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Financial Regulation Outlook

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Financial Systems and Regulation Area

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Summary

Roadmap on single retail financial market in Europe

A new project to reduce fragmentation in financial services. This new European initiative will complement other key measures adopted and ongoing plans, such as the Banking Union and the Capital Markets Union, to tackle the fragmentation of the European financial system. The digital transformation of the banking industry helps banks and customers to operate across Europe, which is not yet happening on a large scale. The European Commission will launch a green paper by the end of 2015.

Basel III Monitoring Exercise for Europe

Group 1 banks on track, large Group 2 banks recede. EBA and BCBS published the results from the 8th Basel III Monitoring Report. Improvements continued on all three fronts (capital, liquidity and leverage) for Group 1 banks, but receded for some large Group 2 banks, in particular for their short-term liquidity. The EBA estimates that G1 banks had a capital (CET1) shortfall of EUR1.5bn in December 2014 and an additional liquid assets requirement of EUR38.3bn. Both represent significant reductions from the previous exercise (45% and 63% respectively).

A new European framework for securitisation

EC unveils its plan to revive EU securitisation. On 30 September the EC revealed the plan of action to revive robust securitisation in Europe. The core of the proposal consists of a pair of legislative proposals that aim, in the first place, to harmonise and simplify the regulatory framework for all securitisations and, second, to promote activity in transactions that are Simple, Transparent and Standardised (STS). To this end, STS transactions will benefit from lower capital requirements than non-STS, for both banking and insurance.

Internal Capital Adequacy Assessment Process

A key supervisory tool. Following the description of the first two elements of the Supervisory Review and Evaluation Process included in September, this article reviews the third element, i.e. the Internal Capital Adequacy Assessment Process (ICAAP) that has become a key supervisory tool. Through the assessment of the risks to capital along with the SREP capital process, supervisors will determine if the own funds held by the institution are sufficient.

Liquidity in financial markets

Under the spotlight. Liquidity in financial markets is under the spotlight. There is a fear that some of the new regulatory initiatives already implemented, and others yet to be adopted, may have negative consequences for the functioning of financial markets. Regulation is not the only cause of changes in the liquidity characteristics of financial markets, but it is necessary to perform an impact analysis of new regulations in order to prevent unintended consequences.

Debt subordination in Europe

In search of a harmonised insolvency scheme. The Bank Recovery and Resolution Directive (BRRD) introduces a new resolution framework that seeks to avoid bail-outs with bail-in. In order for this new philosophy to be credible, banks must have enough liabilities with loss-absorbing capacity, to avoid any sort of legal challenge. Currently, there is no common debt subordination scheme in the EU and countries such as Spain, Italy and probably Germany are adopting different approaches. It is highly desirable to achieve a homogeneous hierarchy of claims in Europe, but it is a necessity at the Eurozone level.

Data protection regulation

Economic issues and challenges. The digital era is characterised by the intensive use of data which nowadays are easily obtained through cyberspace. In many cases, this information is considered private, while the owners are unaware of how their data was obtained and used. Although current regulations around the world deal with these issues, from an economic point of view there are still challenges ahead under debate.

1 Roadmap on single retail financial market in Europe

A new project to reduce fragmentation in financial services

This new European initiative will complement other key measures already adopted and ongoing plans, such as the Banking Union and the Capital Markets Union, to tackle the fragmentation of the European financial system. The digital transformation of the banking industry helps banks and customers to operate across Europe, which is not yet happening on a large scale. The European Commission will launch a green paper by the end of 2015, to identify the barriers to create a Pan-European retail financial market. At the end of the road, the Commission will probably propose different lines of policy actions in order to create a fully-fledged single retail financial market in Europe.

Fragmentation in the European financial sector has been tackled by the European authorities from different angles. The banking union and, in particular, the implementation of the Bank Recovery and Resolution Directive (BRRD), which will be fully operational from 1 January 2016, seeks to break the vicious circle between sovereign and banks which has heavily penalised peripheral countries in the last five years. Additionally, at the beginning of 2015, the European Commission launched a new ambitious project to achieve a complete freedom of capital movements, the Capital Market Union (CMU). The CMU will be developed under a multipronged strategy covering several capital market segments, from securitisations and covered bonds to private placements and long-term finance.

