherlands and Russia) and five thematic peer reviews (CRA ratings, supervisory frameworks for SIBs, OTC derivatives transactions to trade repositories, resolution regimes and policy frameworks for other shadow banking).

The objective is to **transform shadow banking into resilient market-based financing** and to foster continuously functioning markets. In this regard, the FSB coordinated the development of policy measures in five areas to limit excessive build-up of leverage, liquidity and maturity mismatches: i) banks' interaction with shadow banking entities; ii) reduce susceptibility of money market funds to runs; iii) improve transparency and incentives in securitisations; iv) reduce financial stability risks in repos and securities lending, and v) assess financial stability risk from other shadow banking entities and activities.

Finally, some evolving risks and vulnerabilities were identified in the report. In particular, the heightened volatility of global financial and commodities markets, stretched asset valuations, rising market liquidity risks, high debt levels in advanced economies and possible un-hedged corporate foreign exchange exposures in emerging markets. Furthermore, it cautions that severe liquidity strains can exist because of the interaction of under-priced credit and liquidity risks with the perceived decline in secondary market liquidity.

2 An overview of Turkey's regulatory framework

Right on track

As member and current president of the G-20, Turkey is committed to fully implement the agreed international standards. The country has gone a long way in that endeavour, and as a result the Turkish regulatory framework is now largely aligned with Basel rules and built on a sound institutional framework. Yet some areas of reform remain unfinished, and therefore additional work is still needed.

Since the onset of the crisis, Turkey has embarked upon a revision of its legal and institutional framework, aimed at strengthening its financial sector. To that end, the Turkish government subsequently amended the Turkish Banking Law and broadened the powers and responsibilities of the Banking Regulation and Supervision Agency (BRSA). In addition, in 2011 the Turkish government also created a macro-prudential authority, the Financial Stability Committee, tasked with the identification of systemic risks and the elaboration of warnings and recommendations. Finally, the Savings Deposit Insurance Fund (SDIF), liable for the protection of deposits up to TRY100,000 per person per bank[1], is now the Turkish resolution authority. As a G20 member, Turkey is committed to implement fully the FSB's *Key attributes for effective resolution regimes* and so SDIF and BRSA commenced work in 2014 to address the shortcomings of the existing regime. Among the most pressing issues are broadening SDIF's resolution powers (especially the bail-in tool, which is still not available), recovery and resolution planning and the resolvability assessment.

Timely adoption of Basel standards

By the end of 2013, Turkey had issued the final rules to implement the Basel III capital framework: the regulation on bank equity that sets out the definitions of CET1, additional Tier 1 and Tier 2 capital, the regulation on measurement and evaluation of capital adequacy introducing the minimum requirements, and an additional regulation on capital conservation and countercyclical capital buffers. A regulation was also adopted that set the leverage ratio from 1 January 2015. Regarding liquidity standards, Turkey adopted in March 2014 a regulation establishing the liquidity coverage ratio (LCR) and its phase-in period, whereas the Net Stable Funding Ratio (NSFR) has not been addressed yet. All in all, Turkey has adopted Basel III rules on risk-based capital, the LCR and the leverage ratio, as recognised by BCBS in April 2015[2]. However, by end-March 2015, Turkey had not yet developed a framework for the identification of global or domestic systemically important banks (G-SIB/D-SIB), nor has it set a G-SIB/D-SIB buffer. Having said that, the design of this framework was foreseen in the BRSA's 2013-15 Strategic Plan, so progress can be expected soon.

