

BANKS

NEWSLETTER

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Shortly after we launch the online delivery of regulatory news in December, we will discontinue sending this monthly email and PDF. Our December Regulatory Insight will be the last edition delivered in PDF form and will include the URL to view Regulatory Insight content online. Please bookmark the URL for the new regulatory news section of our website.

Regulatory Insight

Key Developments at a Glance

The Basel Committee on Banking Supervision (BCBS) released consultative document and a discussion paper on the policy considerations related to the regulatory treatment of accounting provisions under the Basel III regulatory capital framework. The BCBS also issued its final standards on the regulatory capital treatment of banks' investments in instruments that comprise total loss-absorbing capacity (TLAC) for global systemically important banks (G-SIBs). Separately, the Basel Committee released its 11th progress report on the adoption of the Basel regulatory framework.

The Secretary General of the Basel Committee gave a speech on bank capital reforms, covering topics as the standardized approach for credit risk and the use of internal ratings-based approaches. The speech concluded by saying that the Committee "has made substantial progress towards completing its reforms by year-end" and that "the Committee will produce a final package that reduces variability in risk-weighted assets and helps restore credibility to banks' risk-based capital ratios."

The Financial Stability (FSB) published methodology for assessing the implementation of key attributes of effective resolution regimes in the banking sector.

KEY DEVELOPMENTS PER REGION

> **EUROPE:** The European Banking Authority (EBA) published final Guidelines on implicit support for securitization transactions which clarify what constitutes arm's length transaction and specify when a transaction is not structured to provide support for securitizations. In a separate publication, the EBA published its detailed annual workplan for 2017, describing specific tasks for the upcoming year as well as work in key strategic areas from 2017 to 2020. The European Central Bank (ECB) issued a report on the main structural features and developments in the broader euro financial sector.

The European Securities and Markets Authority (ESMA) issued its annual public statement on European Common Enforcement Priorities; provided guidelines on transaction reporting, order record keeping, and clock synchronization under Markets in Financial Instruments Directive (MiFID II); issued Markets in Financial Instruments Regulation (MiFIR) reporting instructions; and issued a report on shadow banking, leverage and pro-cyclicality.

> **MIDDLE EAST & AFRICA:** The International Monetary Fund (IMF) issued a 2016 Article IV consultation on Saudi Arabia.

> **AMERICAS:** The U.S. Securities and Exchange Commission (SEC) adopted rules for open-ended, mutual, and exchange traded funds to modernize reported information, require liquidity risk management programs, and permit swing pricing. U.S. Regulatory agencies issued rules around qualified financial contract record keeping requirements with respect to positions, counterparties, legal documentation, and collateral. U.S. Federal Reserve Governor Lael Brainard gave a speech on "Distributed Ledger Technology: Implications for Payments, Clearing, and Settlement."

> **ASIA PACIFIC:** The China Banking Regulatory Commission (CBRC) issued guidelines on comprehensive financial risk management.

Table of Contents

International	3
Europe	9
European Union	9
Italy	27
United Kingdom	28
Middle East & Africa	30
Saudi Arabia	30
Americas	31
United States of America	31
Canada	40
Panama	40
Asia Pacific	41
Australia	41
China	43
Japan	45
India	46
Singapore	47
Glossary	48

International

Key Developments

Implementation Status of Reforms to Strengthen Securities Markets

- IOSCO

October 28, 2016

Type of Information:
Report

The International Organization of Securities Commissions (IOSCO) published a report on the implementation of the G20/FSB post-crisis recommendations aimed at strengthening securities markets. This report was prepared by IOSCO's Assessment Committee, as part of its G20 Markets Reform Review Project. This effort involved working with the Financial Stability Board (FSB), to analyze the responses to FSB's 2016 Implementation Monitoring Network (IMN) survey. For the 2016 survey, IOSCO analyzed the responses in relation to securities-related recommendations in the following reform areas:

- » Hedge funds
- » Structured products and securitization
- » Oversight of credit rating agencies (CRAs)
- » Measures to safeguard the efficiency and integrity of markets
- » Supervision and regulation of commodity derivative markets

This report revealed that most responding jurisdictions have taken steps to implement the G20/FSB recommendations and IOSCO guidance in each reform area. It highlighted that implementation is most advanced in relation to hedge funds, structured products and securitization, and the oversight of CRAs. Most jurisdictions had implemented these reforms by 2014, while implementation of G20/FSB recommendations in other areas continues to progress.

Link: [Report](#)

Keywords: Implementation Monitoring

Speech of Jamie Caruana on the Implications of Financial Inclusion and Fintech Revolution for Supervision and Oversight in the Financial Sector

- BIS

October 27, 2016

Type of Information:
Speech

Jaime Caruana, General Manager of the Bank for International Settlements (BIS), spoke at the third GPFII-FSI Conference on Standard-Setting Bodies and Innovative Financial Inclusion. He discussed the increasing relevance of digital financial inclusion and the implications of the fintech revolution for supervisors and overseers.

Mr. Caruana highlighted that the penetration of mobile telephony and internet use, the availability of high-speed computing, advances in cryptography, and innovations in machine learning and data analytics are the key elements behind the fintech wave. The emerging consensus is that technology-driven change is inevitable and carries a massive potential for disruption. He however believes this change to be a positive development, highlighting that the final balance will depend on the way authorities respond at the domestic and the global levels, among others. He highlighted the following four areas to consider for supervisors and overseers:

- » Need for greater engagement and dialog with private sector and innovators. Given the dynamics of technological innovation, it is vital to keep up with the developments and learn about their application to finance.
- » Need for capacity-building to help supervisors and overseers do their job well.
- » Need for cooperation between the authorities responsible for traditional areas of finance and the authorities at the national level; this will help to exploit synergies, where appropriate; to fill in the gaps; to balance different interests; and to avoid working at cross-purposes. The actors in fintech include non-bank financial firms, as well as non-financial firms such as tech companies and network operators.
- » Need for cooperation at the international level, as technology and finance span national borders. The international cooperation agenda these days has many priorities, but due to Global Partnership for Financial Inclusion's (GPFII's) efforts, the advocacy for financial inclusion is maintaining its momentum—as seen in its continued endorsement by G20 leaders.

Link: [Speech](#)

Keyword: Fintech

Supervisory Priorities and Challenges in Non-Basel Committee Jurisdictions

- FSI

October 27, 2016

Type of Information:
Report

The FSI published an occasional paper on supervisory priorities and challenges in jurisdictions that are not members of the Basel Committee on Banking Supervision. This paper is based on the results of a survey conducted by the FSI in March 2016 among non-Basel Committee jurisdictions.

The survey results show that the top three macroeconomic and financial stability challenges in non-Basel Committee jurisdictions are increasing digitalization of finance and financial technology, the low or negative interest rate environment, and commodity price volatility. The top three enhancements to supervisory approaches, based on the number of responses indicating that they are high-priority are:

- » Ensuring a forward-looking approach to risk-based supervision
- » Enhancing on-site and off-site supervisory approaches
- » Strengthening bank resolution frameworks

The survey results will feed into future work of the FSI, particularly in designing its program of activities and meeting discussions to more effectively support the needs of the supervisory community.

Links: [Notification](#), [Occasional Paper](#)

Keywords: *Non Basel Committee Jurisdictions, Survey*

Eleventh Progress Report on Adoption of Basel Regulatory Framework

- Basel Committee

October 19, 2016

Type of Information:
Report

The Basel Committee published its 11th progress report on adoption of the Basel regulatory framework. This report provides a high-level view of the progress made by Basel Committee members in adopting Basel III standards (effective 2019) as of the end of September, 2016. The progress report is based on the information provided by individual members, as part of the Basel Committee's Regulatory Consistency Assessment Program (RCAP).

The report states that as of end September 2016, all 27 member jurisdictions had final risk-based capital (RBC) rules, liquidity coverage ratio (LCR) regulations, and capital conservation buffers (CCBs) in force. Moreover, 26 member jurisdictions had issued final rules for the CCBs, 25 issued final or draft rules for their domestic systemically important banks framework, while 18 had issued final or draft rules for margin requirements for non-centrally cleared derivatives. With regard to the global systemically important banks (G-SIBs) framework, all members that are home jurisdictions to G-SIBs had the final framework in force. While members are now turning to the implementation of other Basel III standards, including the leverage ratio and the Net Stable Funding Ratio (NSFR), some member jurisdictions report challenges in meeting the agreed implementation deadlines for some standards. These include the revised Pillar 3 framework (by end-2016), the standardized approach for measuring counterparty credit risk (by January 2017), capital requirements for central counterparty (CCP) exposures (by January 2017), and capital requirements for equity investments in funds (by January 2017).

In addition to periodically reporting on the status of adoption, all Committee members undergo an assessment of the consistency of their domestic rules with the Basel standards. The Committee had published its assessment reports on the implementation of RBC regulations by 26 members (Argentina, Australia, Brazil, Canada, China, nine members of the European Union, Hong Kong SAR, India, Japan, Korea, Saudi Arabia, Mexico, Russia, Singapore, South Africa, Switzerland, Turkey, and the United States).

This exercise is intended to ensure that the Basel standards are transformed into national law or regulation according to the internationally agreed timeframes. This progress report updates the Basel Committee's previous progress reports that have been published semiannually since October 2011.

Links: [Press Release](#), [Progress Report](#), [Assessment on Consistency of Basel implementation](#)

Keywords: *Basel III, Progress Report*

Consultative Report on Harmonization of Certain Critical Over-The-Counter Derivatives Data Elements

- CPMI/IOSCO

October 19, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The CPMI and the IOSCO published for public comment a consultative report on "Harmonization of the second batch of critical OTC derivatives data elements other than Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI)."

The report responds to the G20's agreement in 2009 that all OTC derivatives contracts would be reported to trade repositories (TR). This agreement is a part of the G20's commitment to reforming OTC derivatives markets with the aim of improving transparency, mitigating systemic risk, and preventing market abuse. Data aggregation across trade repositories will help ensure that authorities can obtain a comprehensive view of the OTC derivatives market and its activity.

This report complements the earlier published consultative reports, which include a consultative report on harmonization of the first batch of key OTC derivatives data elements (other than UTI and UPI); a consultative report on harmonization of the UTI; and two consultative reports on harmonization of the UPI. The Harmonization Group also plans to issue consultative reports on further batches of key data elements (other than UTI and UPI) in the coming months.

In recent years, the CPMI, the IOSCO, and the FSB have published reports that laid foundation for the harmonization work on key OTC derivatives data elements for meaningful aggregation on a global basis. This work includes the 2012 CPSS-IOSCO report on OTC derivatives data reporting and aggregation requirements, the 2013 CPSS-IOSCO report on the access to trade repository data by authorities, and the 2014 FSB feasibility study on approaches to aggregate OTC derivatives data. Following the 2014 feasibility study, the FSB asked CPMI and IOSCO to develop global guidance on the harmonization of data elements. These data elements include those reported to trade repositories and those that are important for data aggregation by authorities, including the UTI and the UPI.

Comments Due Date: November 30, 2016

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Harmonization of OTC Derivatives Data: Second Batch](#), [Harmonization of OTC Derivatives Data: First Batch](#), [Harmonization of UTI](#), [Harmonization of UPI: First Consultation](#), [Harmonization of UPI: Second Consultation](#)

Keywords: OTC Derivatives, Trade Repository

Methodology for Assessing the Implementation of Key Attributes of Effective Resolution Regimes in the Banking Sector

- FSB

October 19, 2016

Type of Information:
Guideline

The FSB published its methodology for assessing the implementation of its *Key Attributes of Effective Resolution Regimes for Financial Institutions* (also known as the Key Attributes) in the banking sector.

The methodology provides essential criteria for guiding the assessment of compliance of a jurisdiction's bank resolution frameworks with the Key Attributes. It is designed to promote consistent assessments across jurisdictions and provide guidance to jurisdictions when adopting or reforming bank resolution regimes to implement the Key Attributes. The FSB will continue to monitor implementation of the Key Attributes. FSB jurisdictions have agreed to undergo an assessment of their bank resolution regimes on the basis of this assessment methodology.

This methodology is the first step in implementing a modular approach that is tailored to the specific features of a sector and facilitates the assessment of resolution regimes for banks, insurers, and FMIs. The methodology was developed in collaboration with experts from FSB jurisdictions, relevant standard-setting bodies, the IMF, and the World Bank. It addresses comments from the August 2013 consultation on the assessment methodology. It also incorporates the experience of the field tests and the peer review based on the *Second Thematic Review on Resolution Regimes*, which was published in March 2016.

Elke König, who is Chair of the FSB Resolution Steering Group and the European Single Resolution Board, highlighted that the FSB's August 2016 resolution progress report shows uneven progress in implementation. Substantial work remains to be done for implementing effective resolution regimes and operationalizing resolution plans for cross-border firms. Thus, this methodology will be useful for facilitating an informed and consistent analysis of compliance with the Key Attributes.

Links: [Press Release](#), [Assessment Methodology](#), [Key Attributes](#), [August 2013 Consultation](#), [Responses to August 2013 Consultation](#), [Second Thematic Review](#), [Resolution Progress Report](#)

Keywords: Key Attributes, Resolution

Working Paper on Assessment of Data Collection Approaches for National Accounts

- BIS

October 18, 2016

Type of Information:
Research

The BIS published a working paper discussing the residency-based and nationality-based approaches for data collection to assess consolidated risk exposures.

The traditional System of National Accounts relies on the criterion of residency to capture statistical information within countries' boundaries. However, the authors argue that data collected using the residency-based System of National Accounts concept can be usefully complemented by a nationality-based concept (which is a global approach). This requires the establishment of a framework for assessing financial positions on a "nationality-basis,"—that is, at a globally consolidated level.

The paper highlights the launch of a work program by Organisation for Economic Co-operation and Development (OECD), to better measure the activities of multinational enterprises and the interaction with their funding conditions. Other international organizations are also taking decisive steps in this area. To this end, the BIS and its central bank committees have been at the forefront of developing the nationality-based concept and in setting up consolidated data collections. The authors emphasize that the new statistical exercises (for example, derivatives, shadow banking, securities financing transactions, and development of statistical identifiers) being developed in the aftermath of the financial crisis of 2007–09 will undoubtedly help to move the knowledge frontier further. This may prove a key opportunity for working on improving the guidance offered by the System of National Accounts framework to enhance the understanding of issues posed by globalization.

Link: [Working Paper](#)

Keywords: National Accounts, Statistics

Final Standard on Total Loss Absorbing Capacity Holding

- Basel Committee

October 12, 2016

Type of Information:
Regulation

Regulatory Status: Final
Rule

The Basel Committee published its final standard on the regulatory capital treatment of banks' investments in instruments that comprise total loss-absorbing capacity (TLAC) for G-SIBs. It applies to both G-SIBs and non-G-SIBs.

The final standard aims to reduce the contagion risk in the financial system if a G-SIB enters resolution. IT reflects changes to Basel III to specify how G-SIBs must consider the TLAC requirement when calculating their regulatory capital buffers. The standard stipulates that banks must deduct holdings of TLAC instruments that are not already included in regulatory capital from their own tier 2 capital. The threshold deduction is subject to the thresholds that apply to existing holdings of regulatory capital and an additional 5% threshold for non-regulatory capital TLAC holdings only. Instruments ranking *pari passu* with subordinated forms of TLAC must also be deducted.

The standard will take effect at the same time as the minimum TLAC requirements for each G-SIB, which are set out in the FSB's TLAC standard for G-SIBs.

Comments Due Date: N/A

Effective Date: January 01, 2019

First Reporting Date: N/A

Links: [Press Release](#), [Final Basel Standard for TLAC](#), [FSB's TLAC Standard for G-SIBs](#)

Keywords: Basel III, G-SIB, TLAC

Proposal on Regulatory Treatment of Accounting Provisions Under Basel III

- Basel Committee

October 12, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The Basel Committee published a consultative document and a discussion paper on policy considerations related to the regulatory treatment of accounting provisions under the Basel III regulatory capital framework.

The Basel Committee's consultative document presents proposal to retain (for an interim period) the current regulatory treatment of accounting provisions under the standardized and the internal ratings-based (IRB) approaches. This because of the limited time remaining until the effective date of International Financial Reporting Standards 9 (IFRS 9) and to allow a thorough consideration of the longer-term options for the regulatory treatment of provisions. Thus, the Basel Committee is also seeking comments on whether any transitional arrangement is warranted to allow banks time to adjust to the new expected credit loss (ECL) accounting standards. The accompanying discussion paper examines policy options for long-term regulatory treatment of accounting provisions under the new ECL standards.

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have adopted provisioning standards that require use of ECL models rather than incurred loss models. The IASB published IFRS 9 in July 2014 (effective from January 01, 2018) while the FASB published its final standard on Current Expected Credit Losses (CECL) in June 2016 (effective from January 01, 2020). The new accounting standards modify provisioning standards to incorporate forward-looking assessments in the estimation of credit losses, as recommended by the G20 leaders and the Basel Committee.

Comments Due Date: January 13, 2017

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Consultative Document](#), [Discussion Paper](#)

Keywords: ECL, FASB, IASB

Update on Basel III Monitoring Data Collection

- Basel Committee

October 11, 2016

Type of Information: FAQ

The Basel Committee updated the frequently asked questions (FAQs) on Basel III monitoring for the collection of June 2016 data.

The Basel Committee monitors the impact of Basel III global regulatory framework for more resilient banks and banking systems, Basel III leverage ratio framework and disclosure requirements, Basel III LCR and liquidity risk monitoring tools, and Basel III net stable funding ratio on a sample of banks. The exercise is repeated semi-annually, with end-December and end-June reporting dates. Additionally, worksheets have been added to collect data on the Committee's ongoing policy initiatives.

