

Regulation Outlook

Madrid, 17 March, 2014
Economic Analysis

- **Single Resolution**, almost there.
- **Single Supervisory framework**, detailing the role of the ECB and the NSAs.
- **Regulation of Foreign Bank Organisations**, final rule released.
- **Loss-absorbing capacity (LAC)**, FSB's challenges in designing the LAC framework.
- **EU vs. US resolution frameworks**, consistencies and divergences on the key issues.
- **G20 meeting in Sydney**, focus on completing core regulatory reform by November 2014.
- **Shadow banking: into the light**, making shadow banking less opaque.

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Editorial

Europe. Single Resolution: almost there

Lack of agreement holds deal in suspense until 19/3.

Hope was placed in the trilogue meeting held on 12 March; however, and albeit with much closer positions than in previous weeks, co-legislators failed to reach agreement due to lack of consensus on certain key issues. As time passes, the next trilogue (19 March) marks the definitive date for finding a solution to this conundrum.

Single Supervisory framework

Details of the roles of the ECB and the NSAs.

Under the regulation establishing the Single Supervisory Mechanism (SSM), before 4 May the ECB has to adopt the rules defining how the ECB and the national supervisors will cooperate within the mechanism. In that vein, the ECB released a first draft of this framework on 7 February and was open for consultation until 7 March.

US. Regulation of foreign bank organisations (FBOs)

Final regulations of FBOs released.

The regulations mainly extend the prudential standards of the Dodd-Frank Act (DFA) to foreign entities. FBOs must now create an intermediate holding company (IHC) which must include all their US subsidiaries and comply with DFA. The rules will come into effect in July 2016.

Global. Loss-absorbing capacity (LAC)

FSB's challenges in designing the LAC framework.

The minimum gone-concern loss-absorbing capacity is a new concept which is growing in relevance in the global regulatory discussion. In this regard, the goal of establishing LAC is to facilitate the recapitalisation of a failed bank and reduce the cost borne by taxpayers in an eventual winding down. Moreover, it is considered as an additional requirement that complements other capital, liquidity or leverage ratio requirements.

EU vs. US resolution frameworks

Consistencies and divergences on the key issues in the EU and US resolution frameworks.

The rules for implementing resolution frameworks follow the FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions", but there are some major differences between countries regarding the approach in several key areas.

G20 meeting in Sydney

Focus on completing core regulatory reform by November 2014.

In the communiqué issued after the meeting held on 22-23 February 2014, the G20 group of finance ministers and central bank governors declared their determination to substantially complete the key aspects of the ongoing regulatory reform by the time of the Brisbane G20 Summit. They committed to cooperate across jurisdictions with a renewed focus on timely and consistent implementation.

Shadow banking: into the light

Making shadow banking less opaque.

Transforming shadow banking into a transparent and resilient market-based source of financing is one of the remaining core goals announced by the Financial Stability Board (FSB) on 17 February. On 29 January the European Commission (EC) published a proposal on transparency of securities financing transactions. Completing shadow banking regulation is key to fostering global financial stability.

1. Single Resolution: almost there

Lack of agreement holds deal in suspense until 19/3

Hope was placed on this week's negotiations at Council level (10-11 March) and the trilogue meeting held on 12 March, but albeit with much closer positions than in previous weeks, co-legislators failed to reach agreement due to lack of consensus on certain key issues. As time passes, the next trilogue (19 March) marks the definitive date for finding a solution to this conundrum. We remain positive, essentially because if a deal is not closed, it will be virtually impossible for the SRM to get passed on time, holding Banking Union in abeyance.

What are the three issues blocking the deal on the SRM Regulation?

