

Regulatory Outlook

Madrid, February 14, 2014
Economic Analysis

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Editorial

Europe. EC's proposal for structural reform

New constraints on the structure of European banks. On 29 January, the European Commission (EC) released its proposal on structural reform. The EC opts for a mix solution: i) prohibition of proprietary trading such as in the US; and ii) potential separation of trading activities including market-making as in the UK.

State of play of the Single Resolution Mechanism

Building bridges against the clock. The European Parliament has spoken out strongly against Intergovernmental Agreement (IGA) and requests a significant reduction in its scope for action. The Commission stands by Parliament while calling for pragmatism. The ECB has also expressed severe concerns about the Council approach. Proposals to resolve the deadlock include shortening the transition period towards full mutualisation to five-seven years. Meanwhile the Greek Presidency is seeking a new mandate from the Council to move negotiations forward.

European comprehensive assessment

Steps in the right direction but more information is needed. The ECB and the European Banking Authority (EBA) have released more information related to the comprehensive assessment. To be more precise they have updated the Asset Quality Review (AQR) developments and they have unveiled some hypotheses of the stress test (i.e. capital hurdle under the adverse scenario or sovereign debt treatment, among others). However, there are still some uncertainties that need to be dispelled in the near term.

Single Supervision under construction

ECB adapts its internal procedures to the new tasks. On 22 January, the ECB adapted its internal organisation and decision-making process to incorporate the new supervisory tasks by amending the Rules of Procedure. A week later, the Supervisory Board held the first meeting and presented the first implementation progress report. On 7 February, the operational framework of the SSM was launched for public consultation.

Global. MPE vs. SPE

The FSB has defined two different resolution strategies: Single Point of Entry (SPE) and Multiple Point of Entry (MPE). However, choosing the optimal resolution strategy is not a binary decision because it depends on each bank's characteristics. In this sense, the SPE is a better fit for global centralised wholesale banks and the MPE with decentralised retail banks.

Leverage ratio: international standard approved

Closer to the definition considered in Europe for disclosure starting on 1 January 2015. Possible further adjustments to the definition will be decided by 2017, with a view to migrate to a mandatory minimum capital requirement treatment on 1 January 2018. A minimum ratio of 3% is initially considered.

Liquidity regulation

Decisive steps in building up a liquidity regulatory framework. The EBA and the Basel Committee on Banking Supervision (BCBS) have recently published different reports related to liquidity regulation. The former has released a report assessing the impact of liquidity regulation on European financial markets and another related to the definition of High Quality Liquid Assets. The BCBS has published a revision of the NSFR [Net Stable Funding Ratio]. Both initiatives represent decisive steps to build a definitive regulatory framework for liquidity, however there are still some uncertainties that need to be clarified in the near term.

1. EC's proposal for structural reform

New constraints on the structure of European banks

On 29 January, the European Commission (EC) released its proposal on structural reform that would impose new constraints on the structure of European banks and aims at ensuring the harmonization between the divergent national initiatives. The EC opts for a dual approach: i) prohibition of proprietary trading (as in the US with the Volcker rule), and ii) potential separation of trading activities, including market-making (as in the UK).