Link: [Basel III Monitoring Updates](#)

Keywords: Basel III, Monitoring

Remarks of Secretary General of the Basel Committee on Progress made in Finalizing Global Regulatory Framework

- Basel Committee

October 07, 2016

Type of Information: Speech

At the 2016 Annual Membership Meeting of the Institute of International Finance in Washington, William Coen, Secretary General of the Basel Committee, provided updates on the Basel Committee's work toward finalizing the global regulatory framework. He also discussed the following policy reforms that are to be finalized by the end of this year:

- » **Standardized approach for credit risk.** Mr. Coen highlighted that through the two consultations (December 2015 and December 2014) on this topic, the Basel Committee's intention was to improve the standard's risk-sensitivity and not to increase the overall regulatory capital requirements. The Basel Committee intends to adhere to this objective, although this does not mean there will be no changes in capital requirements. If the objective of improving risk-sensitivity is achieved, then capital requirements on riskier exposures should increase, while decreasing the capital requirements for lower risk exposures.
- » **IRB approaches.** The March 2016 consultation on IRB approaches expressed concern about the modeling practices of banks and the degree of freedom in estimating risk components such as probability of default (PD), loss given default (LGD), and exposure at default (EAD). Therefore, the Basel Committee proposed to remove the option to use the IRB approaches for certain exposures, where it is judged that the model parameters cannot be estimated sufficiently reliably for regulatory capital purposes. This objective can be achieved through various combinations of approaches, which the Basel Committee is still assessing.
- » **Operational Risk.** Mr. Coen stated that the Basel Committee is considering refinements to the March 2016 consultation paper on operational risk, with the intention to simplify the framework and enhance its robustness. Mr. Coen expects that the fundamental elements of the revised operational risk framework to be maintained (that is, combining a simple accounting proxy of operational risk with a bank's internal loss data).
- » **Output floor.** Discussions are still under way to replace the existing transitional capital floor based on the Basel I framework that the Basel Committee, in 2009, agreed to keep in place. The floor is meant to mitigate model risk and measurement error stemming from internally modeled approaches and would place a limit on the benefit a bank derives from using its internal models for estimating regulatory capital.
- » **Leverage Ratio and Credit Valuation Adjustment (CVA).** Several other elements of the Basel III package are expected to be finalized by the year-end, including the leverage ratio exposure measure and a surcharge for G-SIBs. The Basel Committee will also finalize the treatment of CVA risk, which accounts for 2% (on average) of minimum capital requirements and is significant for a relatively small number of banks. The Basel Committee is weighing the benefits of a risk-sensitive treatment for this risk with the associated complexity and global applicability.

While speaking about the market risk rules, Mr. Coen emphasized the low (less than 5%) contribution of market risk to minimum capital requirements, also highlighting that it is only relevant for a small number of large banks. Mr. Coen revealed that the Basel Committee has compiled FAQs and is developing responses to these FAQs to provide greater clarity on how the new market risk rules is expected to work in practice. The Committee is also conducting regular quantitative impact study (QIS) monitoring exercises while continuing its work on the P&L attribution test, which is a key determinant of whether a bank can use internal models for market risk, or is required to apply the standardized approach.

Mr. Coen highlighted that the cumulative impact of reforms depends on the final package of proposals agreed to by the Basel Committee. He reiterated that the objective is to reduce risk-weighted asset (RWA) variability with a focus on outliers, while not significantly increasing overall capital requirements. However, this does not mean that the minimum capital requirement for all banks will remain the same, as variability in RWAs can only be reduced if there is some impact on the outlier banks. Therefore, some outlier banks may face a significant increase in requirements. In conclusion, Mr. Coen noted that on the basis of comments received and the QIS results, the Basel Committee will produce a final package to help reduce variability in RWAs and restore credibility to the RBC ratios of banks.

Links: [Speech](#), [Standardized Approach for Credit Risk: Second Consultation](#), [IRB Approach: Consultation](#), [Operational Risk Approach: Consultation](#), [Basel II Capital Framework Enhancements](#), [Leverage Ratio Framework: Consultation](#)

Keywords: Basel III, Impact

Responses to Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities

- FSB

October 05, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The FSB published the feedback received (which includes 47 responses) on the proposed policy recommendations to address structural vulnerabilities from asset management activities. The consultation paper was published on June 22, 2016 and comments were due by September 21, 2016.

The consultation proposed 14 policy recommendations, which have been designed to provide authorities and asset management entities with the tools and data to effectively detect and address the identified risks. These recommendations seek to address four financial stability risks: liquidity mismatch between fund investments and redemption terms and conditions for fund units; leverage within investment funds; operational risk; and securities lending activities of asset managers and funds. The FSB intends to finalize the policy recommendations by the end of 2016, some of which will be operationalized by IOSCO.

Comments Due Date: N/A

Effective Date: N/A

First Reporting Date: N/A

Links: [Comments Received](#), [Consultation Paper](#)

Keywords: *Asset Management, Comments Received, Policy Recommendations*

Report on Corporate Governance in Emerging Markets

- IOSCO

October 03, 2016

Type of Information:
Report

IOSCO published a report that highlights challenges created by poor corporate governance practices and analyzes progress achieved in corporate governance by capital market regulators in the emerging markets. The report also discusses three key areas of corporate governance in detail: board composition, remuneration and incentive structures, and risk management and internal controls.

The report highlights that the regulatory frameworks in the emerging market jurisdictions are generally aligned with the recommendations of the OECD Principles. A broad agreement exists on the direction emerging market regulators should take to improve the quality and accountability of boards, ensure that remuneration and incentive structures are designed to create long-term value, and improve the risk management frameworks and internal controls of corporations. The report also identifies additional initiatives and approaches for improving the implementation of best corporate governance practices, including encouraging greater board diversity and quality reporting of sustainability, social responsibility, and cyber risks. The aim is to align regulatory frameworks with internationally recognized standards.

The report is based on a comprehensive survey across regulators, exchanges, listed companies, institutional investors, and other stakeholders on corporate governance practices in emerging market jurisdictions. This is the first review of its kind by securities regulators on the current corporate governance practices in emerging markets, benchmarked against the revised G20/OECD Principles of Corporate Governance.

Link: [Report on Corporate Governance](#)

Keywords: *Emerging Markets, Governance*

Annual Report on Technical Assistance

- IMF

October 03, 2016

Type of Information:
Report

The IMF published its 2016 annual report on the Technical Assistance program, which describes the efforts of IMF's Monetary and Capital Markets Department (MCM) and its partners to provide the highest quality advice and guidance to member countries across a broad range of topics. The IMF's Technical Assistance aims to address critical needs of IMF member countries in promoting monetary and financial stability and preventing and managing crises, at a time of significant global risks and vulnerabilities.

The report reveals that MCM is working in the core areas of financial regulation and supervision, crisis prevention and management, monetary policy and central bank operations, debt management, and other aspects of financial stability. The report highlights that MCM is responding to the evolving needs of members, including managing the impact of weak commodity prices on exchange rate policies, the need to develop debt management capacity in oil-exporting countries, the shift from compliance based to risk-based financial supervision and Basel II/III implementation, and adapting macro-prudential policies for emerging market economy needs. The report states that the IMF has developed and piloted a new diagnostic instrument, the Financial Sector Stability Review (FSSR). The FSSR helps to identify financial sector vulnerabilities and to formulate and implement financial sector reform programs, supported by intensive follow-up technical assistance. This tool is expected to be rolled out over the coming year.

The report also includes a set of country case studies that illustrate the continued impact of MCM's work and the positive feedback from technical assistance recipients. The report includes case studies on countries such as Ghana, Jamaica, Kyrgyz Republic, Nigeria, the Philippines, Saudi Arabia, Somalia, and Ukraine.

Links: [Annual Report](#), [Technical Assistance: Overview](#)

Keywords: *Emerging Markets, Technical Assistance*

Europe

European Union

Key Developments

Enforcement Priorities for Listed Companies' 2016 Financial Statements

- ESMA

October 28, 2016

Type of Information:
Statement

The European Securities and Markets Authority (ESMA) published its annual Public Statement on European common enforcement priorities. This statement identifies enforcement priorities for the 2016 financial statements of listed companies, and highlights the need for transparency in disclosing the potential impact of Brexit on the financial statements of issuers.

The statement is directed at listed companies and their auditors. It sets out the areas ESMA and national enforcers will focus on when they examine the 2016 financial statements of listed companies to promote a consistent application of IFRS across the EU. The common priorities for the 2016 financial statements include:

- » **Presentation of financial performance.** ESMA stresses the importance of providing investors with clear and high-quality information on financial performance. It urges issuers to ensure transparency and consistency when presenting their performance in the primary financial statements and notes and in the documents accompanying financial statements.
- » **Financial instruments—Distinction between equity instruments and financial liabilities.** ESMA notes that there are cases where the distinction between equity and liability requires significant judgment; it also reminds issuers that the general principle for distinguishing liabilities from equity issued by an entity is whether the entity has an unconditional right to avoid delivering cash or another financial asset to settle the contractual obligation.
- » **Disclosures of the impact of the new standards on IFRS financial statements.** ESMA highlights that some aspects of the new IFRS standards, which come into force at the start of 2018 and 2019, represent a significant change to current standards. They concern Financial Instruments (IFRS 9) Revenue from Contracts with Customers (IFRS 15) and Leases (IFRS 16). These new standards may affect the recognition, measurement, and presentation of assets, liabilities, income, expenses, and cash flows. Consequently, issuers should start preparing for these new standards now.

Additionally, ESMA urges issuers potentially affected by the result of the UK's referendum to leave the EU to assess and disclose the associated risks and expected impact it may have on their business activities. ESMA expects that more information about the impact will become available as the date of Brexit approaches.

ESMA and European national enforcers will monitor and supervise the application of the IFRS requirements outlined in the statement, with national authorities incorporating them into their reviews and taking corrective actions, where appropriate. ESMA will collect data on how European listed entities have applied the priorities and ESMA will report on findings regarding these priorities in its report on the 2016 enforcement activities.

Links: [Press Release](#), [Statement](#)

Keywords: IFRS 9, IFRS 15, IFRS 16

Consultation on the Revised Guidelines on Internal Governance

- EBA

October 28, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The EBA launched a public consultation on its revised guidelines on internal governance. The draft guidelines aim to harmonize the internal governance arrangements, processes, and mechanisms of institutions across the EU. The guidelines also aim to harmonize with the new requirements in this area, introduced in the Capital Requirements Directive (CRD), and take into account the proportionality principle.

These draft guidelines emphasize the duties and responsibilities of the management body in its supervisory function in risk oversight, including the role of their committees. They aim to improve the status of risk management function, enhance the information flow between the risk management function and the management body, and ensure effective monitoring of risk governance by supervisors. The "know-your – structure" and complex structures sections, especially following the "Panama events," have been strengthened to ensure that the management body is aware of the risks that can be triggered by complex and opaque structures and to improve transparency. In addition, the framework for business conduct has been further developed and more emphasis is given to the establishment of a risk culture, a code of conduct, and the management of conflicts of interest. Finally, more guidance is provided about how internal control functions are organized and how internal controls are implemented.

The EBA is updating the guidelines on internal governance, which were originally published on September 27, 2011. This update aims to address the potentially detrimental effects of poorly designed corporate governance arrangements on the sound management of risk.

Comments Due Date: January 28, 2017

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Consultation Paper](#)

Keywords: Corporate Governance, Internal Governance

Consultation the Suitability Assessment Guidelines for Members of the Management Body and Key Function Holders

- EBA/ESMA

October 28, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The EBA and ESMA launched a consultation on suitability assessment guidelines for the members of management body and key function holders. The draft guidelines:

- » Provide a common criteria to assess the individual and collective knowledge, skills, and experience of members of the management body as well as the reputation, honesty, integrity, and independence of the mind of members of the management body
- » Require the management body to commit sufficient time to perform its duties and specify how the number of directorships held by members of the management body should be counted, for significant institutions
- » Explain how different aspects of diversity, educational, and professional background, along with age, gender, and geographic provenance, should be taken into account in the recruitment process
- » Highlight the importance of induction and training to ensure the initial and ongoing suitability of members of the management body and call for institutions to establish training policies and to allocate appropriate financial and human resources to induction and training

The EBA and ESMA jointly issued these guidelines to address poor governance and excessive and imprudent risk-taking in the financial sector. The guidelines are in accordance with the new requirements introduced under the CRD and the Markets in Financial Instruments Directive (MiFID II). The guidelines aim to further improve and harmonize the suitability assessments and ensure sound governance arrangements within the EU financial sector.

Comments Due Date: January 28, 2017

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Consultation Paper](#), [Template: Assessment of Collective Suitability](#)

Keywords: Requirements for Managers, Suitability Assessment

Report on Financial Structures in the Euro Area Financial Sector

- ECB

October 27, 2016

Type of Information: Report

The ECB published a report reviewing the key structural features and developments in the euro area financial sector. The report complements the biannual ECB Financial Stability Review, which focuses on cyclical factors.

The report covers the banking sector (monetary financial institutions or MFIs), insurance corporations and pension funds (ICPFs), and other financial intermediaries (OFIs). OFIs are a part of the wider financial sector, often referred to as the shadow banking sector. In this report, the non-bank financial sector includes non-money market investment funds (non-MMFs), money market funds (MMFs), and financial vehicle corporations (FVCs).

The report contains four chapters, followed by an Annex. First, the report describes the evolution of the overall structure and composition of the financial sector, discusses the role of the financial sector in financing non-financial corporations, and analyzes interconnectedness across different parts of the financial sector to assess possible structural risks to financial stability. It then presents structural developments in the euro area banking sector, providing a wide set of structural information from both a cross-sectional (across banking types, business models) and a time perspective. This is followed by a discussion on structural developments in euro area insurance corporations and pension funds, using publicly available data from the balance sheets of ICPFs and data from the EIOPA. The fourth chapter reviews the structural features of the euro area non-bank financial sector (OFIs), including all other financial intermediaries except ICPFs.

The report uses several publicly available data sources. It uses the ECB-complied annual aggregate banking sector statistics, with input from national authorities. Individual bank-level data are derived from banks' published accounts or information from market data providers. Data on the insurance and pension fund sectors are available from the ECB statistics on balance sheets of ICPFs and from the EIOPA. For the remaining non-bank financial sector, data were used from a number of ECB statistical sources, including from the euro area accounts, the FVCs asset and liabilities statistics, the MFI balance sheet items statistics, and the investment funds' balance sheet statistics.

Links: [Report](#), [Financial Stability Review](#)

Keywords: Financial Structures, MFI, OFI

Issuance of Reporting Instructions for Markets in Financial Instruments Regulation

- ESMA

October 27, 2016

Type of Information: Statement

ESMA issued detailed reporting instructions and XML schemas under its Financial Instruments Reference Data System (FIRDS).

FIRDS covers the Markets in Financial Instruments Regulation (MiFIR) and the Market Abuse Regulation requirements for reference data collection and publication, along with collection and processing of additional data to support the MiFIR transparency regime, among others. The FIRDS provides market participants with additional detailed guidance following the publication of ESMA's final guidelines on transaction reporting under the MiFID II and MiFIR. It should also assist firms in preparing their reporting obligations for the incoming regulations.

Links: [Press Release](#), [MiFIR Reporting Instructions](#), [Guidelines on MiFID II Transaction Reporting](#)

Keywords: FIRDS, MiFID II, MiFIR

Revised Rules for Reporting to Trade Repositories Under the European Market Infrastructure Regulation

- EC

October 26, 2016

Type of Information: Statement

The EC adopted the implementing technical standards (ITS) on the format and frequency of data to be reported to trade repositories under the European Market Infrastructure Regulation (EMIR). The EC adopted changes to the standards, following ESMA's proposal.

The revised standards will be subject to an objection period by the European Parliament and the Council, after which they will be published in the *Official Journal of European Union*. Implementation of these rules will begin nine months after the entry into force of the Regulation; however, the reporting of historic trades will become applicable immediately on publication of this implementing regulation.

EMIR, which regulates derivatives markets, was introduced in 2012 to help monitor the build-up of systemic risk after the financial crisis. EMIR requires all derivatives transactions to be reported to trade repositories. ESMA has been mandated to develop technical standards setting out the details and type of such reporting, including format and timeline for submission.

Links: [News Release](#), [Revised ITS](#), [Annex to ITS](#)

Keywords: EMIR, Reporting, Trade Repository

Work Program for 2017

- EC

October 25, 2016

Type of Information: Statement

The EC published its work program for 2017. The program's focus is on the delivery of 10 priorities outlined in the Political Guidelines; these priority areas address the biggest challenges facing Europe. The work program consists of a political communication (political guidelines) and five annexes:

- » Annex I includes key initiatives to be presented in the year ahead, with focus on actions to implement the 10 political priorities of the Juncker Commission and the Regulatory Fitness and Performance (REFIT) proposals that deliver on the 10 priorities
- » Annex II contains other key REFIT initiatives for which updated and improved legislative proposals are expected in the coming year
- » Annex III lists the priority pending legislative files for which quick action is needed from co-legislators in the European Parliament and Council
- » Annex IV contains a list of intended withdrawals of pending proposals
- » Annex V contains a list of existing legislation that the EC intends to repeal

The work program proposes 21 key initiatives and 18 REFIT programs. The EC also published the REFIT scorecard, a summary of the key elements of the REFIT scoreboard, and detailed information on the first 22 REFIT Platform opinions, along with the way in which the EC intends to follow up to REFIT Platform opinions. The REFIT scoreboard shows the state of play on 231 initiatives for simplifying and reducing administrative burdens in existing legislation. Through its REFIT initiatives, the EC will propose to update the existing legislation to ensure that it remains true to its purpose and delivers intended results, without undue financial and disclosure burdens.