After two months of failed negotiations the co-legislators attended the latest trilogue meeting (12 March) with revised positions (see [Parliament](#) and [Council](#)).¹ Although including important concession from both sides they still don't match in a number of key aspects:

1. **Ultimate Resolution Authority and decision making at the Board.** The Parliament stands firm that it should be the Commission (EC) which triggers resolution whereas the Council insists on keeping a potentially decisive role in the process (with the possibility of vetoing or amending any Board decision within 24 hours at the request of the EC). On the other hand, an agreement might have been reached in order to give a greater role to the Executive Session (in which only concerned Member States vote) vis-à-vis the power foreseen for the Plenary Session (in which all Member States have a vote).
2. **Time profile for the build-up and mutualisation of the Single Resolution Fund.** The Parliament still wants to build up the €55bn Fund over ten years (2016-2026) but would accept reaching full mutualisation in three years (instead of from 2016). As for the Council (which initially saw 2026 as the deadline for both the build-up and full mutualisation), it remains reluctant to significantly accelerate the transition path towards full mutualisation. It seems that a shortening of the path to eight years could be accepted by Germany, but in exchange for a similar shortening in the build-up path.
3. **Boosting the liquidity of the Single Resolution Fund.** Co-legislators are discussing how to enhance the financial firepower of the Single Fund. The Parliament is demanding that a loan facility, preferably a public and European one, should be provided as a backstop which would certainly reinforce the strength and credibility of the Single Fund; but the Council has strong reservations. The uncertainty is exacerbated by the lack of agreement on the final rules for the ESM direct bank recapitalisation tool, for which a draft had already been agreed on June 2013. Eurogroup has officially committed to reaching agreement on this new ESM tool in its May meeting. Depending on the final rules agreed, this could open the door for the use of direct recapitalisation as a very last resort: a public European backstop for bank resolution purposes under the SRM regime (and even in the AQR context if this is agreed).

Progress at the Council level on the Intergovernmental agreement (IGA)

Member States agreed on (i) a symmetric distribution of resolution costs in cross border resolution, (ii) respect for the bail-in rules as a pre-condition for the use of the Single Fund, (iii) mandatory loans between compartments upon a Resolution Board decision (although countries will be able to object under very limited conditions).

Next steps

- **Next trilogue meeting:** 19 March (agreement expected on SRM Regulation)
- **Parliament vote on SRM Regulation:** Plenary of 17 April (positive vote expected)
- **Council endorsement of SRM regulation text:** date to be defined (expected: May)
- **Final IGA:** once an agreement is closed on the SRM Regulation (expected: late March).
- **Final ESM direct recapitalisation rules:** May's Eurogroup (agreement expected)
- **Entry into force of SRM Regulation:** January 2015, with Resolution Fund and resolution functions (bail-in and resolution decisions) operative from January 2016 onwards.

¹: The Parliament issued its revised position on 4 March. The Council revised its position after its latest ECOFIN meeting (11 March) and gave the Greek Presidency a new mandate for concluding negotiations with Parliament as soon as possible.

2. Single supervisory framework

Details of the role of the ECB and the NSAs

Under the regulation establishing the Single Supervisory Mechanism (SSM), before 4 May the ECB has to adopt the rules defining how the ECB and the national supervisors will cooperate within the mechanism. In that vein, the ECB released a first draft of this framework on 7 February and was open for consultation until 7 March.

The SSM integrates the national supervisory authorities (NSAs) and the ECB. Both will have a mandate with respect to the less and the more significant banks. In this sense, it is important that the methodology of significance and the roles of these supervisors are completely clear before the SSM becomes fully operational.

Significant or less significant banks

The status of “**significant bank**”, and thus of an entity being directly supervised by the ECB, is not permanent and it is expected that the initial **list of 128 significant EZ banks** will change over time. The framework further details the **criterion of significance** (total size of assets, relative importance for the domestic and for the European economy, cross-border activity and assistance from the ESM/EFSF) settled by the SSM Regulation in order to **review on an ongoing basis** whether a non-significant bank becomes significant or the other way around. Besides this, if necessary the ECB will be able to assume the direct supervision of any bank at any moment.