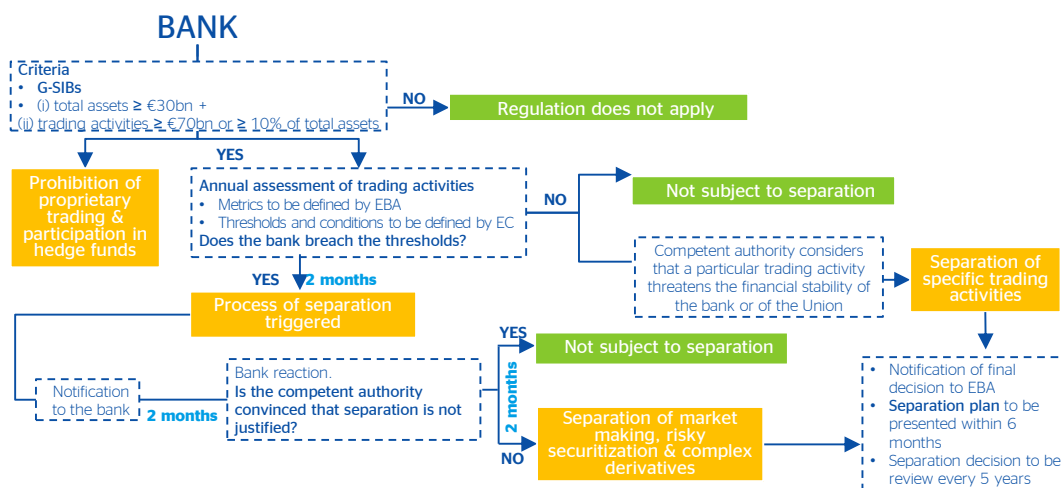
Scope of banks. All the European Global Systemically Important Banks and the entities with significant trading activities, currently around 29 banks, will be subject to **twofold structural regulation**: i) **prohibition of proprietary trading** and exposures to hedge funds; and ii) **annual examination of their trading activities** that could trigger the separation process.

Separation mechanism. Entities that exceed the thresholds for a certain number of metrics¹ will have to create two homogeneous sub-groups organised through subsidiaries that are autonomous in legal, economic, governance and operational terms: i) the **core credit institution** covering mainly the **retail activities**; and ii) the **trading entity** that includes the activities related to **market-making, risky securitisation and complex derivatives**. However, the bank has the opportunity to demonstrate, to the satisfaction of the competent authority, that a separation is not justified. Even if the entity does not breach the thresholds, the competent authority can require the separation of a particular trading activity.

Calendars. Adoption by EU Council and Parliament: June 2015. The ban on proprietary trading takes effect in January 2017 and the separation of trading activities in July 2018.

Chart 1

Separation/Prohibition decision-making process*



* Competent authority (ECB under the SSM) must consult EBA before taking any decision
Source: BBVA Research

The proposal is tougher than the majority of national initiatives (France, Germany and the US) since it affects market-making. Only the UK legislation is stricter. The EC's proposal will mainly affect large investment banks.

The prohibition of proprietary trading could help to achieve the objectives of structural regulation without being detrimental for the real economy. However, the separation of activities, including market-making, could have significant unintended consequences, specifically on traditional banking: i) market-making should be preserved; ii) the scope of banks must be adequately calibrated to avoid retail banks abandoning trading activities, which would exacerbate concentration and systemic risk; iii) uncertainty on the metrics and thresholds must be limited. **Positive elements of the proposal:** i) the opportunity given to banks to demonstrate that separation is not justified; and ii) the exemption for foreign stand-alone subsidiaries with "Multiple Point of Entry" resolution strategy.

¹ The metrics and thresholds on which the competent authority must base its assessment of trading activities will be defined later on by delegated acts.

2. State of play of the Single Resolution Mechanism

Building bridges against the clock

Building bridges against the clock. The European Parliament has spoken out strongly against Intergovernmental Agreement (IGA) and requests a significant reduction in its scope for action. The Commission stands by Parliament while calling for pragmatism. The ECB has also expressed severe concerns about the Council approach. Proposals to resolve the deadlock include shortening the transition period towards full mutualisation to five-seven years. Meanwhile the Greek Presidency is seeking a new mandate from the Council to move negotiations forward.

Divergent views in the trilogues

With less than a month to go before the Council finalises the content of the Intergovernmental Agreement (IGA) that will govern key aspects of the new Single Resolution Fund, the Parliament, the Commission and other relevant institutional stakeholders such as the ECB are actively calling to **reduce the role of this non-EU legislative piece to its absolute minimum** in order to preserve the legal certainty and institutional credibility of the Single Resolution Mechanism (SRM).

Parliament has warned that the IGA is not the right instrument and the Commission, which is also involved in the trilogues, supports it. Other relevant institutions, such as **the ECB**, have also expressed their concerns about significant aspects of the SRM framework being regulated outside the EU legal perimeter. As for **the Council**, the Greek Presidency has requested a revised mandate in order to be able to advance in negotiations at the trilogues. Some Member States are willing to make concessions and even Germany might be compelled to ease its position after sharp criticism from top representatives of the SPD.