Links: [Press Release](#), [Work Program for 2017](#)

Keywords: REFIT, Roadmap, Work Program

Macro-Prudential Bulletin

- ECB

October 25, 2016

Type of Information: Report

The ECB published the second issue of its *Macro-Prudential Bulletin*, which discusses a wide range of macro-prudential issues and topics.

The Bulletin starts with a discussion on the macro-prudential effects of the EU-wide bank stress testing exercise. It explains how the dynamic response of banks to macro-financial stress and the impact of intra-sector and cross-industry contagion can be captured. The results are translated into second-round macroeconomic effects arising from a shrinking of credit supply. The analysis aims to provide insights into the potential benefits of macro-prudential policy measures.

Then, it provides an analytical approach to gauge developments in banks' risk appetite and behavior, which might call for targeted macro-prudential policy measures. The extent of risk-taking must be inferred from a variety of quantitative and qualitative information sets. The analysis looks at significant institutions as defined by the Single Supervisory Mechanism.

Next, the Bulletin looks at macro-prudential regulatory issues and sheds light on the role of high-frequency quoting and dark pools. This chapter is based on two ECB research papers that investigate the impact of such developments on market volatility in normal and stressed times. The results also provide information on the pros and cons of potential options for regulating high-frequency trading and dark pools. The Bulletin ends with an overview of recent announcements on macro-prudential instruments adopted by national authorities in the euro area.

Link: [Macro-Prudential Bulletin](#)

Keywords: Macro-Prudential Bulletin, Macro-Prudential Policy, Stress Testing

Consultation on Technical Standards on Minimum Requirement for Own Funds and Eligible Liabilities Reporting by Resolution Authorities

- EBA

October 24, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The EBA launched a public consultation on draft ITS on minimum requirements for own funds and eligible liabilities (MREL) reporting by resolution authorities. This consultation concerns reporting of MREL requirements from resolution authorities to the EBA and reporting by institutions to resolution or competent authorities is outside its scope.

The resolution authorities are required to inform the EBA of the MREL requirements that have been set for institutions under their respective jurisdictions. Annex 1 to this paper contains the procedures and templates that resolution authorities are required to use for this reporting. The EBA-proposed common templates cover the overall amount of MREL required from an institution—that is, each of the components of the MREL decision as foreseen in the regulatory technical standards (RTS) on MREL. The authorities must also explain the adjustments made to the default MREL amount.

The ITS provide for a simplified reporting for certain categories of institutions, for which liquidation, rather than resolution, will be the preferred strategy. In those cases, the MREL will only be made of a loss-absorption amount. These standards will help the EBA to monitor the MREL implementation across EU and to assess divergences in the levels of MREL set for comparable institutions across member states.

Comments Due Date: November 21, 2016

Effective Date: N/A

First Reporting Date: N/A

Links: [News Release](#), [Consultation Paper](#), [Annex to Consultation Paper](#)

Keywords: CRR, MREL, Reporting

Response to the European Commission's Consultation on Review of the European Union Macro-Prudential Policy Framework

- ESRB

October 24, 2016

Type of Information:
Statement

The ESRB published its response to the EC's consultation on the review of the EU macro-prudential policy framework. The EC consultation was launched on August 01, 2016. Through this response, the ESRB's General Board intends to outline its priorities. This response discusses key issues related to governance and, macro-prudential tools for banking, along with the need to broaden the macro-prudential toolkit beyond banking.

The response states that the General Board believes in ESRB remaining closely linked with the ECB/ESCB (including the *de jure* chairmanship of the ESRB held by the ECB's President). The General Board should continue to have a broad composition, in line with the ESRB's function, to act as a forum for cooperation among institutions that contribute to preserving financial stability across the EU. The General Board also believes that the ESRB should continue to play a central role in the

- » Dialog among macro-prudential authorities
- » Assessment of the macro-prudential measures, including the assessment of cross-border and cross-sector spillover effects

The response notes that several micro-prudential instruments applicable to banks are also usable as macro-prudential tools, and vice versa. A technical annex to this document discusses the experiences of ESRB members and possible approaches to providing a clarification of objectives and procedures. This response statement emphasized that the reciprocation of national exposure-based measures should become the rule (with exceptions in justified cases). Also, while recognizing that macro-prudential instruments outside banking already exist for selective purposes, there is a general need to establish a comprehensive macro-prudential toolkit beyond banking. In particular, instruments such as margin and haircut requirements for derivatives and securities financing transactions (SFTs), along with the liquidity and leverage requirements for investment funds, should be further investigated; where appropriate, the regulatory framework could also be expanded. Moreover, the design of recovery and resolution regimes for CCPs and insurance corporations should have a macro-prudential profile.

Some proposals outlined in the ESRB's response may require international coordination. This is particularly true in the case of macro-prudential tools to be applied to financial markets and market infrastructure, due to the global nature of the relevant markets. The input set out in this response does not discuss these international aspects. The EC consultation also covers possible changes to powers and duties of macro-prudential authorities and the ECB, within the Single Supervisory Mechanism. These issues have not been discussed in this response, as the input set out here is meant to focus on ESRB priorities.

Links: [ESRB's Response](#), [Consultation Document](#)

Keywords: CRR, CRD IV, Macro-Prudential Policy

Regulation on Technical Standards for Benchmarking Portfolio Assessment and Assessment Sharing Procedures

- EBA

October 24, 2016

Type of Information: Statement

The EC published the Commission Delegated Regulation (CDR) supplementing the CRD IV with regard to the RTS for benchmarking portfolio assessment and assessment sharing procedures.

These assessments shall be based on the results of the calculations of institutions' internal approaches for their exposures or positions that are included in benchmark portfolios, which shall be specified by the EBA. The assessment must be annual and applies to the institutions' internal approaches used for calculating own funds requirements, except for the operational risk. All the provisions in this delegated act relate to the specification of definition of the standards for the assessment.

The provisions also relate to the procedures for sharing these assessments between the competent authorities and with the EBA. The institutions shall submit the results of their calculations, along with an explanation of the methodologies used, to the competent authorities at least annually. The results shall be reported in accordance with the template developed by EBA. The benchmark portfolios, templates, definitions, and IT solutions to be applied in the EU for the reporting have been specified in another set of ITS. This Regulation will become effective from the twentieth day following that of its publication in the *Official Journal of the European Union*.

Links: [Final Rule](#), [Data Submission Deadline for the Benchmarking Exercise](#)

Keywords: Benchmarking, Internal Models

Report on the Review of Large Exposures Regime

- EBA

October 24, 2016

Type of Information: Report

The EBA published a report as a response to the EC's call for advice of April 26, 2016 on the review of the large exposures framework. This report will support the EC in its review of the large exposures framework as part of the overall Capital Requirements Regulation (CRR) review. The report includes recommendations to entrust the EBA with additional mandates to further simplify and harmonize the large exposures regime. This report has been organized into three sections:

- » The first section discusses the impact of aligning certain aspects of the EU large exposures regime with the standards on large exposures produced by the Basel Committee. In this respect, the EBA considers appropriate to strengthen the large exposures capital base by including only tier 1 capital instead of also allowing a proportion of tier 2 capital.
- » The second section deals with the five exemptions identified in the call for advice, which might be currently used by institutions subject to the discretion of competent authorities or member states. The EBA recommends removing three of the five exemptions and, more generally, highlights the importance of reducing exemptions and discretions, where appropriate, to further enhance the alignment with the Basel Committee standards and to achieve consistency across jurisdictions.
- » The third section discusses other aspects that could be aligned to the Basel Committee standards or other issues that require further work and quantifies the impact, where possible. For example, it quantifies the impact of no longer allowing institutions to reduce the exposure values by the value of immovable property used as collateral. Additionally, this section of the report draws attention to the Question and Answers (Q&A) submitted by stakeholders through the EBA Q&A tool; possible errors, inconsistencies, and material issues in the current CRR large exposure text have been identified.

Links: [Press Release](#), [Report](#), [Call for Advice](#), [Q&A Tool](#)

Keywords: CRR, Large Exposures

Speech of ESMA's Verena Ross on Regulatory and Supervisory Developments and Challenges

- ESMA

October 21, 2016

Type of Information: Speech

Verena Ross, ESMA's Executive Director, spoke at the Finanstilsynet 30th Anniversary International Conference. She focused on ESMA's recent work on MiFID II, Capital Market Union (CMU), PRIIPs, and investor protection. The role of disclosures and data quality, along with the importance of supervisory convergence were the key issues in focus.

Issues on disclosures for PRIIPs

Ms. Ross highlighted that packaged retail and insurance-based investment products (PRIIPs) are likely to be one of the most important and visible projects ESMA has been working on. For this project, ESMA is working in close co-operation with EBA and EIOPA (and all national competent authorities). As part of this project, retail investors will see a Key Investor Information Document (KIID) bringing together the key information about potential investments.

Ms. Ross pointed out that some market participants are not convinced by ESMA's suggested way forward; this might be due to concerns about implementation of the Insurance Mediation Directive (IMD). Given the timing of the PRIIPs work, there was a clear need for alignment with MiFID II, but there was also a need to look at the Undertakings for Collective Investment in Transferable Securities (UCITS) Key Information Document (KID) in this context. The European Parliament's Economic and Monetary Affairs (ECON) Committee expressed concerns, which the Parliament followed when deciding to reject the RTSs prepared by the ESAs and to ask for a delay of the implementation deadline. EC must now find a common way forward together with the European Parliament and Council and ESMA will assist the institutions wherever possible. She stressed on "the need for clarity both for investors and market participants on what the world will look like" on January 01, 2017, when the regulation comes into effect.

Need for high-quality data

Ms. Ross highlighted that ESMA has taken first steps to improve the EU-wide data and risk analysis on the securities markets as part of its trends, risks, and vulnerabilities reports. Data are important to assess risks and allow the focus of ESMA's limited regulatory and supervisory resources, at both the national and the European level. In some areas, national authorities already have relevant data, which ESMA can aggregate and benefit from, at the EU level, in a way that does not create additional burden for market participants. In other areas, national-level data are either non-existent or impossible to aggregate. ESMA needs to collect some data, especially from entities such as trade repositories and CRAs, which it supervises.

Ms. Ross revealed that ESMA is entering completely new ground to improve data quality in one area. In the context of the MiFID II implementation, national competent authorities (including the Norwegian FSA) have delegated to ESMA, for the first time, two major data-related IT projects. ESMA will provide a central facility in relation to reference and trading data and the calculation of the comprehensive MiFIR transparency parameters. This project will allow ESMA to collect data in a more efficient and harmonized manner across Europe and to publish all transparency parameters and reference data on financial instruments in one go. Furthermore, the project requiring ESMA to connect to hundreds of trading venues across the EU is on track and is planned to go live in January 2018, coinciding with the application of MiFID II. This will make ESMA a key part of European market infrastructure, as firms will need to consult ESMA's website regularly for data and information for the entire EU.

Link: [Speech](#)

Keywords: KIID, PRIIPs, Reference Data

Updates to Single Rulebook Q&A: Published as Final Q&A in October 2016

- EBA

October 21, 2016

Type of Information: Q&A

The updates for October include 12 answers dated October 21, 2016; 15 answers dated October 14, 2016; and two answers dated October 07, 2016. Last month's updates included six answers dated September 30, 2016; three answers dated September 16, 2016; and 21 answers dated September 09, 2016.

The overall objective of the Questions and Answers (Q&A) tool is to ensure consistent and effective application of the new regulatory framework across the Single Market. Institutions, supervisors, and other stakeholders can use the Single Rulebook Q&A tool for submitting questions on CRD IV, CRR, and the related technical standards developed by the EBA and adopted by the EC.

Link: [Q&A](#)

Keywords: CRD IV, CRR, Single Rulebook

Report on the Feasibility of a European Credit Rating Agency

- EC

October 19, 2016

Type of Information: Report

The EC published a report that discusses the feasibility of establishing a credit ratings agency (CRA) in Europe. The EC also responds to the reporting obligations set out in the CRA Regulation.

The report highlights the EC's belief that no feasible alternatives exist to entirely replace the external credit ratings. This is based on the analysis of references to external credit ratings in EU legislation and in private contracts among parties in financial markets. Potential alternatives to external credit ratings that are used by market participants in the EU were also assessed.

Moreover, the Commission does not think it is appropriate to extend CRA Regulation provisions to other financial products. The report assessed the impact and effectiveness of the CRA Regulation's measures concerning competition in the credit rating industry. It evaluated the impact of the CRA Regulation on governance and internal procedures of CRAs, particularly the prevention of conflict of interests and the use of alternative remuneration model. The provisions related to structured finance instruments and their potential extension to other asset classes were also analyzed.

The EC also considered the feasibility of establishing a European CRA for the assessment of sovereign debt and a European credit rating foundation for all other credit ratings. It assessed many key provisions introduced in the last amendment of the CRA regulation. The Commission considers there to be no need, at present, for a European CRA specialized in sovereign debt or for other credit ratings. It believes that the establishment of such common agencies would be likely to add more costs than any additional value to the rating market in practice.

The report draws from the Technical Advice of ESMA on reducing sole and mechanistic reliance on external credit ratings; the study conducted by ICF Consulting Services on the feasibility of alternatives to credit ratings; the ESMA Technical Advice on competition, choice, and conflict of interest in the credit rating industry; and the study conducted by Europe Economics on the state of the credit rating market. While preparing these documents, stakeholders were extensively consulted through workshops, questionnaires, and interviews.

Links: [Report](#), [CRA Regulation](#), [ESMA's Technical Advice on Reducing Reliance on External Ratings](#), [Alternatives to Credit Ratings](#), [Technical Advice on Conflicts of interest in Credit Rating Industry](#), [Study on State of Credit Ratings Market](#)

Keywords: *Alternatives to Credit Ratings, CRA Regulation*

Guidelines on Remuneration Practices Under UCITS and AIFMD

- ESMA

October 14, 2016

Type of Information: Guideline

ESMA published two sets of guidelines on sound remuneration, one under UCITS (UCITS Remuneration Guidelines) and the other one under the Alternative Investment Fund Manager Directive or AIFMD (AIFMD Remuneration Guidelines):

- » **UCITS Remuneration Guidelines** provide clarity on the requirements under the UCITS Directive for management companies when establishing and applying a remuneration policy for key staff. These guidelines aim to ensure a convergent application of these provisions and provide guidance on the governance of remuneration, requirements on risk alignment, and disclosure.
- » **AIFMD Remuneration Guidelines** amend the current guidelines on sound remuneration policies under the AIFMD (ESMA/2013/232). The amendment relates to the section of these guidelines dealing with the application of the remuneration rules in a group context and is intended to acknowledge the potential outreach of the CRD rules in a banking group.

The national competent authorities are required to notify ESMA about whether they comply or intend to comply with the guidelines, with reasons for non-compliance, within two months. Based on this information, ESMA will publish a compliance table. The guidelines have been translated into the 23 official languages of the EU and will apply from January 01, 2017. ESMA had published its final report on guidelines on sound remuneration policies under the UCITS Directive and AIFMD in March of this year.

Links: [News Release](#), [UCITS Remuneration Guidelines](#), [AIFMD Remuneration Guidelines](#), [Final Report](#)

Keywords: *AIFMD, Remuneration, UCITS*

Speech of EC Vice President on Building a Deeper Single Market for Asset Managers

- EC

October 13, 2016

Type of Information: Speech

The EC Vice President Valdis Dombrovskis spoke at the European Asset Management Congress in Paris. He discussed the EC's approach to maintaining a dynamic, competitive, and safe asset management sector in the EU. He also mentioned some actions that the EC is considering to eliminate barriers to cross-border investment, promote competition, and offer consumers more protection, information, and choice.

While highlighting the success of the EU asset management industry, Mr. Dombrovskis stated that over 30,000 UCITS existed in 2016 with assets worth nearly EUR 8 trillion while 27,000 alternative investment funds (AIFs) were managing over EUR 5 trillion of assets. He believes that there remains an untapped potential for asset managers in the Single Market and unleashing this potential is part of EC's work to build the Capital Markets Union. He pointed out that the EC had launched a public consultation on cross-border distribution of investment funds on June 02, 2016. The EC is now analyzing the responses and considering the options (including making legislative changes to the AIFMD and UCITS legislation) to improve the existing European passport regime for investment funds. He emphasized that the formal regulatory fees in each member state is a clear barrier and also highlighted the barriers associated with varying domestic market rules across 28 European regimes.

As part of the Capital Markets Union, the EC is also working to strengthen Europe's venture capital markets to increase scale, diversity, and choice. In July 2016, the EC proposed a reform to the European Venture Capital and European Social Entrepreneurship funds. This will facilitate opening up these funds to larger asset managers and broadening the range of eligible investments. Additionally, EC wants the CMU to provide more options for people who want to save for their retirement. To this end, the EC launched a public consultation on the potential EU personal pension framework in July 2016. Mr. Dombrovskis also added that EC is committed to reviewing all existing financial services legislation to check if it is working as intended and is as growth friendly as possible. In this context, the EC is expecting to publish a detailed assessment by the end of the year.

Mr. Dombrovskis discussed the inconsistency between legislation governing UCITS and the EMIR, as highlighted in the Call for Evidence on asset segregation, which was published by ESMA on July 15, 2016. UCITS legislation predates EMIR and does not differentiate between derivatives that go through central clearing and those that do not. UCITS funds' investments in less risky cleared derivatives are unduly limited, which goes against the EMIR's objectives. In this regard, Mr. Dombrovskis said that the EC understands that not being able to use cash proceeds from repo transactions to post margins for cleared derivative transactions is too rigid an approach. Hence, the EC has asked ESMA to look into these concerns further.

The EC Vice President also highlighted that the money market funds are a good example of legislation that should be adopted. EC is hopeful that an agreement on money market funds can be reached by the end of the year. EC's goal is to strike the balance between making money market funds more resilient while securing their role in financing Europe's economy. The EC is also fully engaged in the work of the FSB to identify structural vulnerabilities in the asset management sector that could pose a systemic risk. EC is looking forward to this work being completed by the end of the year. He also added that the EC will address the remaining weaknesses to keep regulatory burden to a minimum.