Roles of the ECB and the NSAs

The ECB is ultimately responsible for the supervision of all entities in participating Member States. As such, it is exclusively in charge of assessing **authorisations of new banks** (and their withdrawals) and **acquisitions of participations** regardless of the significance of the bank concerned. Any entity willing to obtain banking authorisation or any bank wishing to acquire new holdings shall notify its NSA, which in turn will submit a draft proposal to the ECB to obtain its approval. A different procedure has been settled for the **establishment of new branches**. In this case, the point of entry for the notifications would remain the NSA but the decision would be taken by the ECB or the NSA depending on the status of the bank. The roles of the ECB and the NSAs are clearly separated with regard to **supervision**:

- **The significant banks** will be supervised by the ECB with the assistance of the NSAs through the Joint Supervisory Teams. These teams, led by an ECB coordinator, but mainly composed of NSA staff, are in charge of the preparation of the draft decisions that are to be taken by the Supervisory Board and then the ECB Governing Council.
- **The less significant banks** will be directly supervised by the NSAs which will report to the ECB the information collected by National Supervisory Teams. For a more integrated mechanism, the ECB may involve staff from other NSAs in these teams. In this case, the supervisory decisions will be taken by the NSAs and reported to the ECB.

The framework and the SSM Regulation concede to the ECB **several powers** to execute this responsibility: (i) **addressing general instructions to NSAs**; (ii) **requesting information and reporting** and (iii) **general investigations and on-site inspections**, led by on-site inspections teams whose leader would be chosen by the ECB.

Transition period and the establishment of close cooperation

As a general principle, the **procedures initiated and the memoranda of understating** signed with third parties by the NSAs before becoming the SSM fully operational, will remain in force afterwards unless the ECB considers otherwise. As the SSM Regulation sets out, **the Single Supervision is open to non-euro Member States** through the so called close cooperation process with the SSM.

Conclusion

The ECB will approve the operational framework in **May** when a second SSM implementation progress report is also expected to be released. This operational framework does not enter into the details of the supervisory practices which will be partially published in a separate legal act, the **Supervisory Manual**.

By **September** all concerned entities will be officially notified of their significant status. Two months later, on 4 **November**, this mechanism **will have to start operating smoothly and effectively**, especially, in view of the forthcoming results of the comprehensive assessment.

3. US regulation of FBOs

Final regulations released

On 18 February 2014, the Federal Reserve released its final rule that defines the framework for enhanced prudential standards for foreign bank organizations (FBOs).

Introduction and rationale

The rule mainly extends the prudential standards of the Dodd-Frank Act (DFA) to foreign entities. FBOs must now create an intermediate holding company (IHC) which must include all their US subsidiaries and comply with the DFA. The rule will come into effect in July 2016.

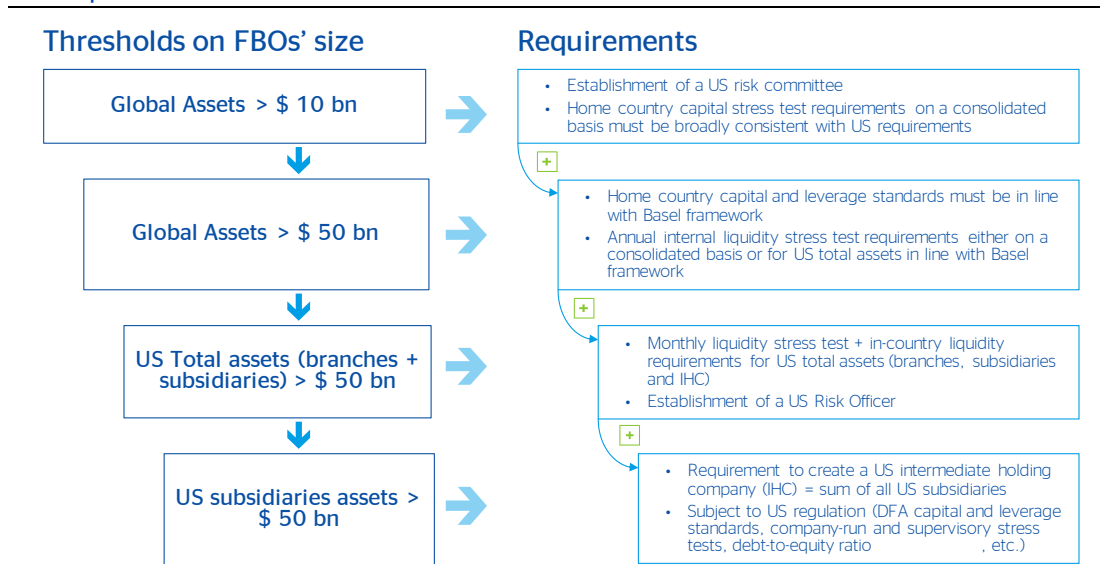
There are several issues that, according to US authorities, justify this regulation. First, FBOs have become more complex and more interconnected to the US financial system while simultaneously becoming more dependent on unstable short-term wholesale funding. Second, US authorities claim that several FBOs made extensive calls on the Federal Reserve's liquidity facilities during the financial crisis. And, finally, several large FBOs organised their structure to avoid being subject to the US prudential regulation and rely on their parent company capital for regulatory purposes.