A **key compromise to move negotiations forward** could involve a **shortening of the ten-year transition period towards full mutualisation**. **Commissioner Barnier** has advocated a 5-year transition period (with mutualization increasing by 20% each year) or alternatively a 7-year transition period with a non-linear front-loaded mutualisation scheme. **The chair of the Parliament's ECON, Ms Sharon Bowles**, supports this approach (which is also in line with the suggestions of some members of the ECB Governing Council. In any case, despite shortening the mutualisation path, the Fund would still be built-up over 10 years.

Table 1
SRM trilogue: main differences between co-legislators

| | Parliament | Council |
|----------------------------|--|--|
| Raise flag | Only the ECB | ECB, NRA or SRB |
| Trigger | COM upon SRB draft | SRB if no Council opposition |
| Scope | All banks | Top 130 + cross border + any time SRF involved |
| Role of SRB Plenary | Only general issues (Executive session: takes all resolution decisions) | Also decides on material use of SRF |
| Legal basis | SRM Regulation (art. 114) | SRM Regulation (114) + IGA + Backstop statement |
| SRF | <ul style="list-style-type: none"> 100% mutualisation since the beginning All SRF aspects included in SRM Regulation | <ul style="list-style-type: none"> 100% mutualisation since 2026 IGA: Collection, transfer and mutualisation of national funds |
| Backstop | Common public backstop since the beginning | Common public backstop only since 2026 (bridge financing in the transition) |

Source: BBVA Research

Next steps

- **Mid-March:** IGA Council agreement, final agreement in trilogies concerning the SRM Regulation, and Eurogroup agreement on final rules for direct bank recapitalisation.
- **Mid-April 2014:** last Parliament Plenary before end of legislature (i.e. deadline for final vote on SRM Regulation).

3. European comprehensive assessment

Some steps are being taken in the right direction but more information is needed

The ECB and the EBA have recently released more information about two key parts of the comprehensive assessment, the Asset Quality Review (AQR) and the stress test. On 31 January 2014, EBA announced the key components of the stress tests and on 3 February 2014, the ECB released a state of play of the AQR and further details of the stress test. The full disclosure of the AQR and stress test methodologies will be provided in the first quarter of 2014 and in April 2014 respectively.

Asset Quality Review

In the AQR the data collection period has finished and banks have met all the deadlines so far. Now the other two phases will start. First is the review of the collateral and provisioning in the selected portfolios, among other things in March 2014. Second, the quality assurance of the exercise and the report of the results, presumably in October 2014. There is close cooperation between the ECB, National Competent Authorities (NCAs) and independent third-parties (i.e. private-sector banks) that ensures a comprehensive and consistent exercise.

In general, the AQR exercise is progressing according to plan. However, full details of the methodology have not been released (expected in the first quarter of 2014), and the final results will only be published no later than November 2014. This may cause uncertainty in the markets and may entail a risk of information leaks.

Stress Tests

Some hypotheses of the stress tests have been unveiled. The **capital hurdle rate** for the stressed scenario will stand at 5.5%. However, the **definition of capital** raises some concerns. It will be CET1 phased-in which has been considered more appropriate than a fully phased-in ratio. However, some recent CoCo issuances with triggers below 5.5% could fall outside that definition; despite being included in the capital regulation. As regards the **sovereign exposures treatment**, both the banking and the trading book will be stressed, but prudential filters will be applied to the available for sale portfolios at the discretion of national authorities. If this is the case, they will be disclosed once the results are released. It is still unclear whether **loans to the public sector** will be included in the stressed portfolios or not. Information on how strict the stress will be on these portfolios has not been provided.

Finally, the EBA and the ECB should unveil more information related to the **timeframe** institutions will have to meet capital shortfalls. As already expected, capital needs arising the AQR will trigger immediate actions. However, there is no clarity on whether these shortfalls come from the stress test.

Conclusions

European authorities have made a remarkable effort designing the comprehensive assessment exercise and trying to dispel doubts about the European financial sector. However, there are still important uncertainties that need to be dispelled to ensure not only the credibility of this exercise but also of the entire banking union project.