Figure 2.1
Status of implementation of specific aspects of financial regulation in Turkey

	Basel III				Resolution		
	Risk-based capital	Liquidity (LCR)	Leverage Ratio (LR)	G-SIB/ D-SIB	Resolution Authority	Resolution powers	Recovery& resolution planning
Degree of implementation	Final rule adopted/implemented	Final rule adopted/implemented	Final rule adopted/implemented	Not adopted/implemented	Final rule adopted/implemented	Adoption in progress/partially implemented	Not adopted/implemented
Relevant regulation	Regulation on Equity of banks	Regulation on LCR Calculation	Regulation on Measurement & Evaluation of LR	--	Turkish Banking Law	Turkish Banking Law	--
Internationally agreed phase-in (completed) date	2013 (2019)	2015 (2019)	Disclosure: 2015 Pillar I: 2018	2016 (2019)	End-2015	End-2015	End-2015

Final rule adopted/implemented | Adoption in progress/partially implemented | Not adopted/implemented

Source: BBVA Research based on BCBS, FSB and BRSA

Final remarks

Turkey has made a remarkable effort in order to meet international standards satisfactorily and within the timeframes envisaged. Significant progress has already been made, and further work is on-going, so the country can be expected to close the remaining gaps in the near future. BCBS is expected to publish its RCAP report on Turkey by March 2016, assessing its alignment with Basel standards.

1: *Regulation on deposits and participation funds subject to insurance and premiums collected by SDIF,* Article 4.
2: *Eighth Progress Report on adoption of the Basel regulatory framework.* BCBS, 2015.

3 Operationalising macroprudential policy in the banking sector

Focus on the leverage ratio

On 25 June, the ESRB published an addendum on the leverage ratio (LR) to be added to its Handbook on *Operationalising Macroprudential Policy in the Banking Sector*. On 20 July, the ESRB released its *2014 Annual Report*. It included a subsection on developing guidance on the use of instruments with a specific rubric for the leverage ratio. In addition to that, on 21 July the EBA launched a report on the *range of practices regarding macroprudential policy measures.* It points out that the macroprudential use of the leverage ratio is not explicitly considered in either the CRD IV or the CRR[3].

The LR: three main interactions with other regulatory measures

Leverage has been pro-cyclical in global terms in the EU[4]. The leverage ratio aims at mitigating excessive leverage and minimising systemic risk in its two dimensions, cyclical and structural. The final calibration of the LR is still pending and its full migration to a Pillar 1 mandatory requirement is expected in 2018. The LR will be a helpful macroprudential tool and it will serve as a valuable complement for other regulatory measures. Three linkages worth noting between the LR and other policies are the following:

1) The LR and risk-weighted capital ratios (RWCRs) are two useful complementary instruments. The latter cover risks better if they are estimatable and observable, and the former has the advantage of considering the whole amount of leverage. The LR covers non-estimatable and non-observable risks. The exposure measure[5] of the denominator of the LR affects both on- and off-balance sheet exposures. Thus, a joint use of the LR and RWCRs covers both observable and non-observable risks. All in all, the combination of the two instruments contributes to reducing the capacity of banks to undertake risky activities: banks with low risk weights will be subject to the LR restriction and banks with high risk weights will be subject to the RWCRs restriction.

2) The LR shall contribute to reduce the sovereign-bank nexus because the total sovereign exposure has to be considered when calculating the leverage exposure measure, therefore acting as a restriction on sovereign asset holdings - as highlighted by the ESRB in its Annual Report.

3) The LR might influence the composition of the liabilities that banks must have to cope with the requirements to absorb losses without the support of public funds. There is a possibility that a harsh final LR induces banks to face the bail-in obligations for the total loss-absorbing capacity (TLAC applies to global systemically important banks) and the minimum requirement of eligible liabilities (MREL applies to all EU banks)[6] with more equity and less debt.

Our assessment

The final LR should be equal for all banks so as not to disrupt business models. Coordination and reciprocity agreements amongst authorities are essential for avoiding regulatory arbitrage and bolstering a level playing field.

In that sense, regulatory inconsistencies should be avoided. Consistency is paramount between the current EBA and the BCBS analysis on a minimum leverage ratio requirement and its potential flexibilities.

A binding minimum LR and its linkage to other macroprudential measures will be an effective line of defence against riskier activities and to ensure that banks' capital is sufficient at all times.