Main measures

The final regulations are broadly in line with the initial proposal and just include some adjustments, among others: i) narrowing the scope of FBOs subject to the IHC requirements (threshold increase from USD10bn to USD50bn of US subsidiaries' assets); and ii) postponing compliance date from July 2015 to July 2016. In addition, the final rule did not adopt the proposed standards on single counterparty credit limits and early remediation requirements. US authorities are working on these issues that could be defined in separate regulations later on.

The main features of the final regulation can be found in the following table:

Figure 1
FBO requirements



Source: BBVA Research

Initial assessment

Even if the rule remains coherent with the principle of host supervision for subsidiaries and would improve financial stability in the US, it creates some concerns related to cross-border cooperation and to the extra-territorial reach of some aspects of the liquidity requirements. It is worth noting that the rule would not imply an excessive cost for FBOs already organised through a BHC structure, but would be particularly burdensome for those FBOs with US activities focused on broker-dealer businesses.

4. Loss-absorbing capacity (LAC)

FSB's challenges in designing the LAC framework

The minimum gone-concern loss-absorbing capacity is a new concept which is growing in relevance in the global regulatory discussion. In this regard, the goal of establishing LAC is to facilitate the recapitalisation of a failed bank and reduce the cost borne by taxpayers in an eventual winding down. Moreover, it is considered as an additional requirement that complements other capital, liquidity or leverage ratio requirements.

During 2011 and 2012, politicians, public-sector bodies and the financial sector in general have been working hard on a strengthened capital regime requiring additional capital buffers for the GSIFs. However, public authorities consider that the **current loss-absorbing regime is not enough** to facilitate a recapitalisation or orderly wind-down of a failed bank and avoid the need for a bail-out with public funds.

The Financial Stability Board (FSB) is working on guidelines for LAC, which should be agreed within the FSB and by the G20 countries by the end of 2014². Those guidelines will mainly **focus on the nature, amount, and location within the group structure, and the possible** disclosure of LAC.

At present, the FSB's discussions regarding LAC are still in their early stages and the consultation paper is not expected until mid-2014. However, it is worth mentioning that the regulatory debate is several steps ahead in some jurisdictions. In particular, European authorities obtained a final LAC agreement in the Bank Recovery and Resolution Directive (BRRD) in December 2013³, and the US authorities will launch a consultation paper in the coming weeks.

Against this backdrop, the main concern that the FSB should take into account is that the **LAC framework should be consistent around the globe since** the final design of the LAC requirement and its consequences for banks' liability structures is not yet clear, nor is it yet consistent between countries. (See Figure 2).

Figure 2

Main loss-absorbing capacity characteristics under different proposals

	FSB	European Authorities	UK	US
	GCLAC (*)	MREL (**)	PLAC / SLAC (***)	Long-term unsecured debt
Nature	Pending	Equity, subordinated, senior unsecured debt, and other unsecured liabilities	Equity and subordinated (PLAC) and senior unsecured debt (SLAC)	Senior unsecured debt
Amount	Pending	Over total liabilities	Over total RWA	Pending
Location within the group	Pending	At group or individual level depending the resolution strategy	Individual level	Consolidated level (holding)

The FSB will publish the LAC proposal in mid-2014.