He also revealed that much has been done in the recent years to strengthen consumer protection, increase transparency, and give consumers the information and certainty they need to invest. Legislation on PRIIPs was a part of this push. Its goal was to enable investors to compare products more easily through the KIDs. It would introduce common standards for presenting information for a wide range of investment products. EC will also ask the ESAs to look at the transparency of long-term retail investment and pension products and to perform an analysis of their actual net performance and fees.

Links: [Speech](#), [Consultation on Cross-Border Distribution of Investment Funds](#), [Proposal on EuVECA](#), [Call for Evidence on Asset Segregation](#)

Keywords: Asset Management, Single Market, UCITS

Work Program for 2017

- EBA

October 12, 2016

Type of Information: Statement

The EBA published its detailed multi-annual and annual work programs. The EBA introduced a multi-annual strategy in the 2016 work program, which has been reshaped for 2017–2020.

The multi-annual work program highlights the key strategic areas of work for the years 2017 to 2020 and defines work under seven strategic areas and 38 activities. Each strategic area is complemented with annual work program activities that detail the tasks to be delivered within the year and the resources needed to deliver these tasks. The annual work program for 2017 describes the activities and tasks describes the EBA's strategic areas of activity, expected results, and outputs. As part of the seven strategic areas for 2017–2020, the EBA plans to:

- » Continue to play a central role in developing and maintaining the Single Rulebook for banking in the EU
- » Promote efficient and coordinated crisis management of credit institutions, investment firms, and FMI's in the EU
- » Promote convergence of supervisory methodologies and practices to a high standard, to ensure that regulatory and supervisory rules for going concern and crisis situations are implemented consistently across the EU
- » Identify and analyze trends, potential risks, and vulnerabilities stemming from the micro-prudential level across borders and sectors
- » Maintaining and developing the common supervisory reporting framework as well as acting as the EU data hub for the collection, use, and dissemination of data on EU banks
- » Protect consumers, monitor financial innovation, and contribute to easy retail payments in the EU
- » Be a competent, responsible, and professional organization with effective corporate governance and efficient processes

Moreover, EBA's priority areas for 2017 include liquidity and leverage ratio; credit risk and credit risk modeling; recovery planning and early intervention; promoting convergence; and improving the framework for protection of consumers and monitoring of financial innovation.

In addition to the 2017 priority areas, the EBA expects a considerable number of legislative reforms from EC; these reforms will affect the work planned for 2017, which includes the review of the CRR and the consequence of the Basel Committee's revision of the trading book, the implementation of the TLAC requirements in the EU prudential regulatory framework, the fundamental review of the trading book (FRTB), further work related to proportionality in the regulatory framework, and changes to the securitization framework in the context of the CMU. This additional work will require a reprioritization exercise in light of the budget and resource constraints. Hence, the EBA intends to expand its ability to collect supervisory data from the EU competent authorities to capture the overall EU banking sector, which would significantly improve its analysis of the impact of regulation and enhance its transparency work.

Links: [Press Release, 2017 Work Program](#)

Keywords: Work Program

Updated Questions and Answers on Application of Undertakings for the Collective Investment in Transferable Securities Directive

- ESMA

October 12, 2016

Type of Information: Q&A

ESMA published an updated Q&A document on the application of the Undertakings for the Collective UCITS Directive. The Q&A includes four new questions and answers on:

- » Regulated markets in member states under the UCITS Directive
- » Translation requirements in relation to the remuneration disclosure
- » Reinvestment of cash collateral
- » Commencement of periodical reporting pursuant to Article 13 of the Securities Financing Transactions Regulation (SFTR)

The Q&A document is intended to promote common supervisory approaches and practices in the application of the UCITS Directive and its implementing measures. It offers responses to questions posed by the general public and competent authorities in relation to the practical application of the UCITS framework.

Links: [News Release, Q&A on Application of UCITS Directive, Overview of UCITS and AIFMD](#)

Keywords: SFTR, UCITS

Reminder of Key dates for Data Submission for the 2017 Benchmarking Exercise of Internal Approaches

- EBA

October 12, 2016

Type of Information:
Statement

The EBA published a reminder to competent authorities of the key dates for submission of data for the 2017 benchmarking exercise for internal approaches for credit and market risk. Such benchmarking exercises are expected to play a crucial role in improving comparability of capital requirements calculated using internal approaches.

However, it is to be noted that the Commission's endorsement of the amended version of the Implementing Technical Standards (ITS) on benchmarking of internal approaches for running the 2017 exercise is still pending. The ITS on benchmarking of internal approaches will allow supervisors and the EBA to run the 2017 exercise based on the data requirements specified in the amended standards, which the EBA submitted to the EC on August 04, 2016. The amendments were necessary to update the portfolios to be covered in the assessment. The 2017 exercise will cover market risk and credit risk for the low default portfolios (large corporate, sovereign, and financial institutions).

All EU institutions using internal approaches to calculate capital requirements are required to submit to their respective competent authority the relevant data (as of December 31, 2016) according to the deadlines specified below:

- » **Market risk.** Submission date for Initial Market Valuation figures to national competent authorities is November 04, 2016 and for risk measures data (including VaR/sVaR/IRC/APR/P&L time series) is April 11, 2017.
- » **Credit risk.** Submission date for low default portfolio figures to national competent authorities is April 11, 2017.

Links: [News Release](#), [RTS and ITS on Benchmarking Portfolios](#), [Overview of Data Collection and Risk Analysis by EBA](#)

Keywords: Benchmarking, Internal Models

Technical Standards Related to Credit Assessments of External Credit Assessment Institutions

- EBA

October 12, 2016

Type of Information:
Regulation

Regulatory Status: Final Rule

The Commission Implementing Regulations (CIR) (2016/1799 to 2016/1801) on technical standards related to credit assessments of external credit assessment institutions (ECAIs) were published in the *Official Journal of the European Union*:

- » **CIR 2016/1799** lays down ITS on the mapping of credit assessments of ECAIs for credit risk. The Annex I to this regulation contains tables on short-run and long-run default rate benchmarks for each credit quality step. Annex II addresses the reference meaning of a rating category that corresponds to each credit quality step and Annex III contains the tables for mapping credit assessments of ECAIs.
- » **CIR 2016/1800** lays down ITS on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps in accordance with Solvency II. The allocation of credit assessments has been set out in the Annex to this regulation.
- » **CIR 2016/1801** lays down ITS on the mapping of credit assessments of ECAIs for securitization, in accordance with the CRR. Annex 1 contains the mapping table under the standardized approach while Annex 2 contains the mapping table under the ratings-based method.

Comments Due Date: N/A

Effective Date: November 01, 2016

First Reporting Date: N/A

Links: [CIR 2016/1799](#), [CIR 2016/1800](#), [CIR 2016/1801](#)

Keywords: Credit Assessment, Credit Mappings, CRR, CRD IV

Final Guidelines on Corrections to Modified Duration for Debt Instruments

- EBA

October 11, 2016

Type of Information:
Guideline

The EBA published guidelines on corrections to the modified duration for debt instruments.

The CRR establishes two standardized methods to compute capital requirements for general interest rate risk (IRR): the maturity-based calculation and the duration-based calculation. These guidelines are relevant for institutions applying the duration-based calculation. To appropriately reflect the effect of the prepayment risk, these guidelines establish two approaches to correct the modified duration calculation (as defined according to the formulae in the CRR):

- » **The first approach** treats the debt instrument with embedded optionality as if it were a combination of a plain vanilla bond and an option.
- » **The second approach** proposes to directly calculate the change in value of the whole debt instrument subject to prepayment risk.

The guidelines also require computation of additional adjustments to reflect the negative convexity as well as transaction costs and, where relevant, behavioral factors that may affect the modified duration of the debt instrument. These guidelines are expected to contribute toward successful implementation of EC's securitization package under the CMU reform, giving clarity on the matter to credit institutions.

Link: [Press Release](#)

Keywords: CRR, IRR, Modified Duration

Updated List of Correlated Currencies

- EBA

October 11, 2016

Type of Information:
Statement

The EBA updated the list of closely correlated currencies according to the procedure and methodology laid down in the ITS for closely correlated currencies. The list was originally published in December 2013 and updated in May 2015. The list is part of the ITS drafted for calculating the capital requirements for foreign exchange risk according to the standardized rules.

Currencies are considered to be closely correlated if they meet the specific criteria set out in Article 354 of the CRR (Regulation No 575/2013). Positions in currency pairs that are deemed to be closely correlated are subject to lower capital requirements.

Links: [News Release](#), [Updated List of Correlated Currencies](#), [ITS on Closely Correlated Currencies](#)

Keywords: Correlated Currencies, CRR, Foreign Exchange Risk

Work Program for 2017

- ESMA

October 11, 2016

Type of Information:
Statement

ESMA published its 2017 Work Program, which sets out its priorities and areas of focus for 2017, in support of its mission to enhance investor protection and promote stable and orderly financial markets. The key areas of focus under ESMA's activities of supervisory convergence, assessing risks, single rulebook, and direct supervision will be:

- » Converging supervisory practices on the implementation of MiFID II/MiFIR
- » Focusing on data quality
- » Level 2 work on the Benchmarks Regulation and on various initiatives under the umbrella of the CMU
- » Directly supervising CRA and trade repositories, with focus on their ancillary activities, given the trend of combining ancillary and core services

The 2017 work program reflects the shift in focus of ESMA's work, from building the single rulebook, toward ensuring its consistent application across the EU, as outlined in its 2016-2020 Strategic Orientation.

Links: [Press Release](#), [2017 Work Program](#)

Keywords: Work Program

Updated Q&A Financial Contracts for Difference and Other Speculative Products

- ESMA

October 11, 2016

Type of Information: Q&A

ESMA published an updated version of its Q&A on application of the MiFID to the marketing and sale of financial contracts for difference (CFDs) and other speculative products to retail clients (such as binary options and rolling spot forex). Five new questions and answers in sections 6 to 9 had been added to the Q&A document and these address the following topics:

- » Use of trading benefits when offering CFDs or other speculative products
- » Withdrawal of funds from trading accounts
- » Use of leverage when offering CFDs or other leveraged products to retail clients
- » Best execution obligations for firms offering CFDs or other speculative products to retail clients

The complexity of CFDs and other speculative products means it may be difficult for the majority of retail investors to understand the risks involved although they are widely advertised to the retail mass market by a number of firms, often via online platforms. There is also a considerable degree of cross-border activity across Europe in these products. Many competent authorities have concerns about the protection of investors in this area. The purpose of the Q&A is to promote common supervisory approaches and practices in the application of MiFID and its implementing measures to key aspects that are relevant when CFDs and other speculative products are sold to retail clients.

In addition to these Q&A, ESMA will also consider the need for any further work in light of MiFID II requirements that will enter into application in 2018. Although the Q&A are targeted at competent authorities, they are also intended to help firms by providing clarity on MiFID rules.

Links: [Press Release](#), [Q&A](#)

Keywords: *CFD, Investor Protection, Speculative Products*

Briefing on Upgrading Basel Standards From Basel III to Basel IV

- European Parliament

October 10, 2016

Type of Information:
Briefing

The European Parliament published a briefing on upgrading the Basel standards from Basel III to Basel IV. It is prepared by the Economic Governance Support Unit in advance of ECON's Open Coordinators and Banking Union Working Group meeting to be held on October 12, 2016 with Mr. Bill Coen, Secretary General of the Basel Committee.

The briefing describes the evolution of the Basel framework since the first standards were enacted, along with the ongoing revisions of the Basel III framework. The key findings of various impact assessments are also discussed, in addition to the different positions of various stakeholders.

Links: [Notification](#), [Briefing on Upgrading the Basel Standards](#)

Keywords: *Basel III, Basel IV, Impact*

Q&A on Investor Protection Under Market in Financial Instruments Directive and Regulation

- ESMA

October 10, 2016

Type of Information: Q&A

The ESMA published Q&A on the implementation of investor protection topics under the MiFID II/ MiFIR. The Q&A provides clarifications on the following topics:

- » Best execution
- » Recording telephone conversations and electronic communications
- » Record keeping
- » Investment advice on an independent basis
- » Underwriting and placement of a financial instrument
- » Inducements (research)

The Q&A is intended to promote common supervisory approaches and practices in the application of MiFID II/MiFIR for investor protection topics. It provides responses to questions posed by the general public, market participants, and competent authorities in relation to the practical application of MiFID II/MiFIR requirements. This Q&A document is intended to be continually edited and updated as new questions are received. The date on which each section was last amended is included in the Q&A document for ease of reference.

MiFID II and MiFIR will enter into application on January 03, 2018 and will strengthen the protection of investors by introducing new requirements and strengthening the existing ones.

Links: [Press Release](#), [Q&A](#)

Keywords: *Investor Protection, MiFID II, MiFIR*

Update on Monitoring of Additional Tier 1 Instruments

- EBA

October 10, 2016

Type of Information:
Statement

The EBA published the proposed standardized templates for additional tier 1 (AT1) instruments, along with the final report on the monitoring of AT1 instruments.

The objective of the standardized templates for AT1 is to cover the prudential provisions of the AT1 issuances. They contain essential and optional provisions concerning in particular flexibility of payments, permanence, and loss absorbency and are based on the most commonly observed loss absorption mechanisms. The use of these templates would bring a certain level of security to the issuing institutions as the templates are perceived to reflect the expectations of the supervisory community on the practical implementation of the provisions laid down in the CRR, the RTS, and Q&A, based on the experience gained with the observations of issuances already made in the EU market. The proposed templates are not legally binding and their use is optional. For institutions that decide not to use these templates, the concerned issuances (existing and future) would not be considered as non-compliant with regulatory requirements.

The final report includes new provisions on triggers, calls/repurchases/redemptions, tax events, and gross-up provisions and on conversion and write-down mechanisms. This is the second update to the report after the May 29, 2015 update and is based on the review of 33 AT1 issuances from EU institutions, which took place between August 2013 and December 2015, for an amount of EUR 35.5 billion.

In accordance with Article 80 of the CRR on the continuing review of the quality of own funds, the EBA shall monitor the quality of own funds instruments issued by institutions across the EU. Hence, the CRR 575/2013 lays down eligibility criteria for AT1 instruments (in particular Articles 51 to 55). These criteria are supplemented by the CDR 241/2014 (RTS on own funds). Several AT1 instruments have now been issued by European institutions in accordance with these criteria.

Links: [Press Release](#), [Final Report](#), [Standardized Templates for AT1](#), [Interactive Single Rulebook](#), [CDR 241/2014](#), [Standards and Guidelines on Own Funds](#)

Keywords: AT1, CRR, Reporting

Guidance on Transaction Reporting, Order Record Keeping and Clock Synchronization Under Markets in Financial Instruments Directive and Regulation

- ESMA

October 10, 2016

Type of Information:
Guideline

ESMA issued the final guidelines regarding the implementation of the transaction reporting, order record keeping, and clock synchronization under the MiFID II/MiFIR. It also issued the final report setting out the feedback ESMA received to its December 2015 consultation on these topics (transaction reporting, order record keeping, and clock synchronization). The guidelines are designed to ensure consistency in the application of the reporting and order record keeping requirements across EU member states and they include:

- » **General principles to apply to transaction reporting and order record keeping.** They provide high level approaches and further guidance on specific legislative provisions on transaction reporting and order record keeping, for example, the meaning of transaction, the concepts of "order" and "member or participants of a Trading Venue".
- » **Reporting and record keeping scenarios for various trading scenarios.** Trading scenarios include transaction reporting resulting from transmissions of orders, grouped orders, and the provision of Direct Electronic Access; and order record keeping in the case of central limit order books and request for quotes systems.
- » **Reporting specific financial instruments.** Most examples are focused on derivatives given that these financial instruments have a more complex reporting pattern.
- » **Clock synchronization clarifications.** Further guidance provided on specific legislative provisions; for example, the concepts of "reportable events" and "gateway-to-gateway latency."

These guidelines aim to provide guidance to investment firms, trading venues, and approved reporting mechanisms in order to prepare them for compliance with their reporting and order record keeping obligations well in advance of their entry-into-force in 2018. The guidelines provide examples of transaction reports and of the order data records. Each example is accompanied by samples of XML messages to be used to represent the expected reportable values.

The national competent authorities, to whom the guidelines apply, should comply by incorporating them into their supervisory practices, including where particular guidelines in the document are directed primarily at financial market participants. National competent authorities must also notify ESMA about whether they comply or intend to comply with the guidelines, with reasons for non-compliance, within two months of publication of the guidelines in the 23 official languages of the EU.

The guidelines will be supplemented by related technical documents on reporting instructions, which are expected to be published by the end of October 2016. These technical documents will include the transaction reporting validation rules specifying the criteria of acceptance of transaction reports by the national competent authorities and conditions under which fields are not applicable and should not be populated. These technical documents will also include the XML schemas of the candidate ISO 20022 messages.

Links: [Press Release](#), [Guidelines](#), [Final Report](#)

Keywords: MiFID II, MiFIR, Reporting

Assessment of the Impact of Market-Making and Leverage Ratio Requirement on Market Liquidity

- ESRB

October 06, 2016

Type of Information: Report

The European Systemic Risk Board (ESRB) published the following reports investigating the impact of market-making and leverage ratio requirement on market liquidity:

Market Liquidity and Market-Making

This report investigates the issue of a significant decline in market liquidity and its impact on financial income markets. It presents new evidence focusing on the supply of liquidity services by market-makers. The analyses reveal mixed evidence of developments in market liquidity, as the results vary by asset market and the market liquidity indicator used. For asset classes other than corporate bonds, gross and net inventories have either increased or remained unchanged. However, for European corporate bond markets, gross and net inventories have declined since 2010, possibly indicating a reduced ability or willingness of market-makers to act as intermediaries in these markets. Moreover, compared with the growth in outstanding amounts of corporate bonds, market-makers' inventories have decreased even more. The findings from the ESRB's data collection are consistent with market-based measures of liquidity.