From a retail financial services standpoint, the European policy-makers have adopted several initiatives to restore retail customers' confidence, which was seriously jeopardised during the recent crisis. This is the case of the Mortgage Credit Directive (MCD), the Regulation on Packaged Retail and Insurance-based Investment Products (PRIIPs), the Payment Account Directive (PAD), Markets in Financial Instruments Directive II (MiFID II) and the Payment Services Directive II (PSD II). However, some of these initiatives need to have a global European perspective. In a nutshell, a single retail financial market needs to be developed to address the following weaknesses in the current European retail financial sector:

- **The lack of cross-border competition in the European financial retail markets**. Banks are still national, and cross-border retail lending is limited to a few neighbouring countries and a few products. Additionally, customers are also local. As a special Eurobarometer survey highlighted in 2012, only 3% of the banks' accounts and 2% of personal loans and credit cards were purchased from another Member State.[1]
- **The current regulatory framework does not help to maximise all the opportunities of the new digital skills**. Recent developments on digital banks pave the way to demolishing the perceived European borders, allowing customers and banks to operate with a cross-border perspective.

In response to these concerns, on 2 September the European Commission launched the road-map on the Green Paper on Retail and Financial Services and Insurance.[2] With this initiative, the Commission seeks to *"identify the competition obstacles and gaps in previous legislation that prevent or are likely to prevent firms from providing services in a Single Market and domestic consumers from enjoying the benefits of a Single Market.*"

The European Commission's roadmap has the following milestones:

- By the end of the year, the European Commission will launch a consultation paper to gather information from the financial sector.
- In parallel, the Commission will gather information from multiple resources ranging from internal studies on digitalisation, consumer trends, etc. to continuous dialogues with different stakeholders.
- In 2016 the Commission will probably publish a report on how to deal with the shortcomings identified.

Although the measures to reduce the fragmentation in the retail market are difficult to identify in advance, it is very likely that the Commission will come up with a range of policy proposals to create a fully-fledged single retail financial market, especially from the digital banking perspective.

1: http://ec.europa.eu/internal_market/finservices-retail/docs/policy/eb_special_373-report_en.pdf
2: http://ec.europa.eu/smart-regulation/roadmaps/docs/2015_fisma_031_other_outside_cwp_green_paper_retail_en.pdf

2 Basel III Monitoring Exercise for Europe

Group 1 banks on track, large Group 2 banks recede

On 15 September, the EBA and BCBS published the results from the 8th Basel III Monitoring Report. Improvements continued on all three fronts (capital, liquidity and leverage) for Group 1 banks, but receded for some large Group 2 banks, in particular regarding their short-term liquidity. The EBA estimates that G1 banks had a capital (CET1) shortfall of EUR1.5bn in Dec 2014 and an additional liquid assets requirement of EUR38.3bn. Both represent significant reductions from the previous exercise (45% and 63% respectively).

Takeaways from EBA exercise

Capital continued to consolidate in G1 banks: The average fully loaded capital ratio (CET1) of G1 banks increased since the previous exercise and reached 11.4% in Dec 2014, thanks to an increase in capital and minimally lower RWA. The gap with regard to the current implementation of the capital ratio fell to 0.6 percentage points and is explained almost totally by transitional arrangements in the definition of CET1. The EBA estimates a CET1 shortfall of EUR1.5bn for G1 banks to reach the 7% capital ratio threshold, 45% less than in Jun 2014 and 95% less than in 2011. In contrast, the shortfall for G2 banks increased to EUR2.4bn (x3.4 since Jun 2014) because of lower capital levels from three of the largest G2 banks.

Short-term liquidity receded for some large G2 banks: The average liquidity coverage ratio (LCR) of G1 banks increased to 123% in Dec 2014, and 87% of the banks complied with the 100% requirement to be fulfilled by Jan 2018. G2 banks had on average a higher LCR value (153%); however, a lower percentage of banks fulfilled the 100% threshold (68%) and a proportion of them (16%) did not achieve the minimum requirement of 60%. Reduced liquid assets and constant net outflows caused a 10 percentage point reduction in G2 banks' LCR since Jun 2014. The EBA estimates a EUR38.3bn shortfall in liquid assets for G1 banks and EUR27.3bn for G2 banks. NSFR remained relatively unchanged for G1 and G2 banks.

Leverage ratios continued to improve: The improvement in the average LR for G1 banks accelerated since Jun 2014, while LR for G2 banks remained nearly the same. The former change was due to an increase in Tier 1 capital (6%) and a slight decrease in LR exposure. For the latter, the decrease in LR exposure (1.8%) was offset by the decrease in Tier 1 capital (0.9%). LR for both Groups remains above 4%.