(*) GCLAC - gone-concern loss-absorbing capacity.

(**) MREL - minimum requirement of eligible liabilities.

(***) PLAC - primary loss-absorbing capacity, and SLAC - secondary loss-absorbing capacity.

Source: BBVA Research

Moreover, the FSB should also take into account the following technical issues when designing the global LAC framework:

- **Appropriate size:** the size of LAC should maintain an economic perspective for a trade-off between efficiency and financial stability. Additionally, the minimum level should be established on a case-by-case basis (as a reflection of differences of size, business model, funding model, resolvability and risk profile of each institution).
- **LAC ratio design:** Minimum LAC should be based on "total liabilities" rather than "total RWAs".
- **Nature:** LAC's nature should be defined with a broad scope, including equity, capital instruments and long-term unsecured liabilities (senior debt).

2: See the FSB (22 - 23 February 2014) letter to the G20 Finance Ministers and Central Bank Governors.

3: Under the BRRD, LAC is known as Minimum Requirements for Eligible Liabilities (MREL).

5. EU vs. US resolution frameworks

Consistencies and divergences on the key issues in the EU and US resolution frameworks

Resolution frameworks should always seek two objectives. First, resolving banks should be a quick process and must avoid negative spill over effects to the rest of the financial system. Second, resolution regimes must be designed to protect taxpayers' money. Besides common principles, there are major differences on how countries design the resolution regimes to achieve those two goals. A clear example of those divergences is the EU and US resolution frameworks.

Resolution frameworks in the US and EU have several differences

In November 2011, the Financial Stability Board published the Key Attributes of Effective Resolution Regimes. The Key Attributes set out the core elements that apply to any financial institution that could be systemically significant or critical – either globally or domestically – if it fails.

In December 2013, the EU and US authorities took a significant step forward. Europeans got an agreement on the Bank Recovery and Resolution Directive (BRRD); and Americans launched a consultation paper describing in greater detail their Single-Point-of-Entry resolution approach. Despite common FSB principles, both regimes have several differences as shown Figure2.

Figure 3

High-level comparative analysis between the US and EU resolution regimes

	US (Dodd-Frank Act - Title II)	EU (BRRD)
Goal	i) To resolve failing financial institutions quickly, ensuring the stability of the financial system ii) To minimise taxpayer contributions to resolution episodes	
Scope	Only large and complex banks	All credit institutions and investment firms
Resolution authority	Existing Federal Deposit Insurance Corporation created by the Congress to, among other things, insure deposits	National Resolution Authority (BRRD) Single Resolution Authority (Banking Union)
Trigger for resolution	i) Failing or likely to fail institutions ii) To protect public interest and financial stability; and iii) No private alternatives to prevent the default of the institution.	
Recovery plan	No requirement	Annual review, update and submission to the resolution authority and supervisor
Resolution plan	Annual review, update and submission to the resolution authority (FDIC); bank ownership	Annual review and update; resolution authority ownership
Resolution Strategy	Single-Point-of-Entry	Multiple-Point-of-Entry or Single-Point-of-Entry
Resolution Tools	Bail-in + Bridge bank	Sale business, Bridge bank, asset separation and bail-in
Bail-in - Hierarchy of claims	Four layers: capital + senior debt + uncovered deposits + covered deposits	Four layers: capital + senior debt <i>pari passu</i> with uncovered corporate deposits + uncovered deposits of SME & households + covered deposits
Resolution Fund - Usage	Liquidity support	Liquidity and capital support
Resolution Fund - Funding	Ex-post funding by the financial sector contributions (if needed)	Ex-ante funding by the financial sector contributions

Source: BBVA Research

Divergent resolution regimes may hamper cross-border recognition and resolution

The final design of national resolution regimes and its consequences for banks are not yet clear, and nor are they yet consistent between countries. However, divergences in resolution regimes would put further hurdles in the way of designing an effective and credible cross-border resolution regime for G-SIFIs.