4. Single Supervision under construction

ECB adapts its internal organisation to the new tasks

On 22 January, the ECB adapted its internal organisation and decision-making process to incorporate the new supervisory tasks by amending the *Rules of Procedure*. A week later, the Supervisory Board held the first meeting and presented the first implementation progress report. On 7 February, the operational framework of the SSM was launched for public consultation.

Governance and the operational framework of the SSM

- The appointment of members to the **Supervisory Board (SB)** is coming to a conclusion. Chair *Nouy* and the national representatives of the participating Member States (MS) had already held a first meeting. Recently appointed to the Executive Council, *S. Lautenschläger* will become the Vice-Chair of the SB. As member of both Councils, she will report to the Executive Council on the SB's activities. A **Steering Committee**, which will begin its work this month, will assist the Board in the daily work.
- **The Governing Council (GC)** will hold separate meetings and have separate agendas for monetary and supervisory decisions.
- On 7 February, the ECB released for comment a draft Regulation establishing the **SSM operational framework**. This Regulation sets out: i) the methodology for defining the entities under direct supervision of the ECB, and ii) the procedures for cooperation between the ECB and the national authorities, under both direct and indirect supervision. The consultation finalises in March and the Regulation should be adopted before 4 May.

Decision-making process and voting-mechanisms

The ECB's amended *Rules of Procedure* define how the SB shall take decisions on:

- **Supervision:** the SB prepares a draft decision and, unless the GC objects, this draft decision shall be adopted within 10 days or, in emergency situations, before 48 hours.
- **Requirements for capital buffers:** the SB submits to the GC a proposal based on the notification of the national authority that is willing to apply new requirements. The GC may adopt, object or amend the proposal, by, for example, imposing higher requirements for capital buffers. In this case, before adopting this decision, the ECB shall notify the concerned national authority and concede 5 days for possible objections.
- Finally, the GC has also the right to request the SB to submit **specific proposals addressing macro-prudential decisions**. If the SB does not submit the requested proposal, the GC might take the decision on its **own initiative**.

Regarding the **voting modalities** applying at the SB, the *Rules of Procedure* establish that a **regulation, recommendation or guideline** will be considered adopted if it receives votes in favour from at least the 55% of the members representing at least 65% of total population. The **other decisions** shall be taken by a regular **simple majority** (50%+1), under the rule of one member, one vote (Chair with a casting vote).

Progress on the SSM supervisory model

The work on the establishment of a common operational model for supervision is approaching the final stage:

- The **draft of the Supervisory Manual** has been largely developed. This manual comprises i) principles and procedures of supervision, ii) the process of supervisory review and the evaluation (SREP), iii) a system of quantitative and qualitative indicators for risk assessment (RAS), and iv) the details and objectives of *on-site* inspections.
- The composition of the **Joint Supervisory Teams** was defined at the first meeting of the SB. They will be led by an ECB coordinator and will integrate specialists from the ECB and the national supervisory authorities and will be in charge of monitoring each significant banking group.
- Finally, **the costs of this new supervisory** framework will be covered by annual fees on banks, based on the risk profile and importance of each entity. The **methodology** for calculating the exact amounts will be published during the first half of 2014.

5. Resolution Strategies: MPE vs. SPE

Resolution strategy depends on each bank's characteristics

In July 2013, the FSB guidelines on recovery and resolution planning outlined the main characteristics of the two stylised approaches for resolving global financial institutions: the Multiple Point of Entry (MPE) and Single Point of Entry (SPE). Deciding between an MPE or an SPE resolution strategy depends on each bank's particular characteristics.