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[3] Page 12 of the Report of the EBA. BBVA Research also refereed it in its Regulation Flash on *The leverage ratio as a macroprudential tool: A new chapter in the ESRB Handbook*.

[4] Annex 2 of the *Addendum* of the ESRB

[5] Pages 26, 27, 44, 45 and 46 of the *Addendum* of the ESRB.

[6] BBVA Research. *MREL and TLAC: What are the consequences of breaching them?*

4 Business model analysis and governance

Breaking down the SREP

The SSM Supervisory Review and Evaluation Process (SREP) methodology requires supervisors to review the arrangements, strategies, processes and mechanisms implemented by institutions. Built upon four elements (business model analysis, governance, capital and liquidity levels), the overall SREP score will reflect the institution's risks and its viability, leading supervisors to determine whether remedial actions should be put in place. This article describes the first two elements of the supervisory process, and in coming months capital and liquidity issues will be covered.

Business model analysis (BMA) and profitability assessment

The SSM will conduct regular BMA in order to assess the business and strategic risks of an entity, evaluating to what extent the capacity of achieving short-term profit is fulfilled and whether the sustainability of the strategic alignment is at hand, considering both qualitative and quantitative factors. This assessment determines: i) the ability of an institution to generate an acceptable return over the next 12 months (**viability**), and ii) over a forward-looking period of at least three years(**sustainability**).

Figure 4.1
Business model analysis process

Source: BBVA Research

When undertaking the BMA, the starting point will be **a preliminary assessment** of the institution's main activities, geographies and market position. Based on this outcome, the **areas of focus** for the BMA must be identified. The b**usiness environment** of the institution should also be assessed, allowing competent authorities to get a comprehensive idea of the macro-economic and market trends, also taking into account the activities of the peer group. **Quantitative and qualitative factors** of an institution will also be looked at: the first ones aim to estimate the financial performance as well as the risk appetite compared to their peers, whereas the latter allow supervisors to understand the success drivers and key dependencies of an institution. The SSM will evaluate the **current situation** and will also perform a **forward-looking** analysis. Based on this information, competent authorities will assess the **viability** and **sustainability** of the business model, identifying relevant **weaknesses and potential remedial actions**.

Governance and risk management assessment

Assessing the **internal governance** of an entity as well as its risk management provides an overall review of its operational and organisational structure. The **corporate and risk culture** of an entity are assessed with a view to its adequacy while considering its risk profile, business model, size and complexity. The s**uitability of members** of the management body will also be assessed, including rules and standards, corporate culture and values and alignment with the institution's strategy to create an environment which ensures effective decision-making processes. The composition and functioning of the management body and its committees will be subject to evaluation, and the r**emuneration** policies will also be assessed.

Figure 4.2
Governance and risk management assessment process

Source: BBVA Research

The analysis of the **risk management framework** covers the evaluation of the risk strategy, the adequacy of the ICAAP and ILAAP framework as well as the stress-testing capabilities. The proper functionality of the **internal control system** as well as the proper **information systems and business continuity** will also be monitored.

Assessment

This year the SSM will undertake, for the first time, the SREP based on its own methodology. For several jurisdictions, the assessment of the governance and the business model is completely new, making the task challenging not only for the SSM but also for the institutions themselves.

5 MREL and TLAC: same goal, different attributes

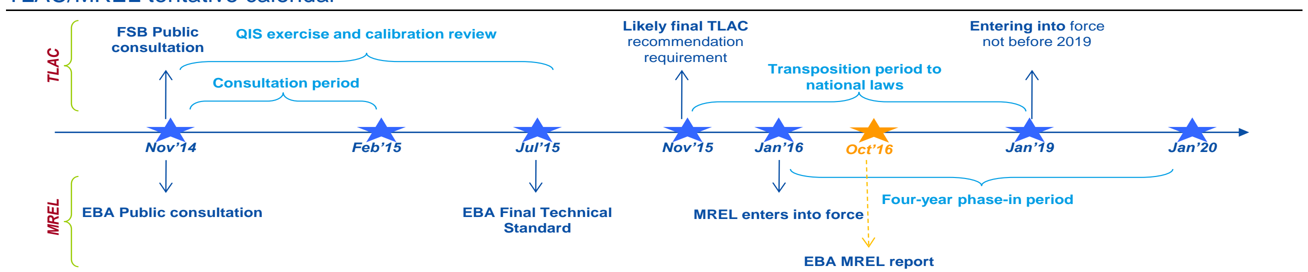
MREL and TLAC require banks to have enough loss-absorbing liabilities in resolution