The following months will be critical in designing the technical standards and assessing the real divergences in the implementation of the rules.

6. G20 meeting in Sydney

Focus on completing core regulatory reform by November 2014

In the communiqué issued after the meeting held on 22-23 February 2014, the G20 group of finance ministers and central bank governors declared their determination to substantially complete key aspects of the ongoing regulatory reform by the time of the G20 summit in Brisbane. In order to reduce harmful fragmentation, they committed to cooperate across jurisdictions with a renewed focus on timely and consistent implementation, supported by meaningful peer reviews.

Completing core regulatory reform

Figure 4

Completing core regulatory reform

Building resilient financial institutions	Address excessive variability in RWAs	BCBS
	Finalise Net Stable Funding Ratio	
Ending too-big-to-fail (G-SIIs)	Global standard for a minimum GLAC (Gone-concern loss-absorbing capacity)	FSB
	Regulatory framework for systemic insurers	IAIS
Addressing shadow banking risk	Repos and securities lending markets	FSB
	Interactions with banks	BCBS
Making derivatives markets safer	Report on cross-border equivalence and on aggregation of trade repositories data	FSB

Source: BBVA Research

Commitment to cooperate across jurisdictions

Renewed focus on timely and consistent implementation of regulation, supported by peer reviews. OTC derivatives reform will be included in these reviews, but considering the agreement reached that jurisdictions and regulators should be able to defer to each other when it is justified by the quality of their respective regulatory and enforcement regimes in a non-discriminatory way, paying due respect to home country regulatory regimes. The OTC Derivatives Regulators Group will issue a report on remaining cross-border issues by April 2014 and a proposal on their solution ahead of Brisbane.

7. Shadow banking: into the light

Making shadow banking less opaque

Transforming shadow banking into a transparent and resilient market-based source of financing is one of the FSB's remaining core goals announced on 17 February. Indeed, completing shadow banking regulation is key to fostering global financial stability. On 29 January the European Commission (EC) published a proposal on transparency of securities financing transactions.

What's in a name? The meaning of shadow banking

Shadow banking is the "credit intermediation involving entities and activities **outside** the regular banking system" (FSB; 2011). An incipient alternative approach describes shadow banking as "all financial activities, except traditional banking, which require a private or public **backstop** to operate" (IMF; 2014⁴). According to the EC's Green Paper on shadow banking (2012), shadow banking entities are involved in **at least one of the following activities**: (i) accepting funding with deposit-like characteristics; (ii) performing maturity and/or liquidity transformation; (iii) undergoing credit risk transfer; and (iv) using direct or indirect financial leverage. Most regulators are already focusing on repurchase transactions (repos), securities lending, money market funds (MMFs) and over-the-counter (OTC) derivatives, as they are the main players.

Academics identify **seven different mechanisms** (FRBNY; 2014⁵) that prompt shadow banking activities: (i) **specialisation** in risk and liquidity transformation; (ii) **mispriced guarantees from government backstops**, as the pricing of some shadow banking liabilities can be distorted by indirectly benefiting from government backstops; (iii) **regulatory arbitrage**; (iv) **neglected risk** (aggregate tail risk); (v) **agency problems** due to asymmetric information; (vi) **private money-creation** that mainly occurs in the commercial paper and the repo markets; and (vii) **short-term funding and runs** due to the fact that funding sources for shadow banking activities are uninsured and may be subject to runs because of maturity and liquidity mismatches.

A long journey into the light

In **April 2011** the FSB published its background note "Shadow Banking: Scoping the Issues", since then much work has been done although there is still much work to do. On 17 February 2014, the Chairman of the FSB sent a letter to the G20 summarising the roadmap towards the completion of the remaining four **core elements** of programme agreed by the G20 leaders. One of these key issues was transforming shadow banking into a **transparent** and **resilient** market-based source of financing. By the time of the G20 Brisbane summit on **15 and 16 November 2014**, the FSB will have **completed recommendations** to reduce risks and increase transparency in repo and securities lending markets. It will also develop and introduce an **information-sharing** process to foster oversight and regulation of shadow banking firms. By **end-2014**, a FSB data experts group is expected to develop **standards and processes** in relation to securities financing markets, and **by 2015** the FSB would be in a position to start a **peer review** process of **national implementation** of the framework.