Choosing the optimal resolution strategy is not a binary decision

Supervisory and resolution authorities involved in the Crisis Management Group will be responsible for defining the high-level resolution strategy outlining whether the banks should be resolved based on an SPE or MPE scheme. Both schemes are the opposite ends of a spectrum where many resolution options may lie in between. In practice, a combination might be necessary to accommodate the structure of a bank and the local regimes in the key jurisdictions where it operates. Thus, **authorities will examine each bank's particular characteristics: i) business models, ii) corporate and legal structures, iii) operational interdependencies, and iv) capital and liquidity management.**

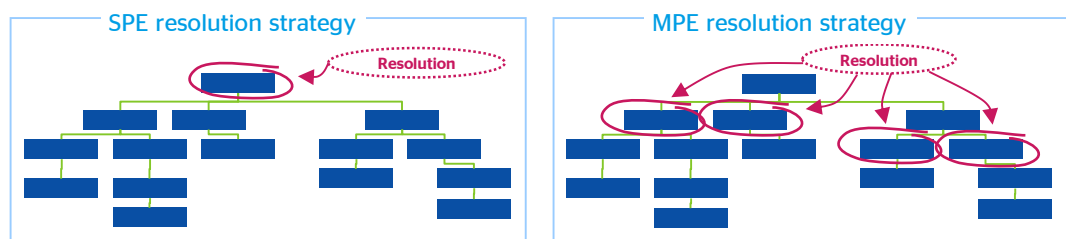
SPE and MPE differ in many different aspects

The SPE strategy is focused on the home resolution authority, which applies resolution powers at the parent company level. After losses have occurred in any part of the group, a sole resolution process is initiated led by a sole home resolution authority. The implementation of the bail-in occurs at the parent level only and, therefore, losses in subsidiaries can be covered only through the holding company (by means of a downstream of new capital). That implies significant interconnections between the parent and subsidiaries (intra-group funding), and requires that Loss Absorption Capacity (LAC) is located in the holding company.

In contrast, the MPE strategy involves the application of resolution powers by two or more resolution authorities to different parts of the group, and this is likely to result in a break-up of the group into two or more separate parts, preserving essential functions without causing contagion to the rest. Legal, financial and operational independence implies that the LAC is located at each point of entry, each subsidiary is resolved by local authorities and cross-border agreements can be focused on coordination and information exchange.

Chart 2

Alternative resolution strategies



Source: BBVA Research

Decentralised retail banks inherently meet the MPE's preconditions

The SPE is the best approach for globally active and highly integrated wholesale institutions with concentrated funding and risk-management structures and with a systematic reliance on intra-group funding. On the other hand, the MPE is the natural resolution strategy for decentralised retail banks for the following reasons: i) they are structured by local subsidiaries, ii) their customer base is mainly local households and small and medium enterprises, with retail deposits as the main source of funding, normally denominated in local currency and protected by the local deposit guarantee scheme, iii) capital and liquidity are located in host countries with a stand-alone rating, capital managed locally by host subsidiaries to support their own growth, that are financially self-sufficient when needing to resort to the market, and finally, iv) there is no systematic intra-group support, either from the parent to the subsidiary or in the opposite direction. This support is however not excluded under certain circumstances, but always as a voluntary business decision.

6. Leverage ratio: international standard approved

Basel closer to the European definition

At its meeting on 12 January, the oversight body of the Basel Committee endorsed the definition of the leverage ratio, which mitigates the impact of differences in national accounting frameworks and facilitates comparison of bank leverage ratios across borders. Standards have been eased in comparison to the proposal of June 2013, getting closer to the standard considered in Europe ("CRD IV pack"). The aim in the short term is to promote consistent disclosure, starting on 1 January 2015. The final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a mandatory minimum leverage requirement treatment on 1 January 2018.

A common definition of the leverage ratio

The leverage ratio is a **fundamental part of the new prudential framework** for banks (Basel III), comprising a simple non-risk-based "backstop" measure that will reinforce the risk-based capital requirements, at the same time limiting the build-up of excessive leverage in the banking sector.

It compares banks' high-quality (Tier 1) capital to their total assets, **without adjustments based on the riskiness of those assets** ("exposure measure"). Whereas the numerator is a previously defined magnitude, Tier 1 capital, the denominator has been the subject to more controversy as it has been newly defined with the aim of **overcoming significant impacts of differences in national accounting**, particularly in relation to derivatives and Securities Financing Transactions (SFTs) as accounting netting, for instance, differs considerably between jurisdictions.