Chart 2.1
G1 Capital CET1 ratio (%)

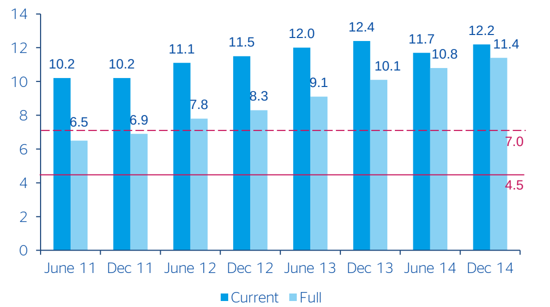


Chart 2.2
G2 Capital CET1 ratio (%)

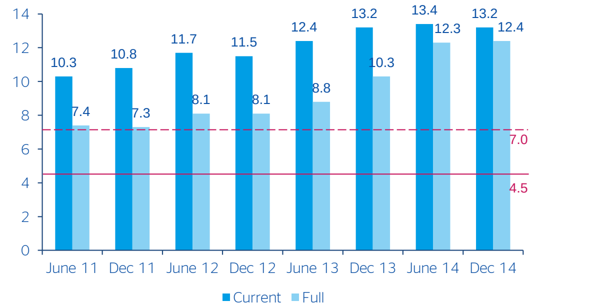


Chart 2.3
LCR

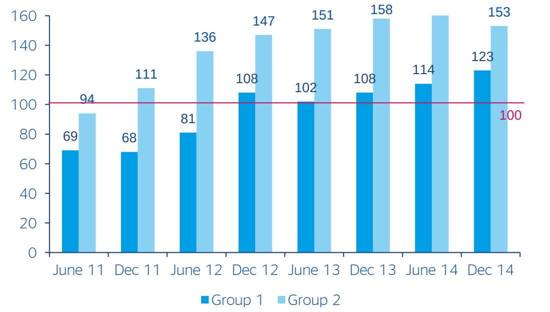
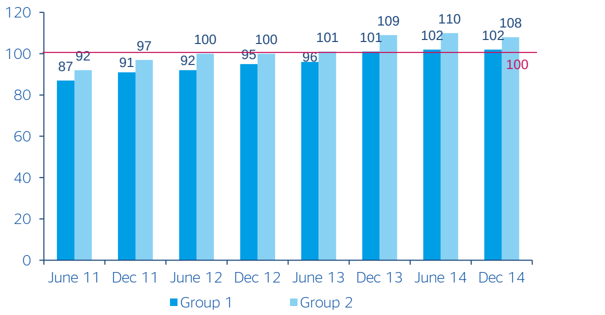


Chart 2.4
NSFR



Source: BBVA Research based on EBA report on Basel III monitoring exercise for the European banking system

3 A new European framework for securitisation

EC unveils its plan to revive EU securitisation

Following the EBA's advice issued in July and the results of its own consultation in February, on 30 September the EC revealed the plan of action to revive robust securitisation in Europe. The core of the proposal consists of a pair of legislative proposals that aim, in the first place, to harmonise the regulatory framework for all securitisations and, second, to promote the activity in transactions that are Simple, Transparent and Standardised (STS). To this end, STS transactions will benefit from lower capital requirements than non-STS, for both banking and insurance. The proposal calls upon market participants to work on further standardisation of documentation to facilitate investment.

A new Securitisation Regulation

This regulation lays down the substantive elements of the overarching EU securitisation framework, promoting consistency across sectors - insurance, banking, funds - and regulations, e.g. capital and liquidity.

1) **A set of common requirements applicable to all securitisations:** i) due diligence is extended to all types of regulated investors (UCITs and EIORPs are incorporated into the previous set of banks, insurance companies and AIFMs); ii) a direct mandatory risk retention for originators is added, and iii) transparency requirements for originators to ensure that all the information required for due diligence is made available to investors, free of charge and being disclosed on a website.
2) **Ad hoc criteria to identify STS,** with a Q&A procedure led by ESAs to help in interpreting criteria. Synthetic structures are excluded for now and specific criteria have been developed to include short-term ABCP, departing from global criteria on this point. With regard to compliance with STS criteria**, issuer self-certification** is proposed, making originators/sponsors/SSPEs jointly liable for any loss or damage when the certification is considered incorrect by supervisors at a later stage. The list of all STS transactions will be disclosed on ESMA's website.
3) **A system of supervision and sanctioning** to enforce the correct application of the new rules.

Lower capital requirements for Qualifying STS

For banking solvency, a regulation a modification of CRR is proposed with the aim of creating a more risk-sensitive framework, following the EBA's advice. Lower capital requirements are proposed for STS transactions on the grounds of their lower structure risks. But to benefit from the capital relief, additional requirements are imposed, related to the credit risks of the underlying pool: i) underwriting standards; ii) minimum granularity, and iii) maximum risk weights. To promote the flow of credit to SMEs, a preferential treatment is proposed for certain transactions with public support, both for traditional and synthetic structures. A revision of Solvency II is also announced to recalibrate capital required for STS, but details are still pending.