To obtain this information, the ESRB conducted a quantitative data collection exercise, in addition to a qualitative survey with the largest market-makers operating in Europe. A significant information gap was observed in terms of financial reporting in the EU. This information gap hampers a full assessment of the level of market liquidity and any related systemic risks.

Preliminary investigation into the potential impact of a leverage ratio requirement on market liquidity

This report offers results of the preliminary analyses on the potential positive and adverse effects of a leverage ratio requirement on market liquidity. This preliminary analysis suggests there may be some costs associated with the leverage ratio for broker dealers, but that there are also expected to be benefits: the leverage ratio may help to ensure that banks can sustain the provision of services that are important to market liquidity, particularly taking account of stressed periods. The analysis presented in this paper should be the starting point for future and deeper theoretical and empirical investigation into whether the leverage ratio will affect market liquidity.

The report also highlights that recent discussions on the introduction of a leverage ratio have focused on whether financial markets have become less liquid or more prone to episodes of severe illiquidity. Some market participants and observers point to the post-crisis regulatory reform as having affected the supply of liquidity and intermediation services by broker-dealers in a significant way. The leverage ratio, which has already been introduced in some key jurisdictions (Switzerland, the UK, and the U.S.), has come under criticism for constraining broker-dealers' balance sheets, particularly with respect to low-margin business such as SFTs. It is difficult to comment currently on whether the introduction of the leverage ratio (or a particular calibration of it) is likely to significantly affect the future state of market liquidity. The ESRB's 2015 data collection exercise is an important source of data for this analysis.

Leverage ratio is an important part of the post-crisis regulatory framework and is expected to be introduced as a Pillar 1 standard by January 01, 2018. In its recommendation on the intermediate objectives and instruments of macro-prudential policy, the ESRB identified the prevention of excessive credit growth and leverage as one intermediate objective of macro-prudential policy and noted that a macro-prudential leverage ratio instrument could contribute to achieving this intermediate objective.

Links: [Report on Market-Making](#), [Report on Impact of Leverage Ratio on Market Liquidity](#), [Basel III Leverage Ratio Framework](#), [ESRB Recommendations](#)

Keywords: Leverage Ratio, Market Liquidity

Updated Q&A on Application of the Alternative Investment Fund Managers Directive

- ESMA

October 06, 2016

Type of Information: Q&A

ESMA published an updated Q&A document on application of the AIFMD.

The Q&A includes an additional question and answer on the commencement of periodical reporting pursuant to Article 13 of the SFTR for the Alternative Investment Fund Managers (AIFMs). This Q&A is intended to promote common supervisory approaches and practices in the application of the AIFMD and its implementing measures.

Links: [Press Release](#), [Q&A on AIFMD](#), [AIFMD](#), [SFTR](#)

Keywords: AIFMD, Reporting, SFT

Consultation on the Guidelines on Assessment of Information and Communication Technology Risk

- EBA

October 06, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The EBA launched a consultation for guidelines on the assessment of the information and communication technology (ICT) risk in the context of the Supervisory Review and Evaluation Process (SREP). These guidelines set the context and scope of the ensuing assessment of ICT risk, in addition to addressing the:

- » Competent authorities' expectations about management of ICT risks at the senior management level and the management body level
- » Assessment of an institution's ICT strategy and its alignment with the business strategy
- » Assessment of an institution's ICT risk exposures and the effectiveness of controls

These guidelines are addressed to competent authorities and aim at promoting common procedures and methodologies for the assessment of ICT risk. The draft guidelines build on the existing references to ICT risk in the EBA SREP guidelines, which provide the scope and methodology for assessment of ICT risk in an institution. The assessment in these guidelines feeds into the EBA SREP methodology and these guidelines should be read along with the EBA SREP guidelines. A public hearing has been scheduled for these guidelines on October 22, 2016.

Comments Due Date: January 06, 2017

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Consultation Paper](#), [Guidelines for Common Procedures and Methodologies for SREP](#)

Keywords: Cyber Risk, ICT Risk, SREP

Keynote Speech on Actions Toward Building a Single Capital Market in Europe by the EC Vice President

- EC

October 05, 2016

Type of Information: Speech

While addressing the Securities Industry and Financial Markets Association (SIFMA) in New York, the European Commission (EC) Vice President Valdis Dombrovskis spoke about EC's activities on building a single capital market in Europe and on its approach to international rulemaking in the banking sector. Setting out the first set of actions EC proposed over the past year, he asserted that these should be agreed by the end of the year:

- » To amend the prudential regime for insurers to make it cheaper for them to invest in infrastructure projects
- » To make Europe's prospectus regime simpler, faster, and cheaper to make it easier for companies to tap public markets
- » To restart securitization markets in Europe by defining simple, transparent, and standardized securitizations and by reducing associated capital requirements
- » To strengthen Europe's venture capital markets and support socially minded investment

Mr. Dombrovskis highlighted that, in the coming months, EC is expected to revise the CRR and CRD. The aim is "legislation that supports financial stability, but allows banks to lend and support investment in the wider economy." EC is focused on supporting investment and it wants to avoid changes that would lead to a significant increase in the overall capital requirements for the European banking sector. This position of EC has received a strong backing from all EU countries in July and is in line with the Basel Committee's aim to not significantly increase overall capital requirements. Internationally, Europe would like to see Basel measures that consider the individual banks' situations and maintain a risk-sensitive approach to setting capital requirements. Different banks have different business models that involve different levels of risk. This needs to continue to be recognized to preserve a diverse financial landscape.

Mr. Dombrovskis emphasized that the EC is committed to implementing the agreed international standards for G-SIBs. It will soon propose legislation to implement the TLAC requirement, ensuring that this fits in with Europe's existing MREL. He highlighted his hope that the ongoing TLAC application in the U.S. will be done keeping in mind the situation of foreign banks operating in the U.S. He considers that this is important for maintaining a level playing field across both jurisdictions.

Mr. Dombrovskis concluded his speech by highlighting that Europe and the U.S. have a long-standing and strategic partnership. Although differences arise in their respective approaches to an issue, these differences are insignificant compared to the values and shared interests uniting both. Finally, he reiterated Europe's commitment to working with the U.S. to face the common challenges and help financial sectors remain competitive in the global economy.

Link: [Speech](#)

Keywords: International Rulemaking, Single Market

Consultation on Requirements for the Management of Trading Venues and Reporting Services Providers

- ESMA

October 05, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

ESMA launched a consultation on draft guidelines further detailing the implementation of the MiFID II. These guidelines contain provisions that the management bodies of market operators and data reporting services providers will have to apply, once MiFID II enters into force.

The MiFID II requirements aim to ensure that the management body and each of its individual members are suitable to ensure sound and prudent management of the firms as well as exercise effective responsibility for the activities undertaken by these firms. This consultation is closely linked to the consultation paper on Joint (EBA and ESMA) Guidelines on the assessment of suitability of members of management bodies and key function holders under CRD IV and MiFID II, which will be published shortly. ESMA expects to finalize the guidelines and publish a final report in the first half of 2017.

Comments Due Date: January 05, 2017

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Consultation Paper](#)

Keywords: MiFID II, Requirements for Managers, Suitability Assessment

Report on Securities Financing Transactions, Leverage, and Procyclicality

- ESMA

October 04, 2016

Type of Information: Report

ESMA issued a report on SFTs, leverage, and procyclicality in the EU financial markets, under Article 29(3) of the SFTR. ESMA created this report in cooperation with the EBA and the ESRB and obtained information from various sources. However, the granular supervisory data are lacking, which will only become available once the SFTR data reporting obligation begins in 2018. As part of the contribution to this report, EBA input focused on measures to address the build-up of leverage under banking regulation, including from SFTs. Additionally, ESRB's input is in the form of an opinion to ESMA on SFTs and leverage and was also published on October 04, 2016.

The report assesses whether the use of SFTs leads to the build-up of leverage, which is relevant from a financial stability perspective and is not yet addressed by the existing SFTR. It also examines ways to tackle such build-up and whether there is a need to take further measures to reduce the procyclicality. In this report, ESMA recommends to:

- » Introduce the FSB's qualitative standards in the methodology used to calculate haircuts in non-centrally cleared SFTs
- » Address the procyclicality of collateral haircuts in CCPs in the context of the EMIR review
- » Assess the possible extension of the FSB's scope for numerical haircut floors, particularly to government bonds, and the calibration of these floors using SFTR data
- » Assess procyclicality and the potential need for further policy tools once sufficient data becomes available

Article 29(3) of the SFTR requires the EC to submit this report to the European Parliament and the Council of the EU by October 13, 2017. Against this background, ESMA was required to submit a report to the EC, to the European Parliament, and to the Council by October 13, 2016. The SFTR aims to increase the transparency of shadow banking activities. It will require both financial and non-financial market participants to report details of their SFTs to an approved EU trade repository. These details will include the composition of the collateral, whether the collateral is available for reuse or has been reused, the substitution of collateral at the end of the day, and the haircuts applied.

SFTs allow market participants to access secured financing. SFTs involve the temporary exchange of cash against securities, or securities against other securities, such as securities lending, repurchase transactions, buy-sell/sell-buy back transactions, or margin lending transactions. SFTs also contribute to the build-up of leverage in the financial system, which is relevant from a financial stability perspective. A leveraged financial system can be vulnerable to "runs," generate contagion risk, and increase procyclicality.

Links: [Press Release](#), [Report](#), [SFTR](#)

Keywords: Leverage, Procyclicality, SFT, Shadow Banking

Opinion on Securities Financing Transactions and Leverage

- ESRB

October 04, 2016

Type of Information:
Opinion

The ESRB published its opinion to ESMA on SFTs and leverage, under Article 29(3) of the SFTR. The opinion focuses on issues relevant from a macro-prudential perspective and considers both centrally cleared and non-centrally cleared transactions in its assessment. This opinion forms the ESRB's contribution to ESMA's report on SFTs, leverage, and pro-cyclicality in the EU financial markets, which was released on October 04, 2016.

The opinion outlines economics of centrally and non-centrally cleared SFTs, discusses structure of the SFT market, describes how the use of SFTs can lead to a build-up of significant leverage, outlines the systemic risks posed by procyclicality and financial leverage, and discusses the regulatory framework of FSB. The Opinion also describes the views of a few members who take a different position on some elements presented in the opinion presents the conclusions and proposals for both non-centrally and centrally cleared transactions.

In preparing this opinion, the ESRB has been mindful of its task to monitor and assess potential systemic risks to the EU financial system that may result from the impairment of all or components of the EU financial system. The ESRB has also been mindful of international efforts to mitigate the risks posed by SFTs, in line with Article 29(3) of the SFTR. To this end, the ESRB has taken the FSB framework for minimum haircuts on non-centrally cleared SFTs as a starting point when assessing ways of implementing a regulatory framework in the EU. Although an extension of the FSB framework has been considered in certain areas, namely with respect to centrally cleared transactions, the opinion does not consider extensions to different asset classes.

Links: [Opinion](#), [SFTR](#)

Keywords: *Leverage, SFT, Shadow Banking*

Final Guidelines on Implicit Support for Securitisation Transactions

- EBA

October 03, 2016

Type of Information:
Guideline

The EBA published its final guidelines on implicit support for securitization transactions. These guidelines clarify what constitutes arm's length conditions and specify when a transaction is not structured to provide support for securitizations.

The final guidelines have been developed pursuant to Article 248 of the CRR, which lays down restrictions on sponsor institutions and originator institutions providing support to securitizations beyond their contractual obligations. These guidelines will contribute toward successful implementation of the Commission's securitization package under the CMU reform, offering clarity on the matter to credit institutions.

The CRR sets out restrictions on the provision of implicit support to securitizations, as this raises supervisory concerns and undermines the achievement of significant risk transfer. If originator or sponsor institutions fail to comply with the relevant requirements, they shall, at a minimum, hold own funds against all of the securitized exposures as if such exposures had not been securitized. These guidelines, which consider the feedback received during the public consultation, should be read in conjunction with the guidelines on significant risk transfer for securitization transactions.

Links: [Press Release](#), [Final Guidelines for Securitisation Transactions](#), [Guidelines on Significant Risk Transfer](#)

Keywords: *CRR, Implicit Support, Securitization*

Italy

Key Developments

A Macro-Prudentially Coherent Approach for Integrating Stress Tests Within the Basel III Capital Framework

- Bol

October 17, 2016

Type of Information:
Research

The Banca D'Italia (BoI) published a paper on integrating stress tests within the Basel III capital framework. A key point to be noted here is that, in the post-crisis era, banks' capital adequacy is established by the Basel III capital standards and, in many jurisdictions, also by supervisory stress tests. This paper:

- » Describes the ways in which supervisory stress tests can supplement the RBC framework of Basel III and how this could be codified with a stress test buffer
- » Argues that to ensure coherence with the macro-prudential objectives of Basel III, the severity of supervisory stress tests should be procyclical
- » States that to increase the transparency and predictability of the overall capital framework, severity choices should follow a constrained discretion approach based on a simple rule

The authors analyzed supervisory stress testing practices across some jurisdictions. The analyses revealed that while the U.S. and the UK frameworks are in line with some of the elements of the proposal, including most notably the need for procyclical severity, this is not the case in the euro area.

Link: [Occasional Paper](#)

Keywords: *Basel III, Stress Testing, Stress Testing Buffer*

United Kingdom

Key Developments

Announcement of the Quarterly Statistical Release of Aggregate Regulatory Capital Data

- PRA

October 31, 2016

Type of Information:
Statement

An article announcing the launch of a new quarterly statistical release of aggregate regulatory capital data was published on December 16, 2016.

The quarterly release will present recent developments in levels of capital and RWAs since the first quarter of 2014 for the UK banking sector; it will also cover more detailed breakdowns of the movements in different tiers of capital and risk exposure types. The aggregates will be compiled using data on levels of capital and RWAs as reported under CRD IV.

From December 2016, the Bank of England will publish quarterly statistical releases of capital ratios and aggregates compiled using EU Basel regulatory reports/Common Reporting (COREP) data. The releases will be accompanied by a spreadsheet of the data contained in the release, with a time series going back to the first quarter of 2014. It is expected that the content of this release, and the range of releases of aggregated data and indicators, will be expanded over time.

Link: [Notification](#)

Keywords: *Capital Data, COREP, Statistics*

Feedback to Responses to the Consultation Paper on the Implementation of Markets in Financial Instruments Directive II

- PRA

October 27, 2016

Type of Information:
Statement

The PRA published a policy statement (PS29/16) that provides feedback to responses to the consultation paper titled "Implementation of MiFID II: Part 1" (CP9/16). PS29/16 sets out final rules based on the responses received to CP 9/16.

The policy statement enumerates the most important issues raised by respondents and notes the main areas in which the PRA has amended the rules proposed in the consultation. This policy statement contains final rules to transpose the MiFID II legislative package for the extension of scope and harmonization of the MiFID passporting regime in the passporting part of the PRA Rulebook. It also provides the final rules for systems and controls for firms that undertake algorithmic trading and provide direct electronic access to trade venues in the new Algorithmic Trading part of the PRA Rulebook.

This statement has been designed in the context of the current UK and EU regulatory framework. The PRA will keep this policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the EU take effect. ESMA has consulted on draft RTS and ITS for both passporting and algorithmic trading under MiFID II. The EC has already adopted the draft RTS relevant to the rules in this policy statement.

Subject to there being no substantial change to the text of the standards published in the *Official Journal of the European Union*, which would result in substantive changes to the rules, the PRA shall insert the instrument numbers and commence the rules in the appendices to this policy statement. This policy statement will be updated at that point with the finalized instruments. The PRA may also make further changes to the rules without further consultation to give effect to the text of the final standards adopted by the EC.

Links: [Notification](#), [PS29/16](#), [PRA Rulebook: Passporting Instruments, 2016](#), [PRA Rulebook: Algorithmic Trading Instruments, 2016](#)

Keywords: *Algorithmic Trading, MIFID II, Passporting Regime*

Summary of Feedback Received on Pillar 2 Liquidity Consultation

- PRA

October 18, 2016

Type of Information:
Statement

The PRA released a statement summarizing the feedback received on the consultation paper CP21/16 on Pillar 2 liquidity. The consultation was launched on May 12, 2016 while the comments were due by August 12, 2016. The statement makes a number of points related to the:

- » **Level of application.** Some respondents to the consultation suggested that Pillar 2 requirements should be set at the lowest relevant level of application. If consolidated requirements are set, respondents asked that high-quality liquid assets that are considered trapped and are held against add-ons at lower levels of application should be taken into account when sizing the consolidated requirement.
- » **Disclosure of Pillar 2 requirements.** Respondents broadly agreed with the proposed approach to the disclosure of Pillar 2 requirements.
- » **Debt buyback risk.** Most respondents welcomed the PRA's approach to assessing debt buyback risk, in particular the proposal to take account of the need to maintain debt eligible for minimum requirement for own funds and eligible liabilities. Some respondents noted that they have a clear policy not to buyback debt, even in a stress situation.
- » **Early termination of non-margined derivatives.** Some respondents questioned the need to set add-ons for potential early termination of non-margined derivatives, given the declining materiality of the risk, with the move to margining and central clearing of derivatives.
- » **Intraday liquidity.** Respondents had mixed views on the proposed use of the mean of daily maximum net debits to size intraday liquidity needs.