The final provisions in relation to the "exposure measure" have been **softened compared to the proposal last June**. For instance, they have widened the application of netting to reduce the "exposure measure" beyond derivatives, to allow limited netting with the same counterparty in the case of SFTs. Some limited exceptions to the general rule of not allowing mitigation of exposure associated to the reception of collateral have also been considered, as in the case of cash variation margin associated with derivative exposures. **These measures mainly benefit investment banks**. Further modifications include the reduction in the factor in which certain off-balance sheet exposures are brought back onto the balance sheet for the purpose of calculating the ratio, as for instance those related to **trade finance**, which will provide a particular boost to these activities, and some related to commercial banking activity, as is the case of undrawn credit facilities.

A minimum ratio requirement foreseen for 1 January 2018

This tool is a novelty of Basel III. A step by step approach has been recommended. Therefore, the initial implementation will be part of the supervisory review process of banks and each supervisor will decide if the leverage of a particular institution is too high and it should hold more capital. A binding minimum requirement is recommended to be introduced in the final stage from 1 January 2018 onwards. The Committee will continue to monitor banks' leverage ratio data in order to assess whether the design and calibration of a **minimum Tier 1 leverage ratio of 3%** is appropriate over a full credit cycle. US and UK regulators are taking a more conservative stance, considering minimum levels above 3%.

Disclosure starting on 1 January 2015

Banks will be required to publicly disclose their leverage ratio on a consolidated basis from 1 January 2015. Whereas in Europe a high level of harmonisation will be achieved, as "CRD IV pack" will apply and it includes a definition of the leverage ratio that is now closer to the revised Basel standard, the details of the mandatory disclosure in US are still pending definition.

7. Liquidity regulation

Decisive steps towards a final framework

In December 2013, the EBA published extensive reports assessing the definition of high quality liquid assets (HQLA) and the calibration of the Liquidity Coverage Ratio (LCR). Meanwhile, the BCBS has published several recommendations on the Net Stable Funding Ratio (NSFR), a recalibration of the LCR and guidelines for assessing asset liquidity. Both initiatives imply decisive steps towards building a proper regulatory framework for liquidity. However, some uncertainties remain.

EBA reports on liquidity

In December 2013, the EBA published two reports related to the definition of liquid assets and a preliminary assessment of the impact of LCR on the European financial market.

Report on the definition of liquid assets: the EBA pursued an assessment of liquidity for more than 12 types of assets ranging from gold to government bonds. For this exercise the EBA used a group of nine liquidity indicators, including trade volume and outstanding amount. One of the main drawbacks of the analysis is that the sample period covered from January 2008 to June 2012. The main findings of the assessment were mostly in line with expectations. The most liquid asset was government bonds. The EBA recommended classifying all government bonds issued by European governments as extremely high liquid assets (extremely HQLA) independently from their credit rating. Moreover, according to the EBA recommendation, bonds issued by multinationals deserved the same treatment. Covered bonds and RMBS, when fulfilling certain criteria, could be treated as HQLA even if the empirical analysis found that covered bonds could be classified as extremely HQLA. In addition, the EBA recommended that holdings of HQLA should be controlled by a liquidity management function. Apart from the timeframe analysed, another criticism worth noting is that the EBA did not clearly map the assets that should be considered Level 1, 2A or 2B and there are still some uncertainties (e.g. treatment of sovereign bonds issued in non-domestic currencies).

Report on impact assessment of liquidity measures: EBA also evaluated the LCR impact on the European financial markets. In this regard, EBA concluded that, in general, liquidity requirements do not have a material detrimental impact. To be more precise the EU GDP impact is estimated to be negligible in the area of 3bp in the long term. The EBA found that diversified business models tend to be better adapted to the LCR than specialised banks. Regarding the effect of the LCR on the flow of credit to SMEs, the EBA considered that banks that become compliant did not show a reduction in lending to SMEs or a negative correlation between large exposures on SME and LCR. Apart from these general findings, the EBA recommended not to deviate from current LCR design and rejected all the recalibrations analysed (e.g. the removal of the 75% cap, a reduction of roll-over rates for loans from 50% to 0%, removal of the cap on level 2A and 2B assets, specific treatment on intra-group liquidity flows or new run-offs for some types of deposits), mainly due to negligible impact or denaturalisation of the ratio.