Table 3.1
Amendment to CRR

1. Early adoption of Basel 2014 revised framework for all securitisations	A.	**Single hierarchy of approaches, less reliant on external ratings**: i) internal rating-based; ii) external rating-based and iii) standard. Possibility to skip the external rating-based approach when non-neutrality of capital is too high due, e.g., to the impact of sovereign caps in rating methodology of credit rating agencies.
	B.	A minimum **15%** risk-weight floor
2. Preferential treatment for Qualifying STS	A.	Lower capital requirements: **on average 25% lower** than non-Qualifying STS
	B.	A lower risk-weight floor for the most senior tranche: **10%**

Source: BBVA Research

Next steps

The legislative process for the approval of these regulations will require at least some months until completion. Then they will be directly applicable in all Member States without requiring lengthy national transpositions, so that the new EU framework could be operational next year. Nevertheless, additional work is required to clear up uncertainties surrounding the interpretation of STS criteria. Otherwise, that uncertainty could hamper issuance of STS, given the reputational risks associated with the originators/sponsors responsibility for STS certification under the EC's proposals.

4 Internal Capital Adequacy Assessment Process

Following the description of the two first elements of the Supervisory Review and Evaluation Process included in September, this article reviews the third element, i.e. the Internal Capital Adequacy Assessment Process (ICAAP) that has become a key supervisory tool. Ensuring the capital adequacy of an institution, as well as its effective management, has become of considerable importance for supervisors and institutions alike. Through the assessment of the risks to capital along with the SREP capital process, supervisors will determine if the own funds held by the institution are sufficient.

The SSM aims to take adequate SREP decisions using a wide range of information coming from all four elements which compose the process. The ICAAP has turned into an important source of information for supervisors, being key when deciding minimum capital requirements to be met by banks. Tailor-made to the institution's circumstances and needs, it will allow competent authorities to determine their capital adequacy.

Assessing risks to capital

The risk assessment is a structured process which aims to evaluate the bank by breaking down the various risks it faces and assessing each one of them separately, if identified as material for the institution. The **main risk categories** considered include: i) **credit and counterparty risk,** ii) **market risk,** iii) **operational risk,** and iv) **interest rate risk from non-trading activities**. In addition, a set of sub-categories within each risk will be assessed.

For each of the identified material risks, competent authorities must assess and reflect the inherent risk as well as the **quality** and **effectiveness** of **risk management controls**. All available information sources (i.e. regulatory reporting, the institution's internal metrics and reports, on-site inspections) will be used to perform the assessment. Comparison with peers should be also considered to identify potential exposure to risks to capital, regardless of the fact that the assessment is intended to be institution-specific. Accuracy and prudence of the calculation of minimum own funds requirements will also be evaluated, seeking to identify situations where the actual level of risk may be underestimated.

Capital assessment

Once the outcomes of the risks to capital are considered, competent authorities will carry out the SREP capital assessment. Throughout this process, competent authorities will determine whether the own funds held by the institution provide sound coverage of risks to capital, taking into account both the quantity of capital (**amount**) and the composition (**quality**).

Figure 4.1

SREP capital assessment process

1. Determination of additional own funds requirements
2. Reconciliation of additional own funds requirements with the CRD buffers
3. Determination and articulation of the TSCR and OCR
4. Assessment of the risk of excessive leverage
5. Assessment of the OCR and TSCR, whether they can be met over the economic cycle
6. Determination of the capital score

Source: BBVA Research

When performing the SREP, competent authorities must **determine the additional own funds requirements**, which should cover risks of unexpected losses, underestimation of risk and any risk arising from deficiencies in internal governance. In addition, competent authorities should **reconcile the additional own funds requirements** against any existing capital buffer or macro-prudential requirements. Supervisors will **determine the TSCR**[3] - which is the result of adding the Pillar 1 own funds requirements and the additional own funds requirements - as well as the **OCR**[4] – sum of the TSCR, capital buffer requirements and macro-prudential requirements, when expressed as own funds requirements. In order to measure whether an institution meets requirements over the **economic cycle**, supervisors will use stress testing to determine the impact of the baseline and adverse scenario on available own funds, covering the OCR and the TSCR.

The ICAAP must rely on an **adequate governance structure** and has to be **integrated** into the management decision-making process as well as **within the culture of the institution**. Competent authorities should consider whether the policies, processes, inputs and models constituting the ICAAP are proportionate to the nature, scale and complexity of the activities of the institution, providing it with safety and soundness.

3: Total SREP Capital Requirement
4: Overall Capital Requirement

5 Liquidity in financial markets

Under the spotlight

Liquidity in financial markets is under the spotlight. There is a fear that some of the new regulatory initiatives already implemented, and others yet to be adopted, may have negative consequences for the functioning of financial markets. Regulation is not the only cause of changes in the liquidity characteristics of financial markets, but it is necessary to perform an impact analysis of new regulations in order to prevent unintended consequences.