This statement on feedback does not provide the final policy proposals. The PRA is expected to publish a second consultation covering a range of risks outlined in the consultation paper (mid-2017 on current PRA plans). The second consultation paper to be published in 2017 will include a cost-benefit analysis on the entire proposed Pillar 2 framework. Until all Pillar 2 framework proposals are finalized, a cost-benefit analysis cannot be completed; therefore, finalized proposals cannot be put forward. The feedback received on CP21/16 will feed into a cost-benefit analysis and final PRA policy proposals, which will be published in the second consultation paper.

Links: [Statement on Feedback, CP21/16](#)

Keywords: CP 21/16, CRR, Pillar 2 Liquidity

Proposed Changes to the Prudential Regulation Authority Rulebook

- PRA

October 11, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The PRA published an occasional consultation paper that sets out proposed changes to the PRA Rulebook, existing and new supervisory statements. Parts of the occasional consultation paper in which changes have been proposed are as follows:

- » Regulatory Reporting part and draft supervisory statement "Supervising international banks: the Prudential Regulation Authority's approach to branch supervision – liquidity reporting" (Chapter 2)
- » Own Funds, Group Supervision, and Insurance Company Capital Resources parts (Chapter 3)
- » Supervisory Statement SS13/13 "Market Risk" (Chapter 4)
- » Ring-fenced Bodies and Notifications parts, and the Rulebook Glossary (Chapter 5)
- » Credit Unions part and Supervisory Statement SS2/16 "The prudential regulation of credit unions" (Chapter 6)
- » External Audit part (Chapter 7)
- » Administration instrument (Appendix 12)

The policy contained in this consultation has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including changes arising once any new arrangements with the EU take effect. This consultation is relevant to all PRA-authorized firms.

Comments Due Date: October 25, 2016 (Administration Instrument); December 12, 2016 (Chapter 5); January 11, 2017 (Chapters 2,3,4,6,7)

Effective Date: N/A

First Reporting Date: N/A

Links: [Notification, CP 36/16](#)

Keywords: CP 36/16, PRA Handbook

Middle East & Africa

Saudi Arabia

Key Developments

Staff Report and Selected Issues Report in the Context of 2016 Article IV Consultation

- IMF

October 13, 2016

Type of Information: Report

The IMF published its staff report (cr16326) and selected issues report (16327) in the context of the 2016 Article IV consultation with Saudi Arabia.

The staff report revealed that Saudi Arabian Monetary Agency (SAMA) has implemented the Basel III RBC regulations, and that its prudential regulations are compliant with the standards prescribed under the Basel framework. An aggregate large exposure limit of 400% of capital has been introduced while single borrower exposure limits are being reduced from 25% of capital to 15% by 2019. Moreover, capital surcharges for domestic systemically important banks are being introduced in 2016, with an aim to strengthen financial regulation and supervision.

The staff report highlighted that the crisis management framework is also being strengthened. A deposit insurance scheme has been introduced (it is funded by levies on banks and will protect deposits up to SAR 200,000), a draft of the bank resolution framework legislation is being discussed, and a framework for emergency liquidity provision is being designed and tested by SAMA. Additionally, SAMA has been working with Saudi banks to manage the implications of "de-risking." While Saudi banks have a comfortable number of correspondent banking relationships, SAMA is nevertheless concerned about the potential for the withdrawal of correspondent banking relationships to adversely affect Saudi banks. Therefore, SAMA had been active in bringing domestic banks together with major foreign banks and regulators to make sure they are clear about home supervisor requirements and ensure that channels of communication are open. The report states that shadow banking has been defined as being outside the regulatory perimeter, as its size is relatively small in Saudi Arabia.

Overall, good progress has been made in implementing the recommendations of the 2011 Financial Sector Assessment Program (FSAP) Update (see Appendix V of the staff report). These recommendations addressed the areas of banking and securities; system stability; expanding access to finance and preserving financial stability; and insurance, institutional investors, and capital markets. An FSAP Update has been requested by the authorities for 2017.

The selected issues report discusses the way forward in the areas of public-private partnerships and privatization, growth in a low oil price environment, and the possible options and their potential implications for financing the fiscal deficit in Saudi Arabia.

Links: [Staff Report](#), [Selected Issues Report](#)

Keywords: Article IV Consultation, FSAP

Americas

United States of America

Key Developments

Implementation of the Qualified Financial Contracts Recordkeeping Related to Orderly Liquidation Authority

- U.S. Agencies

October 31, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The Financial Stability Oversight Council (the "Council") is adopting the final rule, in consultation with the Federal Deposit Insurance Commission (FDIC), to implement the qualified financial contract (QFC) recordkeeping requirements of the Dodd Frank Act. The final rule requires recordkeeping with respect to positions, counterparties, legal documentation, and collateral. This information is necessary and appropriate to assist the FDIC as receiver to perform the following tasks:

- » Fulfill its obligations under the Dodd-Frank Act in deciding whether to transfer QFCs
- » Assess the consequences of decisions to transfer, disaffirm or repudiate, or allow the termination of, QFCs with one or more counterparties
- » Determine if the transfer, disaffirmance or repudiation, or termination of QFCs pose any risks to financial stability
- » Exercise its rights under the Dodd-Frank Act and fulfill its obligations under sections 210(c)(8), (9), or (10) of the Dodd-Frank Act (wherever necessary)

Comments Due Date: N/A

Effective Date: December 30, 2016

First Reporting Date: N/A

Link: [Final Rule](#)

Keywords: QFC, Recordkeeping, Resolution

Establishment of the Office of Innovation for Implementing a Responsible Innovation Framework

- OCC

October 26, 2016

Type of Information: Statement

The Office of the Comptroller of the Currency (OCC) announced the establishment of the Office of Innovation. This office will be dedicated to responsible innovation and will implement a formal framework to improve the agency's ability to identify, understand, and respond to financial innovation affecting the federal banking system. The Office of Innovation is expected to begin operations in the first quarter of 2017.

The Office of Innovation will be headed by a Chief Innovation Officer assigned to the OCC Headquarters, with a small staff located in Washington, New York, and San Francisco. To support implementation of the framework, the agency has named Beth Knickerbocker as the acting Chief Innovation Officer. The office will be the central point of contact and clearinghouse for requests and information related to innovation. It will also implement other aspects of the OCC's framework for responsible innovation, which include:

- » Establishing an outreach and technical assistance program for banks and nonbanks
- » Conducting awareness and training activities for OCC staff
- » Encouraging coordination and facilitation
- » Establishing an innovation research function
- » Promoting interagency collaboration

The OCC will continue its assessment of granting a special purpose national bank charter to nonbank financial technology companies. The OCC has made no determination regarding chartering of these firms. Later this year, the OCC plans to publish a paper discussing the issues associated with establishing a special purpose charter and it plans to seek comments on this paper.

Links: [News Release](#), [Implementing a Responsible Innovation Framework](#)

Keywords: Fintech, Office of Innovation

Comments Sought on Enhanced Cyber Risk Management Standards

- U.S. Agencies

October 26, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The U.S. agencies (the FED, the OCC, and the FDIC) issued an advanced notice of proposed rulemaking on the enhanced cyber risk management standards.

These standards apply to large and interconnected entities under the supervision of these U.S. agencies, along with those entities' service providers. The agencies are considering establishing enhanced standards to increase the operational resilience of these entities and reduce the impact on the financial system in case one of these entities experience a cyber-event. The proposal addresses five categories of cyber standards: cyber risk governance; cyber risk management; internal dependency management; external dependency management; and incident response, cyber resilience, and situational awareness.

The agencies are considering implementing the enhanced standards in a tiered manner, imposing more stringent standards on the systems of those entities that are critical to the functioning of the financial sector. The agencies are considering applying the enhanced standards to certain entities with consolidated assets of USD 50 billion or more on an enterprise-wide basis. Each agency would apply these standards to large institutions subject to their jurisdiction. Thus, the FED is considering applying the enhanced standards on an enterprise-wide basis to all U.S. bank holding companies with consolidated assets of USD 50 billion or more, the U.S. operations of foreign banking organizations with U.S. assets of USD 50 billion or more, and all U.S. savings and loan holding companies with consolidated assets of USD 50 billion or more. The FED is also considering applying the enhanced standards to nonbank financial companies (NBFCs) supervised by the FED and to financial market utilities (FMUs) designated by FSOC (designated FMUs). Other financial entities, including community banks that are not covered entities, would continue to be subject to existing guidance, standards, and examinations related to the provision of banking services by third parties.

Comments Due Date: January 17, 2017

Effective Date: N/A

First Reporting Date: N/A

Link: [Proposed Rule](#)

Keywords: Cyber Risk, FMU, NBFC

Proposal on Restrictions on Qualified Financial Contracts; Revisions to the Definition of Qualifying Master Netting Agreement and Related Definitions

- FDIC

October 26, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The FDIC proposed to add a new part to its rules to improve the resolvability of systemically important U.S. banking organizations and systemically important foreign banking organizations. This will enhance the resilience and the safety and soundness of certain state savings associations and state-chartered banks that are not members of the FED (state non-member banks) for which the FDIC is the primary federal regulator (together, referred to as the FSIs, or FDIC-supervised institutions). The proposal would also amend the definition of "qualifying master netting agreement" in the FDIC's capital and liquidity rules, and certain related terms in the FDIC's capital rules. These proposed amendments are intended to ensure that the regulatory capital and liquidity treatment of QFCs to which a covered FSI is party would not be affected by the proposed restrictions on such QFCs.

Under the proposal, covered FSIs would be required to ensure that covered QFCs to which they are a party provide that any default rights and restrictions on the transfer of the QFCs are limited to the same extent as they would be under the Dodd-Frank Act and the Federal Deposit Insurance Act. In addition, covered FSIs would generally be prohibited from being party to QFCs that would allow a QFC counterparty to exercise default rights against the covered FSI based on the entry into a resolution proceeding under the Federal Deposit Insurance Act, or any other resolution proceeding of an affiliate of the covered FSI. Additionally, the requirements to amend the definition of "qualifying master netting agreement" are substantively identical to those contained in the notice of proposed rulemaking issued by the FED on May 3, 2016 regarding "covered entities", and the notice of proposed rulemaking issued by the OCC on August 19, 2016, regarding "covered banks."

The proposed rule is intended to promote the financial stability of the U.S. by reducing the potential that resolution of a G-SIB, particularly through bankruptcy, will be disorderly. The proposed rule will help meet this policy objective by more effectively and efficiently managing the exercise of default rights and restrictions contained in QFCs. It would therefore help mitigate the risk of future financial crises and imposition of substantial costs on the U.S. economy. Additionally, the proposal would likely benefit the counterparties of a subsidiary of a failed G-SIB by preventing the disorderly failure of the subsidiary and enabling it to continue to meet its obligations. Preventing the mass exercise of QFC default rights at the time the parent or other affiliate enters resolution proceedings makes it more likely that the subsidiaries or other affiliates will be able to meet their obligations to QFC counterparties. Moreover, the creditor protections permitted under the proposal would allow any counterparty that does not continue to receive payment under the QFC to exercise its default rights, after any applicable stay period. The proposal would materially reduce the risk to the financial stability of the U.S. that could arise from the failure of a G-SIB by enhancing the prospects for the orderly resolution of such a firm, and would thereby materially reduce the probability and severity of financial crises in the future.

The costs of the proposed rule are likely to be relatively small and only affect twelve covered FSIs. Covered FSIs and their counterparties are likely to incur administrative costs associated with drafting and negotiating compliant QFCs which are likely to be small relative to the revenue of the organizations affected by the proposed rule, and to the costs of doing business in the financial sector.

The FDIC anticipates that covered FSIs would likely share resources with its parent G-SIB and G-SIB affiliates (which are subject to parallel requirements) to help cover compliance costs. The stay-and-transfer provisions of the Dodd-Frank Act and the Federal Deposit Insurance Act are already in force, and the International Swaps and Derivatives Association (ISDA) Protocol is already partially effective for the 23 existing G-SIB adherents.

Comments Due Date: December 27, 2016

Effective Date:

First Reporting Date: N/A

Link: [Proposed Rule](#)

Keywords: Clearing, Resolution, QFC

Identification of Key Priorities by Secure Payments Task Force

- FED

October 25, 2016

Type of Information: Statement

The FED's Secure Payments Task force identified key priorities and is seeking comments on the way the 160-member task force is addressing the challenges related to the three identified priority areas. These areas are payment identity management, data protection, and information sharing related to payments risk and fraud. The goal is to help ensure that the solutions being pursued will meet industry needs.

The survey will be open for comments until November 08, 2016. The work groups created by the Secure Payments Task Force to focus on the three priority areas are led by payments industry experts:

- » Nancy O'Malley, Executive VP, MasterCard, who heads the Payment Identity Management Work Group
- » Reed Luhtanen, Senior Director Payments Strategy, Walmart, who heads the Data Protection Work Group
- » Glen Ulrich, Operations Executive, U.S. Bank, who heads the Information Sharing Work Group

For each priority area, work group members have been meeting to document the current environment, the attributes of a more effective environment, the desired outcomes in each area, and the barriers to implementation of recommended solutions. Todd Aadland, the FED's Payments Security Strategy Leader, chairs the Secure Payments Task Force and stressed the importance of industry participants sharing their opinions as the effort moves forward.

The Secure Payments Task Force is one of two FED-convened task forces working to improve the payment system. The other is focused on identifying approaches for implementing safe and ubiquitous faster payment capabilities in the U.S.

Link: [Press Release](#)

Keywords: *Fintech, Secure Payments*

Interdisciplinary Approach to Financial Stability Analysis

- OFR

October 21, 2016

Type of Information: Speech

Richard Berner, the Director of the Office of Financial Research (OFR), spoke in New York at the Conference on the New Pedagogy of Financial Regulation. He discussed the interdisciplinary approach to financial stability analysis.

Mr. Berner discussed the development of an OFR-wide initiative last year, which identifies core programs (concentration areas) that align OFR's priorities to its mission. Each program is staffed with an interdisciplinary team of data scientists, researchers, lawyers, IT professionals, and others. This programmatic approach initially encompassed eight programs for coordinating the work on data, research, and analysis and this number is expected to increase over time.

Three of these programs aim at improving the quality, scope, and accessibility of financial data. The fourth program identifies, assesses, measures, and monitors risks in CCPs. The fifth program focuses on developing and improving OFR monitoring tools. The sixth program evaluates and assesses how to improve stress tests for banks, nonbanks, and entire system. The seventh program assesses and measures risks arising from changes in market structure, including from the spread of algorithmic and high-frequency trading, and how these changes affect market function and liquidity. The eighth program evaluates risks in financial institutions, specifically bank capital and liquidity regulation, including their unintended consequences, conflicts, and complementarities. Mr. Berner added that these programs have the potential to help policymakers in enhancing resilience of the financial system. Their success hinges on an interdisciplinary approach within the OFR and with collaborators across the global financial system as OFR continues to develop, implement, and refine these programs.

Talking about stress testing program, Mr. Berner said, "At the OFR, we are required by statute to evaluate stress tests and similar tools. We are engaged in extensive dialogue to obtain access to the data used to conduct stress tests, and to suggest ways to improve them, including for nonbank institutions and system-wide risk assessment." Some key areas of OFR research related to stress testing include better ways to consider risk propagation or contagion in stress testing. He also highlighted that OFR has published several research papers on stress testing, including on selecting stress test scenarios. These papers use variants of Monte Carlo methods, which simulate uncertain scenarios to determine the distributions (including the tails) of outcomes. Another OFR paper published extended techniques from engineering to quantify fundamental economic uncertainty and applied the method to an example of portfolio stress testing.

Link: [Speech](#)

Keywords: *Financial Regulation, Financial Stability Analysis, Stress Testing*

Speech of Governor Tarullo on Pedagogy and Scholarship in a Post-Crisis World

- FED

October 21, 2016

Type of Information: Speech

Daniel K. Tarullo, the FED Governor, spoke at the Conference on the New Pedagogy of Financial Regulation in New York. He spoke on the prudential aspects of financial regulation and made few observations about teaching and scholarship from the broadened perspective of financial regulation.

Mr. Tarullo noted that, in approaching regulatory reform after the crisis, both the official sector and academics have focused more on the financial system as a whole. From the "New Deal" through the crisis, the nature and scope of regulation was determined by the categorization of financial actors. If an entity was classified as a bank or a broker-dealer or an investment company, it was subject to a regulatory regime fashioned to deal with the risks associated with that form of intermediation or, the risks that were perceived to be so associated. Such an approach always provided for legal discussions, since forms of intermediation that served similar purposes and carried broadly similar risks might be subject to quite different regulatory constraints. However, when nonbank forms of intermediation began to threaten traditional bank intermediation and when, in what was at least partly an effort to maintain the franchise value of commercial banks, strictures on bank activities and affiliations were significantly relaxed, the foundation of the New Deal regime was substantially eroded. With the exception of an increased emphasis on capital, which was micro-prudential in focus, the prudential regime was not shored up or extended to other kinds of intermediaries, much less replaced (a signal failure that contributed to the severity of the crisis).

The Governor emphasized that the FED will probably continue to build on a form-based regulatory regime, though the potential range of complementary function-based measures could be quite extensive. He added that at least analyses based on function rather than form can be valuable heuristic exercises for identifying inconsistencies and lacunae in the financial regulatory system. A first set of questions raised by system-wide perspective on financial regulation follows from just an identification of gaps in the regulatory system. The gaps are arguably most troubling when a financial intermediary or activity may contribute to risk in the financial system because of the related positions or activities of others.