Regulators worldwide have been trying to achieve effective resolution regimes for financial institutions, especially G-SIFIs. An important novelty in the crisis management framework is the bail-in tool, which seeks to ensure that banks have enough liabilities to absorb losses in the event of a bank's failure to recapitalise. The main goal is that shareholders and creditors should shoulder much of the recapitalisation burden instead of taxpayers. In order to achieve this, several jurisdictions have introduced new minimum requirements for loss-absorbing capacity for banks. The two most important initiatives are the FSB's TLAC ratio and the EU's MREL. Although they share the same purpose, they also present material differences:

- **Scope:** The MREL applies to all credit institutions and investment firms in Europe regardless of their size and systemic footprint, whereas TLAC only concerns G-SIBs but applies at a global level.
- **Definition:** The MREL is determined on a case-by-case basis based on each bank's idiosyncratic characteristics (resolvability assessment, complexity, risk profile, etc.). In contrast, TLAC establishes that all G-SIBs should have the same Pillar 1 minimum TLAC requirement plus a firm-specific requirement. TLAC is therefore perceived more as a Pillar 1 requirement while MREL is seen as a Pillar 2.
- **Sizing:** MREL is calculated based **on the minimum** capital including the corresponding buffers, leverage requirements and the recapitalisation needs after resolution. Additionally, some adjustments may be applied based on the entity's risk profile, resolution strategy etc. However, the TLAC calculation is more straightforward as it is composed of a Pillar 1 minimum standard between 16% and 20% of RWAs, or 6% of leverage assets, plus a Pillar 2 case-by-case requirement. The TLAC minimum requirements do not include capital buffers.
- **Comparability:** The MREL may complicate market comparability and raise level playing-field issues, since its tailor-made approach will most probably result in different requirements for each institution. In order to minimise these concerns, the Single Resolution Board's role in the eurozone is critical.
- **Entry into force:** The final guidelines for MREL were approved by the EBA in July 2015, and the requirement will come into force in 2016 with a 48-month phase-in period. However, the TLAC ratio, which has yet to be finalised, is not supposed to come into force until at least January 2019.

In order to achieve a global level-playing field among financial institutions, it is critical to promote the consistency between TLAC and MREL requirements. In this vein, once the final TLAC calibration is set (this should take place before the next G-20 summit in November 2015), and bearing in mind that the BRRD empowers the EBA and the European Commission to review the MREL requirements by the end of 2016, the European authorities could seize this opportunity to bring MREL closer to TLAC in order to achieve a higher level of compatibility between these two requirements but, at the same time, to preserve the local idiosyncrasies in Europe.

Figure 1
TLAC/MREL tentative calendar



Source: BBVA Research

6 The Payment Systems Regulator

A new regulatory framework for payment systems in the UK

Given the increasing number of financial transactions that are annually being conducted through payment services (either withdrawing money from a cash machine or making high-value payments), the UK has seen the time to innovate and endow this industry with its own regulator, the first to have been created for this purpose. Most of the payment providers in the UK are entities controlled by major British banks. Even though they are resilient entities, these services have often been treated as mere back-office functions. As a result of a series of reviews, reports and consultations, the new Payment Systems Regulator (PSR) was established by the Financial Services Act and it became fully operational in April 2015.