New regulations might affect liquidity in financial markets

Recently, concerns have arisen about a possible deterioration in bond market liquidity as a consequence of the implementation of new regulations, especially regarding the activity of market making which seems to have decreased in the past months. Some of the regulations under the spotlight are:

Figure 5.1
Review of regulations

Liquidity ratios	Liquidity coverage ratio requires banks to hold a significant amount of liquid assets. This implies a reduction in the inventories that banks hold to meet their client's needs in terms of trading, affecting their capacity to conduct market making operations.
Bank Structural Reform	Mandatory separation of certain trading activities, including in some cases market making can lead to a withdrawal of some banks from these activities. Prohibition of proprietary trading affects negatively bank's trading assets inventories.
FTT	An increase in transaction costs will directly imply a decrease in trading activity volumes, which will entail the widening of bid-ask spreads and thus finally affecting market's liquidity.

Source: BBVA Research

The stance of the authorities and the industry

- The **Federal Reserve,** in its Monetary Policy Report, does not find evidence of a significant reduction in the market's liquidity. The Fed recognises the existing discussion regarding this issue, but points to the digitalisation of markets and to a change in banks' risk appetite as probable causes of any reduction in market liquidity. Regarding market-marking activity, the Fed recognises that new regulations might have discouraged entities from performing this kind of activity but also highlights that these regulations strengthen entities in case of stress and that markets need to accept higher costs.
- Staff of the **Bank of England** have recently analysed this issue and recognise a reduction in bond market liquidity. They find that dealers have cut their inventories of fixed-income securities by more than 75% since 2008, and act less as a shock absorber than they did around a decade ago. To explain this sharp decline in dealers' inventories, they point to the decline in the securitisation industry since the crisis and to regulatory reforms that are leading to lower holdings of securities as proprietary investments.
- The **International Monetary Fund** has also included this topic in its Global Stability Financial Report. The IMF states that only in some markets, signs of worsening have arisen and that not enough time has passed to perform an evaluation of the impact of new regulatory changes.

Moreover, The Global Financial Markets Association and the Institute for International Finance have worked together with PwC in a study which deals with global financial market liquidity. This report finds the main cause for market liquidity deterioration in new regulations. Nevertheless, the report also notes that regulation is not the only driver of reduced market liquidity, highlighting as other possible factors a change in risk appetite and market focus of some participants, lower profitability and the pressure to reduce costs.

Assessment

There are several factors that may affect liquidity in financial markets, such as a change in banks' risk appetite as a consequence of the recent financial crisis or the digitalisation process that financial markets are facing. Nevertheless, there are also unintended consequences of new regulatory initiatives that should be measured. Especially for new regulations, impacts analysis should be developed in order to prevent these unintended consequences.

6 Debt subordination in Europe

In search of a harmonised insolvency scheme

The Bank Recovery and Resolution Directive (BRRD) introduces a new resolution framework that seeks to avoid bail-outs with bail-in. In order for this new philosophy to be credible, banks must have enough liabilities with loss-absorbing capacity to avoid any sort of legal challenge. Currently, there is no common debt subordination scheme in the EU and countries such as Spain, Italy and probably Germany are adopting different approaches. It is highly desirable to achieve a homogeneous hierarchy of claims in Europe, but it is a necessity at the Eurozone level.

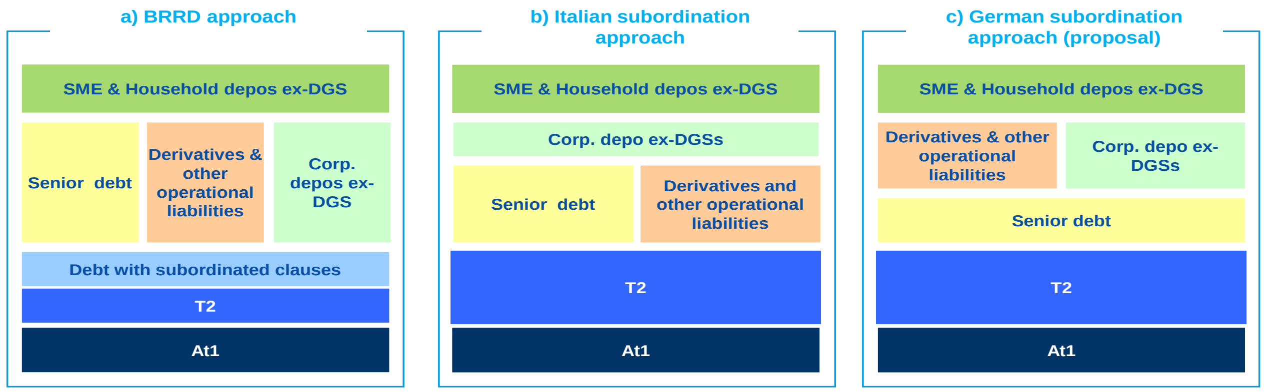
In order to apply the bail-in tool, it is necessary that banks hold a minimum amount of instruments that can be legally, feasibly, effectively and operationally written down or converted into equity in case of a bank resolution. The BRRD declares that Member States' insolvency proceedings have to grant the highest degree of protection to uninsured deposits of households and SMEs. In Europe, there is not a fully-fledged deposit-preference approach. Therefore, doubts arise on how unsecured senior debt will absorb losses because it ranks *pari passu* with instruments which are less credibly bailed-in or whose feasibility to absorb losses is less clear (e.g. corporate deposits). This implies that loss-absorbing senior debt needs to be subordinated to these instruments, to the extent that the authorities want to preserve the crucial legal principle of No Creditor Worse Off than in Liquidation.