Asset encumbrance disclosure: the EBA has also published a consultation paper related to some guidelines on disclosure of encumbered and unencumbered assets. These guidelines are a decisive step to enable market participants to compare institutions in a consistent manner. These guidelines are intended to supplement existing relevant disclosure requirements and will be mandatory for financial institutions within 6 months after their publication (e.g.: not before year end). However, before January 2016 the EBA will publish additional technical standards related to asset encumbrance disclosure that will substitute the current ones. In general, this is a step towards improving transparency and avoiding misinterpretations. Furthermore, the proposed guidelines are comprehensive and exhaustive, covering encumbered and unencumbered assets by product type and sources of encumbrance, among others. However, the burden in terms of human resources required and information systems is not negligible.

BIS consultation papers

Consultation document on Net Stable Funding Ratio: the Basel Committee issued a proposed revision to the Basel framework for NSFR. In this regard, the NSFR is definitively considered a liquidity ratio and not a stressed ratio. In general the assessment of the changes is positive. The numerator (Available Stable Funding) faces several changes, among them: i) an increase in the proportion of stable deposits; ii) operational deposits are considered as a stable funding source; iii) capital deductions no longer apply and secured and unsecured funding below 1 year is treated equally. Changes in the denominator (e.g. required stable funding) are positive as well, improving the treatment for loans. However, the asymmetry in the treatment of derivatives remains, requiring 100% funding when they are assets and 0% funding when they are liabilities.

Guidance for supervisors on market-based indicators of liquidity: in January 2014, the BIS issued some guidelines to assist supervisors when evaluating the liquidity profile of assets held by banks. The BIS recognised that each jurisdiction will make its own determination of HQLA qualifications and their application to supervised institutions. However, for the purpose of Basel III LCR, this guidance tries to promote greater consistency in the classification of HQLA across jurisdictions. These guidelines do not change the definition of HQLA within the LCR; on the contrary, they help supervisors to assess when assets are suitably liquid for LCR purposes, bearing in mind the freedom national authorities have to include in the HQLA definition a wide variety of assets with different liquidity profiles. Indicators cited in the BIS guidelines are asset characteristics, market structure characteristics and market liquidity.

Main regulatory actions around the world

| | Recent issues | Upcoming issues |
|--------|--|--|
| Global | <p>On 12/01 the BCBS set out the Basel III leverage ratio framework and the public disclosure requirements</p> <p>On 12/01 the BCBS launched a public consultation on the NSFR, Guidance for Supervisors, on the Market-Based Indicators of Liquidity and LCR standards</p> <p>On 15/01 the BCBS presented guidelines related to anti-money laundering and terrorist financing</p> <p>On 23/01 the BCBS launched a public consultation on good practice principles for supervisory colleges</p> <p>On 29/01 IOSCO published recommendations regarding the protection of client assets</p> <p>On 08/02 the FSB launched a public consultation on approaches to aggregate OTC derivatives data</p> | <p>On 22-23/02 Sidney will host the G20 Finance Ministers and Central Bank Governors meeting</p> <p>On 15/11 Australia will host the G20 Leaders Summit</p> |
| Europe | <p>On 08/01 the CE, Council and PE launched trilogues negotiation on the SRM Regulation</p> <p>On 09/01 the ECB appointed 4 New Directors General to the SSM</p> <p>On 14/01 the EP and the Council reached an agreement on MiFID II</p> <p>On 28/01 the Council adopted the Directive on Credit Agreements relating to residential property</p> <p>On 29/01 the EC published a proposal for a Regulation on EU banking structural reforms and new measures to increase transparency in the shadow banking sector</p> <p>On 31/01 the EBA presented the main features of the 2014 EU-wide stress test</p> <p>On 04/02 the EP approved the transition period of 6 month for the migration towards SEPA</p> <p>On 04/02 EP approved the MAD</p> <p>On 04/02 the ECB published the first progress report in the operational implementation of the SSM Regulation</p> <p>On 06/02 the EBA, EIOPA and ESMA issued the final report on Mechanistic references to credit ratings</p> <p>On 07/02 the ECB launches public consultation on draft ECB SSM Framework Regulation</p> | <p>In 03/2014 the Eurogroup will agree on the main features of the direct bank recapitalisation ESM tool and on the Intergovernmental Agreement related to the SRM Regulation</p> <p>On 03/2014 the EP and the Council are expected to reach an agreement on the Directive on Payment Accounts</p> <p>On 03/2014 the EP is expected to vote on money laundering and terrorist financing</p> <p>On 04/2014 the EP is expected to vote on the BRRD and the SRM</p> <p>On 10/2014 will be published the results of the comprehensive assessment of the banking sector</p> <p>On 11/2014 the SSM shall be fully operational</p> |
| Mexico | | <p>The Banking and Securities Commission is proposing among other decisions, the introduction of the Basel principles for liquidity risk management</p> <p>The Tax Service Administration will publish new regulations for client identification</p> <p>The National Securities and Exchange Commission, the Treasury and the Bank of Mexico are preparing the Tripartite rules, which are expected to be published this year. Under these rules, the company Asigna will act as a central counterparty for OTC derivatives, ensuring that it meets all the necessary requirements to be recognized by European and U.S. authorities</p> <p>The Bank of Mexico is studying possible changes to the regulation on minimum charges for credit cards</p> |