Two critical gaps highlighted by the crisis were the inadequate prudential regulation of the most systemically important financial institutions and the sometimes nonexistent prudential regulation of the many activities now denominated as shadow banking. Mr. Tarullo added that the systemically important financial institution issue has received the most public attention, often in the context of too-big-to-fail concerns. It was at the center of some of the most notable provisions of the Dodd-Frank Act, many of which follow from the important principle enunciated in section 165 that prudential regulation should become increasingly stringent for institutions of greater systemic importance. He also stressed that teaching and scholarship should highlight the systemically important financial institution problem, appraise the regulatory approach toward such institutions since the crisis, and consider alternatives. Mr. Tarullo also mentioned that fewer measures are needed under the approach taken in the Dodd-Frank Act and related regulatory actions will be a little challenging. Some measures, including stress testing, capital requirements, and resolution planning, are still in pipeline; other measures may be forthcoming as a result of the research program that the FED is launching to consider the potential for additional explicitly macro-prudential features in capital and liquidity stress testing.

The next set of questions raised pertains to the appropriate target once a need for regulation have been established. Mr. Tarullo believes that it is useful to distinguish the three possible targets of regulation, that is, specific financial institutions, financial business models, and financial transactions. He added that most financial regulation, historically and contemporaneously, falls within the business model regulation. Instead, the FED Governor suggested a taxonomy that would categorize regulation as targeted at a specific institution based on characteristics of that institution, not simply because of its business model. Thus, a nonbanking firm is designated as systemically important by the FSOC, under the authority of the Dodd-Frank Act. This designation is assigned because the size, portfolios, activities, and other characteristics of the firm meet the statutory standard of nonbank systemic importance. Similarly, the determination of the capital surcharge applicable to systemically important financial institutions is made on the basis of the particular "systemic footprint" of the firm.

Finally, a transaction-based requirement is one that would be binding on anyone involved in such a transaction, regardless of their status as a particular kind of financial intermediary. An example would be the minimum margining requirements on SFT that have been agreed to at the FSB, which the FED will be proposing through a rulemaking next year. A particular firm may be a target under two, or all three, approaches. However, it is important to identify clearly why a regulation is deemed necessary and how it should be targeted. In a framework set forth by Mr. Tarullo, for example, institution-specific measures may be thought of as those needed to protect financial stability even though a firm is already subject to business model regulation. Additionally, a transaction-based measure may be thought of as one needed to protect financial stability regardless of whether all entities that might engage in such a transaction need to be regulated because of the risks associated with their business models.

Link: [Speech](#)

Keywords: Activity Based Regulation, Financial Regulation, Shadow Banking, Stress Testing

Updates to Reporting Forms FR Y-10 and FR Y-14Q

- FED

October 17, 2016

Type of Information:
Statement

The FED updated the reporting forms FR Y-10 and FR Y-14Q, along with the instructions for reporting.

FR Y-10 covers data on organizational structural changes for the reportable companies while FR Y-14Q collects detailed data on the various asset classes and capital components of bank holding companies and intermediate holding companies, and the categories of pre-provision net revenue (PPNR) on a quarterly basis.

Links: [FR Y-10 Form](#), [FR Y-10 Instructions](#), [FR Y-14Q Form](#), [FR Y-14Q Instructions](#)

Keywords: FR Y-10, FR Y-14Q, Reporting

Updates to Reporting Forms FR Y-6/7/10 and FFIEC 102

- FED

October 14, 2016

Type of Information:
Statement

The FED published updates to the reporting forms FR Y-6, FR Y-7, FR Y-10, and FFIEC 102 on its website. For FR Y-6, FR Y-7, and FR Y-10, the FED updated the Office of Management and Budget (OMB) supporting statement, along with draft forms and instructions, while for FFIEC 102, the final notice was posted.

Links: [Reporting Forms Webpage](#), [Updated Supporting Statement \(FR Y-6/7/10\)](#), [Form FR Y-6](#), [Form FR Y-7](#), [Form FR Y-10](#), [FR Y-6 Instructions](#), [FR Y-7 Instructions](#), [FR Y-10 Instructions](#), [Final FED Notice: FFIEC 102](#)

Keywords: FR Y-6, FR Y-7, FR Y-10, FFIEC 102, Reporting

Clearing Requirement Determination for Interest Rate Swaps

- CFTC

October 14, 2016

Type of Information:
Regulation

Regulatory Status: Final
Rule

The Commodity Futures Trading Commission (Commission or CFTC) adopted an amendment to the regulations on expanding the existing clearing requirement for interest rate swaps pursuant to section 2(h) of the Commodity Exchange Act.

The amended regulation requires that interest rate swaps denominated in certain currencies and having certain termination dates (as described in the final rule) be submitted for clearing to a derivatives clearing organization. This organization must be registered under the Commodity Exchange Act or must have exemption from registration under this Act.

The CFTC Chairman Timothy G. Massad highlighted that the Commission's first clearing requirement which was adopted in 2012, applied to interest rate swaps denominated in four currencies—U.S. dollar, Euro, British sterling, and Japanese yen. Since then, the interest rate swap clearing requirement has been expanded to include interest rate swaps denominated in the Australian dollar, Canadian dollar, Hong Kong dollar, Singapore dollar, Mexican peso, Norwegian krone, Polish zloty, Swedish krona, and Swiss franc.

Comments Due Date: N/A

Effective Date: December 13, 2016

First Reporting Date: N/A

Link: [Final Rule](#)

Keywords: Clearing, Interest Rate Swaps

Rules to Modernize Information Reported by Funds, Enhance Liquidity Risk Management, and Permit Swing Pricing

- SEC

October 13, 2016

Type of Information:
Regulation

Regulatory Status: Final
Rule

The Securities and Exchange Commission (SEC) voted to adopt changes to enhance liquidity risk management by open-end funds, including mutual funds and exchange-traded funds. These changes are designed to promote effective liquidity risk management across the open-end fund industry and will enhance disclosure regarding fund liquidity and redemption practices. The SEC also voted to adopt the swing pricing rule and changes to modernize and enhance the reporting and disclosure of information by registered investment companies. The new rules are part of the SEC's initiative to enhance its monitoring and regulation of the asset management industry.

The reporting modernization rules will enhance data reporting for mutual funds, exchange-traded funds and other registered investment companies. With these rules, registered funds will be required to file new monthly (Form N-PORT) and annual (Form N-CEN) reporting forms that will require census-type information. The information will be reported in a structured data format, which will allow the SEC and the public to better analyze the information. The rules also will require enhanced and standardized disclosures in financial statements and will add new disclosures in fund registration statements relating to a fund's securities lending activities.

The liquidity risk management rules are designed to promote effective liquidity risk management for mutual funds and exchange-traded funds, reducing the risk that funds will not be able to meet shareholder redemptions and mitigating potential dilution of the interests of fund shareholders. The new rules will require mutual funds and exchange-traded funds to establish liquidity risk management programs that address multiple elements, including classification of the liquidity of fund portfolio investments and a highly liquid investment minimum. The rules also strengthen the 15% limit on illiquid investments and will require enhanced disclosure regarding fund liquidity and redemption practices. Additionally, mutual funds will be allowed to use swing pricing, which is the process of adjusting a fund's net asset value to pass on to purchasing or redeeming shareholder costs associated with their trading activity.

The new rules and forms will be published on the SEC's website and in the *Federal Register*. Most funds would be required to begin filing reports on new Forms N-PORT and N-CEN after June 1, 2018 while fund complexes with less than a USD 1 billion in net assets would be required to begin filing reports on Form N-PORT after June 1, 2019.

Comments Due Date: N/A

Effective Date: June 01, 2018 and June 01, 2019

First Reporting Date: N/A

Link: [Press Release](#)

Keywords: Asset Management, Liquidity, Reporting

Proposed Amendment to the Definition of Covered Clearing Agency

- SEC

October 13, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The SEC proposed to amend the definition of "covered clearing agency" under Rule 17Ad-22. The proposed definition is that the covered clearing agency is a registered clearing agency that provides the services of a CCP, central securities depository, or a securities settlement system. The SEC also proposed a definition of securities settlement system and proposed to amend the definitions of central securities depository services to facilitate the proposed amendment to covered clearing agency.

In addition, the SEC proposed to amend the definition of sensitivity analysis under Rule 17Ad-22 to expand the scope of covered clearing agencies subject to requirements. These amendments are proposed pursuant to Section 17A of the Exchange Act and the Clearing Supervision Act, enacted in Title VIII of the Dodd-Frank Act.

In developing these proposed amendments, the SEC staff consulted with the FSOC, the CFTC, and the FED. The SEC also considered the relevant international standards as required by Section 805(a)(2)(A) of the Clearing Supervision Act. The relevant international standards for CCP, central securities depository, and securities settlement systems are the Principles for Financial Market Infrastructures (PFMI).

Comments Due Date: December 12, 2016

Effective Date: N/A

First Reporting Date: N/A

Link: [Proposed Rule](#)

Keywords: Covered Clearing Agencies, PFMI

Final Standards for Covered Clearing Agencies

- SEC

October 13, 2016

Type of Information:
Regulation

Regulatory Status: Final
Rule

The SEC is adopting amendments to Rule 17Ad-22 and adding new Rule 17Ab2-2 pursuant to Section 17A of the Exchange Act and the Clearing Supervision Act, enacted in the Dodd-Frank Act. These amendments aim to establish enhanced standards for operation and governance of clearing agencies that are registered with the SEC and meet the definition of a covered clearing agency. The compliance date for these amendments will be April 11, 2017.

To facilitate the addition of new Rule 17Ad-22(e), the SEC is amending existing Rule 17Ad-22(d) to limit its application to clearing agencies other than covered clearing agencies and revising Rule 17Ad-22(a) to add 14 new definitions. The SEC is also adopting new Rule 17Ad-22(f) to codify the SEC's statutory authority under Section 807(c) of the Clearing Supervision Act and new Rule 17Ab2-2 to establish procedures for making determinations regarding covered clearing agencies.

In developing these rules, the SEC staff has consulted with the FSOC, the CFTC, and the FED. The SEC has also considered the relevant international standards as required by Section 805(a)(2)(A) of the Clearing Supervision Act. The relevant international standards for designated clearing agencies and complex risk profile clearing agencies are the PFMI.

Comments Due Date: N/A

Effective Date: December 12, 2016

First Reporting Date: N/A

Link: [Final Rule](#)

Keywords: Covered Clearing Agencies, PFMI

Speech of Governor Lael Brainard on the Implications of Distributed Ledger Technology for Payments, Clearing, and Settlement

- FED

October 07, 2016

Type of Information: Speech

At the Institute of International Finance's Annual Meeting Panel on Blockchain in Washington DC, the FED Governor Lael Brainard discussed the potential for distributed ledger technology, or blockchain, to transform the way financial market participants transfer, store, and maintain ownership records of digitized assets. This speech is a follow-up to an earlier speech given by Ms. Brainard on the use of distributed ledger technologies in payments, clearing, and settlement in April 2016.

The FED Governor stated that the FED has established a working group that is engaged in a 360-degree analysis of financial innovation, drawing on engagement with industry stakeholders and on expertise from across the FED. She highlighted that the payments systems is an important area of oversight, "where technology changes are viewed through the prism of our responsibilities for promoting the safety and efficiency of the payments and settlements systems; supervising financial institutions engaged in payments, clearing and settlement; and safeguarding financial stability." To illustrate the potential of distributed ledger technologies to improve payments, clearing, and settlement, Ms. Brainard briefly discussed use cases in the areas of cross-border payments and trade finance, securities markets, and commodities and derivatives.

A related development is the potential coupling of distributed ledger protocols with self-execution and self-enforcement of contractual clauses, using the smart contracts. "For example, for a corporate bond with a specified par value, tenor, and coupon payment stream, a smart contract would automatically execute payments on the specified schedule to the assigned owner over the life of the bond." She highlighted that banks already automate certain aspects of contracts but the potential introduction of smart contracts raises several issues. "For example, what is the legal status of a smart contract, which is written in code? Would consumers and businesses rely on smart contracts to perform certain services traditionally done by their banks or other intermediaries? Could the widespread automated interaction of multiple counterparties lead to any unwanted dynamics for financial markets? These and other considerations will be important factors in determining the extent of the application of smart contracts," said Ms. Brainard.

The Fed Governor also highlighted that many potential applications are in their infancy and the industry may still be several years away from an application that is ready to be fully implemented. However, industry participants are actively engaging with each other to look for common approaches. Some groups are creating standards that facilitate common platforms to enable greater interoperability of often proprietary applications that are built on them. In the time to come, innovators, investors, and financial practitioners are expected to make progress in addressing key challenges such as adopting common standards; achieving interoperability, between and among, legacy systems and evolving distributed ledgers; improving scalability and computational throughput; and improving cryptographic security. Ms. Brainard stated that the FED will monitor these positive developments closely.

Ms. Brainard highlighted that distributed ledgers could ameliorate or exacerbate traditional financial risks. She added "What matters to us as policymakers and regulators is not only whether the migration to a new technological platform increases or reduces risks, but also whether risks are rendered more or less opaque, and how they are distributed among and between financial intermediaries and end users." In the payments, clearing, and settlement arena, some important risk areas for consideration include settlement, operations, and cybersecurity, money laundering, and terrorist financing. In managing risks, important considerations include system resiliency, governance, and the role of licensing in ensuring proper oversight. Ms. Brainard also highlighted that advances in cryptography will remain a key priority to enable widespread adoption of distributed ledger technologies, along with systems for securing private keys, the management of access to private keys, and differentiated permissions for participants in the system to read and write to the ledger. Also, it will be important that users and administrators of distributed ledger technologies can meet their responsibilities to combat money laundering, terrorist financing, and other key law enforcement concerns.

Ms. Brainard also announced that FED expects to publish a research paper later this year to summarize its key findings from the industry engagement. She concluded by adding that the FED plans to continue to deepen engagement with a range of financial institutions, technologists, multi-stakeholder consortia, and academic experts to refine its understanding of financial technologies. It also plans to discuss these issues with the central banks and other authorities worldwide.

Links: [October 2016 Speech](#), [April 2016 Speech](#)

Keywords: *Distributed Ledger Technology, Smart Contracts*

Canada

Key Developments

<p>Amended Governance Guidelines</p> <p>- AMF</p> <p>September 15, 2016</p> <p>Type of Information: Guideline</p>	<p>The AMF amended the governance guidelines on the interpretation, execution, and application of a financial institution's legal requirements. These guidelines set out expectations regarding a financial institution's legal requirement to follow sound and prudent management practices. The amendments reflect the evolution of principles of sound and prudent management emanating from the international bodies (including the Basel Committee and the IAIS).</p> <p>The earlier version of this guideline has been in effect since April 01, 2009, under to which the AMF expects each financial institution to have developed strategies, policies, and procedures based on its nature, size, complexity, and risk profile and to have adopted the principles underlying this guideline since April 01, 2011. Now, with the release of the amended guideline, AMF expects financial institutions to adopt the new expectations of the amended guideline and implement them by September 15, 2017. However, if an institution has already set up such a framework, the AMF may verify whether the framework enables it to comply with the legal requirements.</p> <p>This amended guideline is intended for insurers of persons (life and health), damage (property and casualty) insurers, portfolio management companies controlled by an insurer, financial services cooperatives, as well as trust and savings companies. This guideline also applies to financial institutions operating independently as well as to financial institutions operating as members of a financial group. With regard to the financial services cooperatives and mutual insurance associations that are members of a federation, the standards or policies adopted by the federation should be consistent with the principles of sound and prudent management, as discussed in this guideline.</p> <p><i>Link: Governance Guideline (lautorite.qc.ca/files/pdf/reglementation/lignes-directrices-toutes-institutions/mod_ld_gouv_pf_2016-09_an.pdf)</i></p> <p><i>Keywords: DCAT, Governance</i></p>
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Panama

Key Developments

<p>Working Paper on Assessment of Liquidity Buffers in the Banking Sector in Panama</p> <p>- IMF</p> <p>October 14, 2016</p> <p>Type of Information: Report</p>	<p>The IMF's working paper assesses the resilience of Panamanian banks to a very severe short-term and a significant long-lasting liquidity shock scenario. The paper aimed to:</p> <ul style="list-style-type: none"> » Conduct an in-depth analysis of bank liquidity buffers using a framework that is better aligned with international standards » Ascertain whether Panamanian banks maintain sufficient liquidity to meet a substantial outflow of foreign funding triggered by a loss of correspondent banks <p>The paper states that short-term liquidity buffers are evaluated by approximating the LCR defined in the Basel III accord. The risk of losing a substantial part of foreign funding is analyzed through a conventional liquidity stress test scrutinizing several layers of liquidity across maturity buckets. This study identified a couple of vulnerabilities in the banking sector in Panama:</p> <ul style="list-style-type: none"> » The approximations indicate that about half of Panamanian banks would need to adjust their liquid asset portfolios to meet the current LCR standards. » While most banks would be able to meet funding outflows in the stress-test scenario, a number of banks would have to use up all of their liquidity buffers and a few are likely to even face a final shortfall. However, most banks displaying sizable liquidity shortfalls have robust solvency positions. <p>The paper highlighted that bank data in the liquidity reports collected by the Superintendency of Banks (SBP) is insufficient to calculate the LCR. Hence, the essential breakdowns have been added and a mapping from the Superintendency of Banks template to the LCR categories have been created. The paper states that Panama is one of the 44 non-BCBS countries that plan to adopt the LCR standard, although no circular has been issued yet.</p> <p><i>Link: Working Paper</i></p> <p><i>Keywords: Basel III, LCR, Liquidity Risk, Stress Testing</i></p>
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Asia Pacific

Australia

Key Developments

Updates to the Guidance and Reporting Requirements on Residential Mortgage Lending

- APRA

October 24, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

APRA launched a consultation on revisions to the *Prudential Practice Guide APG 223 Residential Mortgage Lending*. It is intended to incorporate measures either announced by APRA in December 2014 or communicated to authorized deposit-taking institutions since that time. The revised APG 223 includes more detailed guidance on the:

- » Quantitative serviceability parameters such as the application of interest rate buffers and floors, haircuts for non-salary income such as rental income, treatment of interest-only loans, and estimation of living expenses
- » Other qualitative measures such as meeting responsible lending obligations, monitoring serviceability policy overrides, and treatment of self-managed superannuation fund loans and other specific loan types

APRA also proposed new reporting requirements for residential mortgage lending data for consultation with the authorized deposit-taking institutions. These requirements will enable APRA to maintain the supervisory intensity of residential mortgage lending and monitor emerging risks and trends, while providing a more cost-efficient means of information collection. APRA expects to finalize the revised reporting requirements by the first half of 2017 and the revised guidance in the first quarter of 2017.

