

# Financial Regulation: Weekly Update

Matías Cabrera, Inés Criado, Arturo Fraile, Salvador Portillo, Ana Rubio, Victoria Santillana, Pilar Soler, Víctor Tarrías

**December 11, 2020**

## Highlights

1. EBA issues a report assessing the impact of final Basel III reforms into EU bank's capital
2. ESAs highlight the change in STS status for securitization transactions after Brexit
3. SRB issues guidance on bank mergers and acquisitions
4. EBA issues a statement on the end of the Brexit transition period
5. BCBS issues the results of its latest Basel III monitoring exercise

## GLOBAL

### ■ BCBS issues results of Basel III monitoring exercise

[Outlines](#) that before Covid-19, large banks made further progress towards meeting fully phased-in final Basel III capital requirements, and showed improvement in liquidity ratios from June 2019. Data as of Dec 31, 2019.

### ■ BCBS issues supplemental note to external audit of banks

[Follows](#) the implementation of Expected Credit Loss (ECL) accounting frameworks in various jurisdictions. The objective of the guideline is to contribute to the high-quality audits of internationally active banks.

## EUROPE

### ■ EBA issues report on impact of final Basel III reforms into EU

[Outlines](#) that European banks' minimum Tier 1 capital requirement would increase by 15.4% at the full implementation date (2028), without considering EU-specific adjustments. Data used is pre-Covid.

### ■ ESAs issue statement on the changes in STS status for securitization transactions after Brexit

[Implies](#) that the preferential capital treatment available for investments, in this type of securitization, will come to an end. This will affect EU institutional investors, who should assess the impact ahead of Dec 31, 2020.

### ■ SRB issues guidance on bank mergers and acquisitions

Following its "Expectations for Banks", it outlines how banks engaging in M&As can [ensure resolvability](#). It argues that a well-designed and executed transaction may enhance resilience and profitability, strengthening resolvability.

### ■ EBA issues statement regarding the end-Brexit transition period

Encourages [customers](#) to seek information from their banks. It focuses on: i) preparedness of financial institutions, ii) changes in cross-border payments, iii) access to bank accounts in the UK and protection of depositors.

■ **ESMA issues statement recognizing a UK Central Securities Depository**

Following the EC's equivalence decision under the CSDR for the UK, ESMA has [recognized](#) "Euroclear UK & Ireland Ltd" as a third country CSD. It will apply from the end of the Brexit transition period until Jun 30, 2021.

■ **ESMA updates validation rules on Money Market Fund Regulation**

Changes provide [clarifications](#) on existing validation rules in order to fix inconsistencies or ease their understanding. It also extends the Classification of Financial Instruments codes for eligible assets.

## SPAIN

■ **CNMV issues guidance on collective investment schemes**

The objective of the [approved](#) technical guide is to include the criteria the agency considers should be applied to advisers who are unauthorized professionals.

## UNITED KINGDOM

■ **PRA issues statement allowing UK banks to restore capital distribution**

It [focuses](#) on: i) PRA's assessment of banks' capacity to distribute for 2020; ii) temporary approach to shareholder distributions for 2020; and iii) how to return to standard capital-setting and distributions processes through 2021.

■ **PRA issues consultations and policy statement on CRD V directive**

i) Consults on its approach to designate entities within certain banking [UK consolidation groups](#) as responsible for ensuring that consolidated prudential requirements are met during the transition. Deadline: Dec 16, 2020. ii) Policy statement providing feedback to a previous consultation and the corresponding near final rules. It also contains a [subsequent consultation](#) on the implementation of other CRD V and CRR II issues. Deadline: Nov 17, 2020.

■ **PRA issues policy statement on recovery planning**

It provides feedback to a previous consultation on [simplified obligations](#) for recovery planning, presenting its final policy. Particularly relevant for smaller institutions that do not perform critical functions.

■ **PRA and FCA issue common consultation on long-term absences notification**

Propose to [clarify](#) their expectations for firms notifying them of when a Senior Manager takes temporary leave for longer than 12 weeks (long-term leave). Deadline: Feb 4, 2021.

■ **FCA issues quarterly consultation report**

[Consults](#) include, among others, transposition of Bank Recovery and Resolution Directive II, remove references to collective investment schemes being able to issue bearer certificates, etc. Deadline: Jan 4, 2021.

## UNITED STATES

### ■ Agencies issue statement on resolution plan actions

i) Confirms that [weaknesses identified](#) in some large foreign banks' resolution plans have been addressed, ii) finalized guidance for the resolution plans of large foreign banks, and iii) provides information for large foreign and domestic banks on the content of their next resolution plans.

### ■ FRB issues annual indexing for 2021 for reserve requirements

These [adjustments](#) are based on growth in total reservable liabilities and net transaction accounts at all depository institutions between Jun 30, 2019, and Jun 30, 2020.

### ■ CFTC approves two final rules and a technical amendment

[Amends](#) CFTC Regulation i) addressing potential risk of market disruption due to electronic trading and ii) bankruptcy proceedings of commodity brokers. Effective date: 30 days after its publication in the Federal Register. Also, [corrects](#) inaccurate text and typographical errors on the regulations. Effective date: Jan 25, 2021.

### ■ CFTC approves final rules on SWAPs

[Amends](#): i) margin requirements for uncleared swaps, ii) CFTC Margin Rule's definition of material swaps exposure, and iii) operational issues facing swap execution facilities. Also approves [final rule](#) with two exemptions from requirement to execute some types of swaps. Effective date: 30 days after publication in the Federal Register.

### ■ CFTC issues no-action relief related to Brexit

[Allows](#) market participants to transfer certain swaps to an affiliate without such swaps becoming subject to the CFTC's swap clearing requirement that occur up to one year following the conclusion of the Brexit transition period.

### ■ CFPB issues final rules on mortgage credit access

New [rules](#): i) provides higher pricing thresholds for certain loans; ii) retains the General QM loan definition; and iii) requires lenders to consider a consumer's DTI ratio. Effective date: 60 days after publication in Federal Register.

### ■ FDIC issues list of banks examined for CRA Compliance

Publishes [the list](#) of state nonmember banks recently evaluated for compliance with the "Community Reinvestment Act" (CRA), and covers evaluation ratings that the FDIC assigned to institutions in Sep 2020.

## Recent publications of interest (in English and Spanish):

- [Press Article](#). *Procyclical financial regulation: What can be done?* October 2020.
- [Press Article](#). *Europe | One step closer to the Capital Markets Union*. October 2020.
- [Press Article](#). *The Banking Union in times of Covid (page 85)*. September 2020.
- [Press Article](#). *The Coronavirus: an unexpected ally of digitization*. June 2020.

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

## **DISCLAIMER**

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Nor shall this document or its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

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

## This report has been produced by

Head of Financial Regulation  
Ana Rubio  
arubiog@bbva.com

Arturo Fraile  
arturo.fraile@bbva.com

Victoria Santillana  
mvictoria.santillana@bbva.com

Matías Daniel Cabrera  
matiasdaniel.cabrera@bbva.com

Pilar Soler  
pilar.soler.vaquer@bbva.com

Víctor Tarrías  
victor.tarrias@bbva.com

Salvador Portillo  
salvador.portillo@bbva.com

Inés Criado  
ines.criado@bbva.com