In line with the FSB's principles, on 29 January 2014 the EC published a proposal on transparency of securities financing transactions, complementing the proposed regulation on the structural reform of EU banks. Its objective is to **increase transparency** and to **enhance** market participants' understanding of the risks involved. The **Council** is expected to have the first read by **2Q14** and to start political negotiations by **2H14**. Amendments tabled in the **European Parliament** are expected by **4Q14 or 1Q15** and a **possible political agreement** could be achieved by **4Q15**.

Implications of shadow banking activity for the financial system

Enhancing transparency and completing shadow banking regulation are key to fostering **global financial stability**. If shadow banking is not well-regulated and supervised, it could lead to an increase of **systemic risks** due to: its (i) dependence on short-term wholesale funding; (ii) levels of leverage and (iii) spill-over onto the regular banking system.

Shadow banking contributes to liquidity generation and to market-making activity which are key for the proper functioning of the financial markets. As stated by Mr. Tarullo⁶, "shadow banking directly supports the current functioning of **important markets**, including those in which monetary policy is executed. Securities financing transactions can also directly or indirectly **fund less liquid instruments**".

4: IMF Working Paper. What Is Shadow Banking? Prepared by Stijn Claessens and Lev Ratnovski. February 2014.

5: Federal Reserve Bank of New York Staff Reports. Financial Stability Policies for Shadow Banking. Tobias Adrian. February 2014.

6: Statement by Daniel K. Tarullo Member Board of Governors of the Federal Reserve System before the Committee on Banking, Housing, and Urban Affairs U.S. Senate Washington, D.C. February 6, 2014.

Main regulatory actions around the world in 2014

Recent issues

Upcoming issues

Global	On 08/02 the FSB launched a consultation on approaches to aggregate OTC derivatives data	On 15/11 Australia will host the G20 Leaders Summit
	On 10/02 IOSCO launched a consultation on the Code of Conduct Fundamentals for CRAs	
	On 17/02 the FSB presented the conclusions of the G20 Finance Ministers and Central Bank Governors meeting	
	On 06/03 the BCBS presented the results of the Basel III monitoring exercise as of 30 June 2013	
Europe	On 04/02 the EP approved the proposal for MAD	In March Eurogroup will agree on the Intergovernmental Agreement related to the SRM Regulation
	On 18/02 the ECOFIN approved a political agreement reached with the EP on DGSD	In March the EP and the Council are expected to reach an agreement on the Directive on payment accounts
	On 18/02 the Council agreed to postpone to 1 August 2014 the end-date in the eurozone for the migration of domestic and intra-European credit transfers and direct debits in euros towards SEPA credit transfers and SEPA direct debits	In March the EP is expected to vote on money laundering and terrorist financing
	On 20/02 the EP adopted the proposal for the Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing	In April the EP is expected to vote on the BRRD and SRM Regulation
	On 25/02 the EP and the Council reached an agreement on UCITS	In May Eurogroup will agree on the main features of the direct bank recapitalisation ESM tool
	On 26/02 the EP and the Council reached an agreement on the proposal for a Directive on the disclosure of non-financial and diversity information by certain large companies	In November the ECB should take over the direct supervision of European credit institutions SSM after the publication of the results of the comprehensive assessment of the banking sector (October 2014)
Mexico	On 06/03 EBA published the results of the Basel III monitoring exercise as of 30 June 2013	
	On 20/02 the President sent an initiative to the Congress to create the New Law of Economic Competence that includes new regulation of the financial payments system	The Banking and Securities Commission is proposing among other decisions, the introduction of the Basel principles for liquidity risk management
		The Tax Service Administration will publish new regulations for client identification
Latam		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 recognised by European and US authorities
		The Bank of Mexico is studying possible changes to the regulation on minimum charges for credit cards
	On 05/02 Brazil released for public consultation a regulation on non-resident investment on domestic financial and capital markets	At the beginning of 2014 Brazil's Supreme Court will decide whether banks should reimburse depositors for the losses stemming from anti-hyperinflation policies adopted in the 1980s and 1990s
	On 20/02 Brazil made some adjustments in line with Basel III recommendations for the regulatory capital calculation methodology introduced in 2013	
	On 01/03 Peru cut the reserve requirements for deposits in local currency by 0.5pp, to 12.5%	
	On 03/03 Peru decided to allow AFPs to invest in "simple" instruments without prior authorisation by the regulatory entity	