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| | Recent issues | Upcoming issues |
|--------|--|---|
| | On 30/01 Peru reduced reserve requirements for banking deposits in local currency from 14% to 13% | At the beginning of 2014 Brazil's Supreme Court will deliberate about whether banks should reimburse depositors for the losses stemming from anti-hyperinflation policies adopted in the 1980's and 1990's |
| Latam | On 27/01 Argentina lifted restrictions for private citizens to buy foreign currency for savings On 05/02 Argentina set constraints on bank's foreign currency positions , limiting this position up to a maximum of 30% of their net worth | |
| USA | On 24/01 the Fed provided additional information on expectations for recovery and resolution preparedness of certain large domestic bank holding companies On 03/02 Janet L. Yellen sworn in as Chair of the Board of Governors of the Fed | Fed's 2014 fee schedules for payment services are expected to be approximately 1% higher than 2013 , and the agency expects to make a 2.3% profit An advisory committee created by the Dodd-Frank law has voted to recommend that the SEC adopt a rule imposing a fiduciary duty on stockbrokers who give advice to retail investors Fed officials are considering cutting bank-reserve interest rates The updated CFPB Agenda does not show signs that the Bureau will slow the pace of regulatory reform Fed will increase the number of banks undergoing stress tests from 18 to 30 in 2014 |
| Turkey | Since 14/01 the unemployment insurance fund will be only deposited in three state banks (VakıfBank, Halkbank and ZiraatBank). The total amount of deposits in private banks will be transferred to the state banks | Potential inclusion of commercial deposits under the Saving Deposit Insurance Fund scheme coverage Details on upper band and the type of commissions are still pending from BRSA Limitation for credit card and consumer loan monthly instalment payments to 45% of consumers' monthly income |
| Asia | On 17/01 China released a new guideline that imposes stricter requirements and risk disclosures in various health and life insurance products sold by banks On 24/01 Singapore announced qualified financial institutions that can apply for the Renminbi Qualified Foreign Institutional Investor license to the China Securities Regulatory Commission On 30/01 India released a framework for revitalizing distressed assets On 30/01 Australia released details on the operation of the committed liquidity facility to those authorized deposit-taking institutions as part of the implementation of the Basel III liquidity reforms | Indonesia plans to allow financial institutions to broaden their business scope by allowing financial institutions to expand into areas such as project finance and help them branch out of crowded sectors for continued growth China's listed commercial banks will be allowed to issue contingent convertible bonds in the domestic bond market to supplement capital, in line with Basel III capital rules Philippines is considering regulations to prevent asset bubbles in the real estate sector |

Source: BBVA Research

Abbreviations

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|----------------|---|------------------------------|--|
| 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 Important 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 Organizations | 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 Transferable Securities Directive |

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