Comments Due Date: December 19, 2016 (APG 223) and February 10, 2017 (reporting requirements)

Effective Date: N/A

First Reporting Date: N/A

Links: [Media Release](#), [Proposed Revisions to APG 223](#), [Proposed Reporting Requirements](#)

Keywords: Guidance, Reporting, Residential Mortgage Lending

Snapshot of Industry Practices in Risk Culture

- APRA

October 18, 2016

Type of Information:
Statement

APRA published an information paper providing a snapshot of the current practices in risk culture in a range of banking, insurance, and superannuation businesses. The paper notes that, while there has clearly been a stronger focus on risk culture in the recent years among APRA-regulated institutions, continued effort and ongoing attention is required by institutions to better understand and manage their risk cultures. It also highlights that:

- » The approaches to understand and manage risk culture are at a relatively early stage of development
- » Many institutions are grappling with the best ways to articulate their aspired risk culture, identify specific weaknesses in their current risk culture, and effectively address those weaknesses

This analysis is the result of APRA's information gathering exercise in relation to industry practices on risk culture, which it began in late 2015. Underpinning much of the work has been APRA's Prudential Standard CPS 220 Risk Management, which came into effect on January 01, 2015. CPS 220 requires each Board of an authorized deposit-taking institution or an insurer to form a view of the risk culture in their institution, identify any desirable changes to that risk culture, and ensure the institution takes steps to address those changes. Risk culture can be described as the influence of organizational culture on how risks are managed in an organization.

Links: [Media Release](#), [Information Paper](#), [Prudential Standard CPS 220](#)

Keywords: Risk Culture

Final Requirements for Margining and Risk Mitigation for Non-Centrally Cleared Derivatives

- APRA

October 17, 2016

Type of Information:
Statement

APRA released the final version of Prudential Standard on Margining and risk mitigation for non-centrally cleared derivatives (CPS 226). APRA also released a response addressing issues raised in the February 2016 consultation on CPS 226.

APRA released CPS 226 to provide clarity on the final requirements and to allow APRA-regulated institutions with material levels of non-centrally cleared derivatives to actively continue their preparations. APRA carefully considered submissions received for the February 2016 consultation. Also, it has reviewed the proposed framework to ensure that it appropriately balances the objectives of financial safety and efficiency, competition, contestability, and competitive neutrality.

APRA will advise of an implementation date and phase-in timetable in due course. Meanwhile, APRA will continue to support internationally harmonized implementation of the requirements and monitor the progress of implementation in other jurisdictions.

Links: [Media Release](#), [Final Prudential Standard CPS 226](#), [Response to Comments Received](#), [February 2016 Consultation](#)

Keywords: *Clearing, Margin, Risk Mitigation*

China

Key Developments

Working Paper on Resolving the Corporate Debt Problem in China

- IMF

October 14, 2016

Type of Information: Report

The IMF released a working paper on resolving the corporate debt problem in China, which:

- » Presents stylized facts and analyses about credit growth in China
- » Discusses underlying causes of rapid credit boom in the country, emphasizing the role of policy and market distortions
- » Describes strategy to deal with the debt problem, followed by a discussion on supportive policies, including fiscal support to lessen transition costs
- » Presents illustrative macroeconomic scenarios under the unchanged growth model and a more sustainable adjustment scenario

The staff opines that the corporate debt problem in the country should be addressed urgently with a comprehensive strategy. The fall in investment efficiency and the steady deterioration of financial performance of corporates was found to have adversely impacted the asset quality in financial institutions. The large increase in investment after the global financial crisis has resulted in an unusually strong corporate credit growth. The key elements for dealing with this corporate debt problem should include identifying companies in financial difficulties, proactively recognizing losses in the financial system, burden sharing, corporate restructuring and governance reform, hardening budget constraints, and facilitating market entry.

One of the important aspects of the comprehensive strategy is loss recognition and financial restructuring. Regulatory and supervisory oversight should require banks to proactively recognize and manage impaired losses. Once losses are recognized, techniques such as debt-equity conversions, non-performing loan securitization, and sales to asset management companies can be useful to work out impaired assets; however, these practices must be nested in a comprehensive strategy that addresses roots of the problem. Improving financial discipline is another factor that is suggested for inclusion in the comprehensive strategy and it requires additional regulatory changes. For this, the paper suggests an approach based on segmented regulation.

Moreover, the issuance of publicly traded products has surged over the past year. Despite signs of greater differentiation among borrowers, dispersion in credit ratings has remained narrow. The bond market has to function in a way that clearly distinguishes between firms on their respective financial health. This requires unified, transparent, and effective regulation; enforcement of strict financial reporting and information disclosure; and more independent credit risk assessment. The paper also noted that local rating agencies seem constrained in their ability to provide fully fair and reliable assessments of bond issuers' financial strength, partly because of state intervention. Over 90% of onshore bonds are rated AA to AAA by local rating agencies (according to the PBC's provisions) and such ratings should be given only to firms with very low default risks. The universal high ratings are rare compared to other markets (for example, less than 2% of firms enjoy such top-notch ratings in the U.S. market). Supervisory bodies have strong power to influence CRAs.

Furthermore, in China, fragmentation makes the enforcement of effective regulation difficult and information disclosure is insufficient, especially in the secondary market. The CSRC is responsible for approving the listed corporate bonds, which are mainly traded in Shanghai and Shenzhen Stock Exchanges; NDRC is responsible for approving state-owned enterprises' bonds; and the National Association of Financial Market Institutional Investors managed by the PBC is responsible for short-term financing bonds, medium-term notes, and other financial instruments of nonfinancial corporate debt, which are mainly traded in interbank bond market.

Link: [Working Paper](#)

Keywords: Corporate Debt, Loss Recognition, Ratings

Guidelines on Comprehensive Risk Management of Banking Financial Institutions

- CBRC

September 27, 2016

Type of Information:
Guideline

The China Banking Regulatory Commission (CBRC) issued the Banking Financial Institution Comprehensive Risk Management Guidelines to enhance risk management and help the banking institutions better serve the economy. The guidelines apply to banking financial institutions such as commercial banks established in the territory of PBC, rural credit cooperatives and other financial institutions taking deposits from the public, policy banks, and national development banks.

These guidelines consist of 8 chapters comprising of 54 articles covering general provisions, risk governance structure; risk management strategies, risk appetite and risk limits; risk management policies and procedures; management information systems and data quality; internal control and audit; supervision and administration; and supplementary provisions. The risks covered include credit risk, market risk, liquidity risk, operational risk, country risk, bank account IRR, reputation risk, strategic risk, and information technology, among others.

These guidelines shall go into effect from November 01, 2016.

Links: [Notification](#), [FAQ](#)

Keywords: Risk Appetite, Risk Limits, Risk Management

Japan

Key Developments

Report on Scenarios for Macro Stress Testing in Financial System

- BOJ

October 25, 2016

Type of Information: Report

This report provides a detailed explanation of the scenarios developed for macro stress testing in the October 2016 issue of the Financial System Report. The Bank of Japan (BOJ) published the Financial System Report on October 24, 2016. This report is part of the Financial System Report Annex Series, which supplements the Financial System Report by providing more detailed analysis and additional investigations on a selected topic on an ad-hoc basis.

In the October 2016 issue of the report, the macro stress test (tailored event scenario) features constraints on the availability of foreign currency; it also features a widening of foreign currency funding premiums, reflecting the importance of securing stable foreign currency funding for Japanese banks. The Financial System Report, contains two macro stress tests:

- » Tail event scenario, which assumes a set of severe financial and economic conditions equivalent to the Lehman shock for each regular test. This scenario aims to assess the stability of the financial system through fixed-point observations.
- » Tailored event scenario, which varies according to macro-prudential concerns at the time of the test. This scenario seeks to examine the vulnerabilities of the financial system to these specific concerns.

Links: [Report](#), [Scenario Table](#)

Keywords: Financial Stability Report, Macro Stress Testing

Financial System Report

- BOJ

October 24, 2016

Type of Information: Report

The BOJ published the October 2016 issue of the Financial System Report. This report quantitatively analyzes the potential vulnerabilities of the financial system in a low and negative interest rate environment. The key potential vulnerabilities highlighted in this report are the risks of:

- » Overheating, in which financial institutions shift toward excessive risk taking
- » A gradual pullback in financial intermediation due to a persistent decline in profits

Additionally, the resilience of internationally active banks against risks (namely, an increase in foreign currency funding premiums and funding liquidity constraints) is examined, reflecting the importance of securing stable foreign currency funding for Japanese banks. The report covers 10 major banks, 105 regional banks, and 256 shinkin banks (September 30, 2016). The 10 major banks comprise Mizuho Bank, The Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking corporation, Resona Bank, Saitama Resona Bank, Mitsubishi UFJ Trust and Banking Corporation, Mizuho Trust and Banking Company, Sumitomo Mitsui Trust Bank, Shinsei Bank, and Aozora Bank. The 105 regional banks comprise the 64 member banks of the Regional Banks Association of Japan (Regional banks I) and the 41 member banks of the Second Association of Regional Banks (Regional banks II). The 256 shinkin banks are the shinkin banks that hold current accounts at the BOJ.

The Financial System Report provides a regular and comprehensive assessment of Japan's financial system and is published semiannually. The report aims to assess the stability of Japan's financial system from a macro-prudential perspective and to facilitate communication with concerned parties on relevant tasks and challenges, to ensure stability. The BOJ uses the results of the report's analysis in its policy planning; the aim is to ensure stability in the financial system and to providing guidance and advice to financial institutions through off-site monitoring and on-site examinations.

Links: [Financial System Report](#), [Summary of Financial System Report](#)

Keywords: Financial Stability Report

India

Key Developments

Comments Sought on Large Exposures Framework

- RBI

August 25, 2016

Type of Information:
Regulation

Regulatory Status:
Proposed Rule

The Reserve Bank of India (RBI) is seeking comments on the large exposures framework and its salient features are:

- » Specified large exposure limit for each counterparty and group of connected counterparties, under normal circumstances, with caps of 20% and 25%, respectively, of the eligible capital base
- » Eligible capital base to be defined as the tier 1 capital of the bank, as against Capital Funds at present
- » A group of connected counterparties to be identified on the basis of the criteria of "control" and "economic dependence"

While preparing this draft large exposures framework, the RBI considered the comments received on its earlier discussion paper of March 27, 2015, which was titled "Large Exposures Framework and Enhancing Credit Supply through Market Mechanism." The paper outlined proposals to align the extant exposure norms with the "Supervisory Framework for Measuring and Controlling Large Exposures," which was issued by the Basel Committee.

Comments Due Date: September 15, 2016

Effective Date: March 31, 2019

First Reporting Date: N/A

Links: Press Release (rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=37876&fn=2&Mode=0), Draft Framework (rbi.org.in/scripts/bs_viewcontent.aspx?id=3244), March 2015 Discussion Paper (rbi.org.in/scripts/bs_viewcontent.aspx?id=2981)

Keywords: Basel III, Large Exposure

Singapore

Key Developments

Amendments to Notice on Risk-Based Capital Adequacy Requirements for Banks Incorporated in Singapore

- MAS

October 17, 2016

Type of Information:
Regulation

Regulatory Status: Final
Rule

The Monetary Authority of Singapore (MAS) issued amendments to Notice 637 on the RBC capital adequacy requirements for banks incorporated in Singapore. It also issued a response to the feedback received on the October 09, 2015 consultation paper on the proposed amendments to MAS Notice 637. MAS has revised MAS Notice 637 to implement requirements for Singapore incorporated banks that are consistent with the following final standards issued by the Basel Committee:

- » Capital Requirements for Banks' Equity Investments in Funds
- » Standardized Approach for Measuring Counterparty Credit Risk Exposures (SA-CCR)
- » Capital Requirements for Bank Exposures to CCPs
- » Revised Pillar 3 Disclosure Requirements

The amendments will enhance the risk capture of banks' equity exposures and counterparty credit risk exposures. The revised Pillar 3 disclosure requirements will improve the comparability and consistency of disclosures and enable market participants to better assess a bank's capital adequacy. Revisions have also been made to align the regulatory capital treatment for investments in unconsolidated major stake entities that are not financial institutions and private equity and venture capital investments, with the treatment of significant investments in commercial entities under the Basel capital framework.

For amendments related to the SA-CCR and the Capital Requirements for Bank Exposures to CCPs, transitional arrangements are provided to allow more time for implementation. For Pillar 3 disclosure requirements, the disclosures required under the revised framework will be for the reporting periods ending on or immediately after:

- » January 01, 2017 for the majority of disclosure templates
- » January 01, 2018 for the remaining templates

Comments Due Date: N/A

Effective Date: January 01, 2017

First Reporting Date: N/A

Links: [Amendments to Notice 637 \(mas.gov.sg/~media/MAS/Regulations%20and%20Financial%20Stability/Regulations%20Guidance%20and%20Licensing/Commercial%20Banks/Regulations%20Guidance%20and%20Licensing/Notices/MAS%20Notice%20637%20Amendment%202016.pdf\)](http://mas.gov.sg/~media/MAS/Regulations%20and%20Financial%20Stability/Regulations%20Guidance%20and%20Licensing/Commercial%20Banks/Regulations%20Guidance%20and%20Licensing/Notices/MAS%20Notice%20637%20Amendment%202016.pdf), [Response to Feedback \(mas.gov.sg/~media/MAS/News%20and%20Publications/Consultation%20Papers/17%20Oct%202016%20Response%20to%20Feedback%20Received%20%20Proposed%20Amendments%20to%20MAS%20Notice%20637.pdf\)](http://mas.gov.sg/~media/MAS/News%20and%20Publications/Consultation%20Papers/17%20Oct%202016%20Response%20to%20Feedback%20Received%20%20Proposed%20Amendments%20to%20MAS%20Notice%20637.pdf)

Keywords: Basel III, CCP, Pillar 3, SA-CCR

Glossary

AIFMD	Alternative Investment Fund Manager Directive	FSOC	Financial Stability Oversight Council
AMF	Autorité des Marchés Financiers	G-SIB	Global Systemically Important Bank
APRA	Australian Prudential Regulation Authority	IASB	International Accounting Standards Board
AT1	Additional Tier 1	ICT	Information and Communication Technology
BIS	Bank for International Settlements	IFRS	International Financial Reporting Standards
BOI	Bank of Italy	IMF	International Monetary Fund
BOJ	Bank of Japan	IOSCO	International Organization of Securities Commissions
CBRC	China Banking Regulatory Commission	IRR	Interest Rate Risk
CCP	Central Counterparty	KIID	Key Investor Information Document
CFTC	Commodity Futures Trading Commission	LCR	Liquidity Coverage Ratio
CFD	Contracts for Difference	MAS	Monetary Authority of Singapore
COREP	EU Basel regulatory reports/Common Reporting	MFI	Monetary Financial Institution
CPMI	Committee on Payments and Market Infrastructures	MiFID	Markets in Financial Instruments Directive
CPSS	Committee on Payment and Settlement Systems	MiFIR	Markets in Financial Instruments Regulation
CRA	Credit Rating Agency	MREL	Minimum Requirement for Own Funds and Eligible Liabilities
CRD IV	EU Capital Requirements Directive IV	NBFC	Non Bank Financial Company
CRR	Capital Requirements Regulation EU	NDRC	National Development and Reform Commission
CSRC	China Securities Regulatory Commission	OCC	Office of the Comptroller of the Currency
DCAT	Dynamic Capital Adequacy Test	OECD	Organization for Economic Co-operation and Development
EBA	European Banking Authority	OFIs	Other Financial Intermediaries
EC	European Commission	OFR	Office of Financial Research
ECB	European Central Bank	OMB	Office of Management and Budget
ECL	Expected Credit Loss	PBC	People's Bank of China
ECON	Economic and Monetary Affairs	PFMI	Principles for Financial Market Infrastructure
EIOPA	European Insurance and Occupational Pensions Authority	PRA	Prudential Regulation Authority
EMIR	European Market Infrastructure Regulation	PRIIPs	Packaged Retail And Insurance-Based Investment Products
ESAs	European Supervisory Agencies	Q&A	Questions and Answers
ESMA	European Securities and Monetary Authority	QFC	Qualified Financial Contracts
ESRB	European Systemic Risk Board	RBI	Reserve Bank of India
EU	European Union	REFIT	Regulatory Fitness and Performance
FAQ	Frequently Asked Questions	SA-CCR	Standardized Approach For Counterparty Credit Risk
FASB	Financial Accounting Standards Board	SEC	U.S. Securities and Exchange Commission
FDIC	Federal Deposit Insurance Corporation	SFT	Securities Financing Transaction
FED	Board of Governors of the Federal Reserve System	SFTR	Securities Financing Transactions Regulation
FFIEC	Federal Financial Institutions Examination Council	SIFMA	Securities Industry and Financial Markets Association
FIRDS	Financial Instruments Reference Data System	SREP	Supervisory Review and Evaluation Process
FMU	Financial Market Utility	TLAC	Total Loss-Absorbing Capacity
FSA	Financial Services Authority	UCITS	Undertakings for Collective Investment in Transferable Securities
FSAP	Financial Sector Assessment Program		
FSB	Financial Stability Board		
FSI	Financial Stability Institute		

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