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(Cont.)

Recent issues

Upcoming issues

USA	On 18/02 Fed approved a final rule strengthening supervision and regulation of large U.S. BHCs and FBOs On 21/02 Agencies permit certain banking organizations to begin using advanced approaches framework to determine risk-based capital requirements	Fed's 2014 fee schedules for payment services are forecast 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
	Since 14/01 the unemployment insurance fund will be only deposited in three state banks (VakifBank, Halkbank and ZiraatBank). The total amount of deposit 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 06/02 China decided to allow private investors to set up rural commercial banks as part of rural development plans.	The Financial Services Authority of Indonesia wants the government to allow state-owned banks to cut their dividend payments in order to strengthen their capital, in preparation for economic integration within the ASEAN Economic Community in 2015
	On 18/02 China issued new rules requiring banks to maintain a LCR of 100% by 2018. The new rules will take effect on 1 March. On 27/02 South Korea introduced new measures to lower the ratio of household debt to income by 5% by the end of 2017 and to help low-income borrower to restructure their debts	Hong Kong is reported to be pushing for a capital reserve requirement of 3.5%

Source: BBVA Research

Abbreviations

AIFMD	Alternative Investment Fund Managers Directive	FROB	Spanish Fund for Orderly Bank Restructuring
AQR	Asset Quality Review	FSAP	Financial Sector Assessment Program
BCBS	Basel Committee on Banking Supervision	FSB	Financial Stability Board
BIS	Bank for International Settlements	FTT	Financial Transactions Tax
BoE	Bank of England	IAIS	International Association of Insurance Supervisors
BoS	Bank of Spain	IASB	International Accounting Standards Board
BRRD	Bank Recovery and Resolution Directive	IHC	Intermediate Holding Company
CCAR	Comprehensive Capital Analysis and Review	IIF	Institute of International Finance
CCP	Central Counterparty	IMF	International Monetary Fund
CET	Common Equity Tier	IOSCO	International Organization of Securities Commissions
CFTC	Commodity Futures Trading Commission	ISDA	International Swaps and Derivatives Association
AMC	Company for the Management of Assets proceeding from Restructuring of the Banking System (Bad bank)	ITS	Implementing Technical Standard
CNMV	Comisión Nacional de Mercados de Valores (Spanish Securities and Exchange Commission)	Joint Forum	International group bringing together IOSCO, BCBS and IAIS
COREPER	Committee of Permanent Representatives to the Council of the European Union	LCR	Liquidity Coverage Ratio
CPSS	Committee on Payment and Settlement Systems	LEI	Legal Entity Identifier
CRA	Credit Rating Agency	MAD	Market Abuse Directive
CRD IV	Capital Requirements Directive IV	MiFID	Markets in Financial Instruments Directive
CRR	Capital Requirements Regulation	MiFIR	Markets in Financial Instruments Regulation
CSD	Central Securities Depository	MMFs	Money Market Funds
DGSD	Deposit Guarantee Schemes Directive	MoU	Memorandum of Understanding
DFA	The Dodd-Frank Wall Street Reform and Consumer Protection Act	MPE	Multiple Point of Entry
EBA	European Bank Authority	MS	Member States
EC	European Commission	NRA s	National Resolution Authorities
ECB	European Central Bank	NSA s	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
EFSS	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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