Background

The need for a regulator to oversee the payment systems industry was first noted in the Cruikshank Report in 2000. This report highlighted the need for a reform in the market for money transmission systems in order to correct several inefficiencies:

- **Lack of effective competition**, driven by a high concentration in the ownership of payment systems, as the major UK banks control the main payment schemes in the UK (for example, the four largest UK banks together own 73.8% of BACS and 84.1% of MasterCard/Europay UK Ltd.).
- **Lack of innovation in the use of existing payments infrastructure,** driven by facts such as the control structure of payment schemes, mutual governance (many schemes move at the pace of the slowest member), conflicts of interest or the composition of the boards of payment schemes.
- **Slow and inflexible service to end users.** Slow rhythm in the execution of transactions (clearing delays, banks holidays and weekends).

Purpose

As a response, in March 2013 the PSR was officially set up under the Financial Services Act 2013 (Banking Reform), and in April 2014 it started engaging with the payments systems industry. The PSR became fully operational in April 2015. It has three main objectives:

- To promote effective competition in the markets for payment systems and services between operators, payment systems providers and infrastructure providers,
- To promote the development and innovation in payment systems, in particular regarding the infrastructure used to operate payment systems and
- To ensure that payment systems are operated and developed in a way that considers and promotes the interests of service users.

The main areas of the new regulatory framework for payment systems are: i) industry strategy; ii) ownership, governance and control of payment systems; iii) high behavioural standards for industry participants; iv) monitoring, enforcement and dispute resolution, and v) market reviews.

Scope

The PSR can only use its regulatory powers in relation to payment systems which are designated by HM Treasury. To this purpose, HM Treasury conducted a process that ended up with eight payment systems being designated to be regulated by the PSR. These are: BACS, CHAPS, C6C, FPS, LINK, NICC, MasterCard and Visa Europe. The criteria followed in reaching these designations included: i) the number and value of the transactions that the system processes or is likely to process in the future; ii) the nature of those transactions; iii) the substitutability of those transactions by other payment systems and iv) the relationship between the system and other payment systems. The Payment Systems Regulator stands as the first financial authority created to address the increasing concerns about protecting the best interests of the end users of payment systems, promoting innovation and providing security for these transactions.

7 Fast retail payments

A glance at pioneering European experiences

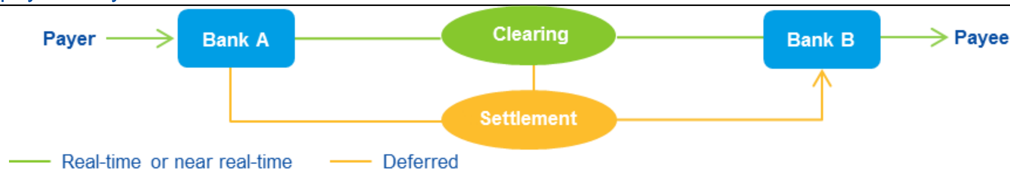
Fast retail payment infrastructures are currently been developed in several European countries – including Spain – as well as at the pan-European level. They are vital to satisfy customers' new expectations within the banking system, ensuring payment security and financial integrity. Here, we take a glance at the pioneering European experiences in the UK, Poland, Sweden and Denmark, to see how their fast retail payment systems work.

What really does take place in real time?

Fast retail payments refer to fund transfers (i.e. account-to-account payments initiated by the payer) in which the funds are posted to the beneficiary's account in near real-time 24x7x365. This involves the payment clearing (i.e. the validation of the instruction between the payer's and the payee's banks) taking place immediately after the transfer has been authorised by the payer. Yet settlement (i.e. discharging banks' obligations through the transfer of funds) may take place at a later time. Indeed, fast retail payments sometimes rely on the pre-existing deferred net settlement systems, such that the transfer of funds between banks takes place only a few times per day in central bank money. Therefore, in many cases, the so-called fast retail payments are immediate for end users, but not from the banks' perspective.