The BRRD does not force Member States to adopt a particular debt subordination scheme. So far, EU countries have followed different paths to overcome this issue as shown in Figure 6.1. In June, Spain changed its insolvency law to provide legal certainty to the issuances of senior debt with subordination clauses embedded (known as Tier 3). Last September, the Italian BRRD transposition altered the ranking of *pari passu* liabilities with the introduction of legal preference for all types of deposits relative to senior unsecured debt and other operational liabilities. Germany's latest proposal focuses on giving preference to certain debt instruments rather than subordinating them in its creditor hierarchy.

Determining the optimal alternative is a daunting task, as noted by the ECB's opinion on the German statutory subordination[5]. Nevertheless, it is essential to achieve a homogeneous resolution framework in terms of hierarchy of claims at a Eurozone level for several reasons. First of all, it is difficult to envisage the Single Resolution Board dealing with different hierarchies of creditors. Also, a common subordination approach in Europe is needed to reinforce the standardisation achieved through the BRRD and the Single Resolution Mechanism. Divergent senior debt treatment across Member States would create distortions in the way entities comply with TLAC/MREL. Finally, investors and markets require clarity and predictability about the treatment of their investments, thus a common approach would be essential. In this regard, the results from the impact analysis that is being carried out by the EU Commission, ECB and Member States will be crucial.

Figure 6.1

Hierarchy of claims in Spain, Italy and Germany following the BRRD's transposition



Source: BBVA Research

5: The ECB recently commented on the pros & cons of the German proposal : https://www.ecb.europa.eu/ecb/legal/pdf/en_con_2015_31_f_sign.pdf

7 Data protection regulation

Economic issues and challenges

The digital era is characterised by the intensive use of data which nowadays is easily obtained through cyberspace. In many cases, this information is considered private, while the owners are unaware of how their data was obtained and used. Although current regulations around the world deal with these issues, from an economic point of view there are still challenges ahead under debate.

The economics of personal data

Personal data can be traded in the market. People who hold the information could be considered the supply side while firms, willing to use the data, are the demand side. As a consequence of network externalities, derived from an increasing participation of economic agents which are more and more interested in obtaining benefits, this potential market is growing, with enormous costs and benefits that could be extracted from them. The issue, notwithstanding, is that both sides of the market – or at least one – could not be completely aware that this market exists and/or how it works, and that personal information could be used and passed from one hand to another. This and other elements are some of the relevant market failures that need to be tackled.

Market failures to overcome

A market failure is a condition that limits the adequate functioning of the market, blocking the possibility of obtaining the maximum value for society. One of the most complicated failures that this potential market for personal data has to cope with is, precisely, the lack of adequate explanatory information, especially for those who are the owners of their private data. First, people interacting with web pages or applications are not aware of the use of the information they provide and the consequences this has for them. Even more, in cases where firms give notice about the use of the information or ask for permission to use it, owners of the data do not spend time to read the warnings. Privacy policies seem to be complicated and hard to understand for the common citizen. Moreover, until now, there have been no available adequate metrics for measuring the real benefits or costs that this market is bringing to consumers, which makes things more difficult to understand.

Other market failures are related to issues of data security, with concern over the capacity of firms – whether large or small - to safeguard the information in order to avoid data breaches that could dent confidence in this market. Other problems are those of competition, where digital giants are dominant in the market with likely effects on current (or shadow) prices of information. Last, but not least, are those inefficiencies imposed on the market by inadequate regulation, many times as an unintended bad consequence of good intentions. As the theory of economic regulation states, not all public intervention is adequate or even necessary for reaching market efficiency.