In retail payment systems with immediate clearing and posting but deferred settlement (see Figure 1), banks face the credit risk arising from making funds available to payees before payments have been actually settled between banks. This risk can be mitigated in different ways: by capping the banks' net settlement positions, requiring banks to collateralise or pre-fund their positions or shortening the settlement cycles.

Figure 1
Fast retail payment systems with deferred settlement



Source: BBVA Research

European pioneering systems

The UK (*Faster Payments*, 2008), Poland (*Express Elixir*, 2012), Sweden (*BiR*, 2012) and Denmark (*Straksclearing*, 2014) have all launched fast retail payment services, which coexist with the existing deferred systems. In the four countries, the new systems are near real-time from the end users' perspective, but differences arise in the settlement mechanisms and the associated banks' guarantees:

- **UK**: deferred net settlement (three cycles per day) through accounts held by banks at the central bank. To mitigate settlement risk, net debit positions are subject to a cap and have to be partially collateralised, as part of a liquidity and loss-sharing agreement between member banks. This will be replaced by a new model in which each bank fully pre-funds its maximum debit position with cash.
- **Poland**: prefunded settlement by the clearing house based on an escrow account in the central bank.
- **Sweden**: real-time settlement by the clearing house using prefunded special accounts that are backed by an escrow account in the central bank.
- **Denmark**: deferred net settlement (six cycles per day) via the settlement accounts held by banks at the central bank. The system is pre-funded as the liquidity available in a bank's settlement account determines its maximum debit position in the system.

Satisfying customers' demands within the banking system

In those pioneering countries, upgrading the banks' payment infrastructure has fostered the emergence of innovative mobile-based payment solutions that satisfy the customers' demand for immediate and seamless payments. Meeting that demand within the banking infrastructure guarantees secure and safe payments and ensures the integrity of the financial system.

Main regulatory actions around the world over the last month

	Recent issues	Upcoming issues
GLOBAL	On **17 Jul FSB** issued its **Second Annual Report** covering the period from Apr 2014 to Mar 2015 On **23 Jul BCBS/IOSCO** issued Criteria for identifying simple, transparent and comparable **securitisations** On **24 Jul FSB** progress in **implementing OTC derivatives** market reforms On **30 Jul FSB** announced that the completion of the **non-bank non-insurer G-SIFI assessment methodology** would be postponed until work on financial stability risks arising from asset management is completed On **7 Aug IOSCO** published a report on **post-trade transparency** in the **CDS** market On **19 Aug CPMI and IOSCO** launched a consultation on the harmonisation of the **unique transaction identifier for OTC derivatives**	In **Nov Turkey** will host the **G20 Leaders summit** in Antalya
EUROPE	On **7 Jul EBA** published its advice to the European Commission on a framework for **qualifying securitisation** On **28 Jul ESRB** published **two reports** on issues to be considered in EC's **review of EMIR** On **28 Jul EBA** published **key metrics** used to identify global systemically important institutions **(G-SIIs) in the EU** On **29 Jul EBA** launched a **consultation** on draft guidelines on **cooperation agreements** between **deposit guarantee schemes** (DGSs) On **30 Jul ESMA** published its **advice** on the extension of the AIFMD passport to non-EU AIFMs and AIFs and an **opinion** on the functioning of the **passport** for EU AIFMs and the national private placement regimes On **31 Jul ESMA** launched a **consultation** on draft **RTS** under the Regulation on European Long-term Investment Funds (**ELTIFs**) On **31 Jul EBA** issued a **call for evidence** on **SMEs and the SME supporting factor** On **4 Aug ESMA** published **technical advice** relating to the possible content of delegated acts required under the **Central Securities Depositories Regulation** On **5 Aug EBA** launched a **consultation on draft RTS on the exemption of transactions with non-financial counterparties** (NFCs) established in the **third country** from the own funds requirement for **CVA risk** under CRR On **5 Aug EC reported to EP and EU Council** on rules governing the levels of application of **banking prudential requirements** On **6 Aug EC** adopted **draft RTS** on a clearing **obligation for OTC interest rate derivative** contracts to be cleared through a central counterparty On **11 Aug EBA** published **final guidelines on passport notifications** for mortgage credit intermediaries under the **Mortgage Credit Directive** On **13 Aug ESMA** issued **four reports** on the **functioning of EMIR** and providing input and **recommendations to EC's EMIR review** On **14 Aug EBA** issued **opinion** on how to define what arrangements should be protected in a **partial property transfer in resolution** On **19 Aug EBA** announced that it will incorporate additional analysis into its **calibration reports on NSFR and the leverage ratio** On **19 Aug EC** signed the **Memorandum of Understanding (MoU) with Greece** for a three-year stability support programme, after approval by Eurogroup, Member States and ESM On **27 Aug ESMA** launched a **consultation** on review of **CCP client accounts under EMIR**	On **1 Jul Luxembourg** took over the **Council Presidency** for the next six months In **2H 2015** an **EC** consultation is expected on retail financial services, insurance and consumer policy issues In **2H 2015 EC** will publish an **action plan** on **Capital Markets Union** In **2015 EC** will launch a consultation on an EU **covered bonds** framework In **2015 EC** will publish a proposal on an EU framework for **recovery and resolution of systemically important financial infrastructures** such as CCPs
MEXICO	On **20 Aug** the Agreement developed by the Mexican Banking Association that **standardises mortgage substitutions processes and documentation** came into effect. It implements the legal changes brought by the Financial Reform. On **27 Aug CNBV** modified its banking rulebook regarding collateral recognition in consumer credit provisioning methodology in line with Basel.	The SHCP is expected to issue its proposal for the Strategic Questionnaire (qualitative part of the Bank Performance Assessment included in the Financial Reform) in coming weeks.
LATAM	In **Jul** Argentina´s central bank raised regulated interest rates for time deposits again (from 22.6% to 23.6% for a 30-day period)	**Colombia**'s Ministry of Finance is working on two studies that evaluate the **implementation of Basel III's capital buffers** in Colombia and the **composition of regulatory capital and solvency** required for pension funds, stock brokers, fiduciary and insurance companies. Publication expected during **4Q15**.

Continued on next page

cont.	Recent issues	Upcoming issues
LATAM		**Colombia**'s Ministry of Finance and Bank of the Republic are studying a project to allow the regular issuance of **short term government debt** (tenor lower than one year)
USA	On **16 Jul** the **US Treasury** launched a **consultation** on online marketplace lenders On **28 Jul Fed and FDIC** released an **updated template for resolution plans** and provided additional guidance to 119 financial firms that will be expected to file updated resolution plans in Dec. On **10 Aug Fed** clarified Regulation II on **Debit Card Interchange Fees** regarding the inclusion of transaction-monitoring costs in the interchange fee standard On **16 Jul** the **US Treasury** launched a **consultation** on online marketplace lenders	**SEC** is working on a requirement that companies disclose their **CEO's compensation** compared with median worker pay Regulators are working to **complete some of the pending reforms outlined by the Dodd-Frank Act** before the next administration takes office (2017)
TURKEY	In **Jul** the **Central Bank of Turkey** announced a **reduction of the USD deposit rate** at one week maturity from 3.5 to 3 percent, effective from 27 Jul, at which the banking sector will be able to borrow from the Central Bank.	
ASIA	On **11 Aug PBoC** announced a reform of the **RMB exchange rate middle price** formation mechanism. The daily opening fixing rate of the RMB will be directly formed by market makers On **13 Aug FSB** published a **peer review on China**, focusing on the macroprudential framework and non-bank credit intermediation On 20 Aug the **Reserve Bank of India** approved to 11 entities to **open payment banks** targeted to financially excluded retail customers and offering them basic banking services (savings, deposit payments and remittance services) by leveraging on technology. They are not permitted to undertake lending activities.	

Source: BBVA Research

Abbreviations

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

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