Paving the way for future regulation

Different studies highlight that regulating the market for personal data needs to provide better control for owners of their data, allowing them to offer or restrict the use of their information depending on their preferences. For this to happen, it is crucial that regulations standardise and simplify privacy policies. However, some experts think that to transfer all responsibility for how personal data is used to the owner is unfair, because the matter is complex and it is very unlikely that they will understand all the consequences involved when their personal information is available in cyberspace. Some suggest shifting the weight of responsibility to those firms using the information, given that they know much better than anyone else – and definitely much more than the consumer or the regulator - the intended consequences of using the data. Moreover, in order to get a better balance of responsibilities, it would be reasonable to discuss the possibility of introducing the role of "algorithm monitors", scientists who audit algorithms, in the definition of the regulations and in the design of supervision over personal data.

Finally, for the design of appropriate regulation, it is fundamental to keep in mind the issue of generational transformations of societies. Recent studies have been confirming that the perception of what is private or not, and what information should be shared, is changing across different generations. However, the sluggishness of the regulatory framework to adapt to this moving context is probably creating inefficiencies for the economies.

Main regulatory actions around the world over the last month

	Recent issues	Upcoming issues
GLOBAL	On **2 Sep IOSCO** published final report on peer review regulation of money market funds (MMFs) On **2 Sep BIS/IOSCO** launched a consultation on harmonisation of OTC derivative data elements On **3 Sep IOSCO** published review of incentive alignment recommendations for securitisation In **Sep CPMI and World Bank** launched a consultation on payment aspects of financial inclusion On **15 Sep BIS** published the results from the Basel III monitoring exercise as of Dec 2014 On **15 Sep IOSCO** published final report on sound practices for investment risk education On **17 Sep IOSCO** published final report on cross-border regulation In **Sep BCBS** published 64 responses received to the consultation on IRRBB On **17 Sep ISDA** launched initiative for a derivatives product identification standard On **22 Sep FSB/OECD** sent reports to G20 central bank governors and finance ministers On **25 Sep FSB/BCBS/CPMI/IOSCO** published progress report and joint work plan regarding CCPs On **25 Sep FSB** met in London and progress on policies to help end too big to fail (TBTF) **On 1 Oct FSB** published progress report on FX benchmark reforms In **Oct IMF** published Global Financial Stability Report In **Oct BIS** published reports on risk-weighted assets (RWA) for counterparty credit risk	In **Nov Turkey** will host the **G20 Leaders summit** in Antalya
EUROPE	On **21 Aug ESAs** published its August 2015 report on risks and vulnerabilities in the EU financial system On **26 Aug** the **EP** (ECON) published a draft report on stocktaking and challenges of the EU Financial Services Regulation On **27 Aug ESMA** consulted on review of EMIR standards relating to margin period of risk for CCPs On **31 Aug ESMA** launched a consultation on three draft implementing technical standards (ITS) under MiFID 2 On **2 Sep EC** published roadmap on Retail Financial Services and Insurance On **2 Sep ECB** published an opinion on the German draft law to adapt the resolution regime to the BRRD On **2 Sep ECB** responded to EC consultation on the review of EMIR On **7 Sep EBA** published a report on remuneration trends across the EU and aggregated data on earners On **14 Sep EIOPA** issued the second set of its Solvency II Guidelines **On 15 Sep EBA** published the results from the Basel III monitoring exercise as of Dec 2014 On **18 Sep ESMA** published ITS on penalties &measures under UCITS V On **22 Sep EBA** launched a consultation on draft guidelines for the harmonisation of the definition of default. On **23 Sep EC** launched a consultation on digital single market standards On **24 Sep ESRB** published EU risk dashboard On **28 Sep ESMA** published final technical standards regarding MiFID II, MAR and CSDs On **30 Sep EC** published an action plan on Capital Markets Union that tackles the following themes: Securitisation, Solvency II, consultations on venture capital, covered bonds and impact of financial legislation On **30 Sep EBA** published first analysis of asset encumbrance among EU banking institutions	In **4Q 2015 EC** is expected to launch a public **consultation on retail financial services, insurance and consumer policy issues** In **Nov 2015 EC** will publish a proposal for the revision of the **Prospectus Directive** 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 **19 Sep Banco de Mexico** issued rules for LEI implementation in Mexico, including the requirements for the establishment of Local Operating Units. It also defined the banking operations that will require LEI for both banks and their counterparties In **Sep Colombian government** issued new regulation regarding the tenure of the financial Superintendent, following the recommendations of the OCDE	The **SHCP** is expected to present its proposal for the **Strategic Questionnaire** (qualitative part of the **Bank Performance Assessment** included in the Financial Reform) **Congress** is studying a legislative reform that forbids the charges for ATMs withdrawals for accounts with average monthly transactions lower than 3 minimum monthly wages

Continued on next page

cont.	Recent issues	Upcoming issues
LATAM	**On 14 Aug** in **Argentina**, the quota of the deposit insurance fund to be invested in public bonds was expanded to a percentage no greater than the proportion of deposits in local currency in total deposits of each financial institution In **Sep in Peru, the SBS** (Superintendency of Banks, Insurance companies, and Private pension funds) set new limits to positions in FX derivatives In **Sep Peru's Central Bank** raised its window facilities interest rates: the lending rate and the deposit rate went up by 25bp **In Sep Colombian government** issued new regulation regarding the tenure of the financial Superintendent, following the recommendations of the OCDE **In Sep Colombian Central Bank** issue an external decree that allows USD cash position to be negative up to 20% of the technical equity level in a three-day moving average	**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** **Colombian Congress** is studying a legislative reform that forbids the charges for ATMs withdrawals for accounts with average monthly transactions lower than three minimum monthly wages
USA	On **16 Sep SEC** removed references to credit ratings in the money market fund rule and form **On 17 Sep CFTC** declared that bitcoin and other virtual currencies are commodities On **22 Sep SEC** consults on new regulation and amendments for investment funds and Exchange Traded Funds (ETFs) **In Sep FSOC** consults on asset management products and services	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 3.0%, effective from 27 Jul, at which the banking sector will be able to borrow from the Central Bank of Turkey	
ASIA	On **15 Sep the PBoC** announced a reform on evaluating the required reserve of bank deposits, changing the previous "time point evaluation method" to the "average method", cushioning banks' liquidity while smoothing the money market fluctuation On **15 Sep the China Banking Regulatory Commission** steadily directed the private capital into the banking sector to promote the mixed ownership reform of banks On **16 Sep** with an objective to further financial inclusion, **the Reserve Bank of India** granted in-principle approval to 10 applicants to set up small finance banks in the private sector	

Source: BBVA Research

Abbreviations

AIFMD	Alternative Investment Fund Managers Directive
AQR	Asset Quality Review
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BoE	Bank of England
BoS	Bank of Spain
BRRD	Bank Recovery and Resolution Directive
CCAR	Comprehensive Capital Analysis and Review
CCP	Central Counterparty
CET	Common Equity Tier
CFTC	Commodity Futures Trading Commission
AMC	Company for the Management of Assets proceeding from Restructuring of the Banking System (Bad bank)
CNMV	Comisión Nacional de Mercados de Valores (Spanish Securities and Exchange Commission)
COREPER	Committee of Permanent Representatives to the Council of the European Union
CPSS	Committee on Payment and Settlement Systems
CRA	Credit Rating Agency
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
DGSD	Deposit Guarantee Schemes Directive
DFA	The Dodd–Frank Wall Street Reform and Consumer Protection Act
EBA	European Bank Authority
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECON	Economic and Monetary Affairs Committee of the European Parliament
EFSF	European Financial Stability Facility
EIOPA	European Insurance and Occupational Pensions Authority
EIORP	European Institution for Occupational Retirement Provision
EMIR	European Market Infrastructure Regulation
EP	European Parliament
ESA	European Supervisory Authority
ESFS	European System of Financial Supervisors
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EZ	Eurozone
FASB	Financial Accounting Standards Board
FBO	Foreign Bank Organisations
FCA	Financial Conduct Authority
FDIC	Federal Deposit Insurance Corporation
Fed	Federal Reserve
FPC	Financial Policy Committee

FROB	Spanish Fund for Orderly Bank Restructuring
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
FTT	Financial Transactions Tax
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IHC	Intermediate Holding Company
IIF	Institute of International Finance
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
ITS	Implementing Technical Standard
Joint Forum	International group bringing together IOSCO, BCBS and IAIS
LCR	Liquidity Coverage Ratio
LEI	Legal Entity Identifier
MAD	Market Abuse Directive
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMFs	Money Market Funds
MoU	Memorandum of Understanding
MPE	Multiple Point of Entry
MS	Member States
NRAs	National Resolution Authorities
NSAs	National Supervision Authorities
NSFR	Net Stable Funding Ratio
OJ	Official Journal of the European Union
OTC	Over-The-Counter (Derivatives)
PRA	Prudential Regulation Authority
QIS	Quantitative Impact Study
RRPs	Recovery and Resolution Plans
RTS	Regulatory Technical Standards
SCAP	Supervisory Capital Assessment Program
SEC	Securities and Exchange Commission
SIB (G-SIB, D-SIB)	Global-Systemically Important Bank, Domestic-Systemically Important Bank
SIFI (G-SIFI, D-SIFI)	Global-Systemically Important Financial Institution, Domestic-Systemically Financial Institution
SII (G-SII, D-SII)	Systemically Important Insurance
SPE	Single Point of Entry
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
UCITS	Undertakings for Collective Investment in Transferrable Securities Directive

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