

## BANKS NEWSLETTER

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## Regulatory Insight

### Key Developments at a Glance

The BCBS issued a FAQ on Basel III LCR and has finalized its new regulation on Large Exposures applicable in January 2019. A tighter limit (15% of tier 1 capital) will apply to exposures toward G-SIBs and exposure value for derivatives instruments shall be measured following the new Standardized Counterparty Credit Risk EAD metric (SA-CCR). The BCBS/CPSS and IOSCO completed the work on updated capital treatment of bank exposures to central counterparties (CCPs) that will be applicable in January 2017. The final standard includes a single approach for calculating capital requirements for default funds and requires the use of SA-CCR (instead of CEM) to measure the hypothetical capital of a CCP. The Council of the Islamic Financial Services Board (IFSB) adopted a revised guidance on how to regulate Islamic financial services. BCBS published an updated progress report on the implementation of the Basel regulatory framework worldwide.

### KEY DEVELOPMENTS PER REGION

- » European CRD IV: The EBA has updated its Single Rulebook Q&A and published updates on CRD IV reports (COREP, FINREP) validation rules. It has postponed to June 2014 the remittance dates of the first set of CRD IV supervisory reports but has not changed the reference dates. Asset encumbrance reporting will start in December 2014. EBA also published final rules on additional valuation adjustments (AVAs) relative to fair valued positions.
- » Other European initiatives: The EBA released its methodology and macroeconomic scenarios for the 2014 EU-wide stress test that will be conducted on a sample of 124 EU banks. The ECB published its Single Supervisory Mechanism (SSM) Framework Regulation. It is expected to fully assume its supervisory tasks on November 2014. In UK, the Bank of England has detailed stress tests that the eight major UK banks will be undertaking this year.
- » Americas: The US FDIC adopted the Basel III final rule with no substantive changes and US agencies adopted the final rule to strengthen the leverage ratio standards (beyond BCBS minimum requirement) for the largest, most interconnected U.S. banking organizations. In Canada, the OSFI has amended its Capital Adequacy Requirements (CAR) guideline.
- » APAC: In Australia, the APRA released a discussion paper to simplify the prudential framework for securitization, changed the local liquidity risk reporting requirements, and has amended its Prudential Standard APS 111 to provide additional capital-raising options for mutually owned authorized deposit-taking institutions. In Hong Kong, the HKMA is planning to follow the BCBS time line for implementation of SA-CCR, Large Exposures and updated capital requirements for exposures to CCPs new regulations.
- » Basel regulation international roll-out: The Bahrain regulator has published an updated Capital Adequacy regulation applicable in 2015 that is in line with BCBS Basel III and IFSB Islamic Banking standards. The Bangladesh regulator has published a Basel III implementation roadmap that starts in July 2014.

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## International

### Key Developments

#### Chairman of BCBS: What Will Basel III Deliver?

- BCBS

April 29, 2014

Type of Information: Speech

Speaking about what Basel III will deliver, Stefan Ingves, Chairman of BCBS explained that Basel III seeks to reflect the multi-dimensional perspective on potential risks by examining a bank's financial health along four axes:

- » Capital adequacy
- » Leverage
- » Short-term liquidity
- » The type and extent of maturity mismatch

Basel III, he says, "...does not seek to prevent banks from any and all risk-taking. What it does do is to put limits on the extent to which banks can take excessive risks (that is, high risk, high leverage, high liquidity risk, and high funding risk) in seeking to earn returns for their shareholders."

"For the Asia-Pacific region, the Basel III capital rules are now in force in all of the Committee member jurisdictions and a few have already adopted, or are in the process of adopting, the leverage ratio and the liquidity framework too," said Mr. Ingves, also offering an overview of Basel III implementation in Asia Pacific.

Link: [Article](#)

Keywords: Basel III, RCAP

#### Discussion Paper on Accounting for Macro Hedging

- IASB

April 17, 2014

Type of Information: Regulation

Regulatory Status: Proposed Rule

The discussion paper explores an approach to better reflect entities' dynamic risk-management activities in their financial statements, otherwise known as macro hedging.

Many financial institutions and other entities manage risks, such as interest-rate risk, dynamically on a portfolio basis rather than on an individual contract basis. Dynamic risk management is a continuous process because the risks that such entities face evolve over time, along with their approach to managing these risks.

The IASB is replacing IAS 39 with a new financial instruments accounting standard, known as IFRS 9 Financial Instruments. This project is in the final stages of completion. However, the IASB decided to treat the macro hedging component of these reforms as a separate project, to elicit views from a broader range of constituents. This discussion paper, which represents the first stage in this project, seeks public comment on a possible approach to accounting for an entity's dynamic risk-management activities, the portfolio revaluation approach. Under the portfolio revaluation approach:

- » Exposures that are risk-managed dynamically would be revalued for changes in the managed risk through profit or loss
- » Fair-value changes arising from risk-management instruments that are used to manage this risk (derivatives) would also be recognized in profit or loss
- » The success of an entity's dynamic risk management is captured by the net effect of the above measurements in profit or loss
- » Fair valuation of the risk exposures that are dynamically managed is not required

The portfolio revaluation approach also addresses the needs of users by providing a more comprehensive set of disclosures.

Comments Due Date: October 17, 2014

Effective Date: N/A

First Reporting Date: N/A

Link: [Homepage](#)

Keywords: IFRS 9, Macro Hedging, Portfolio Revaluation Approach

### Feasibility Study on Approaches to Aggregate OTC Derivatives Trade Repository Data

- FSB

April 17, 2014

Type of Information: Report

On February 04, 2014, the FSB published its consultative document about a feasibility study on approaches to aggregate OTC derivatives trade repository data. By February 28, 2014, interested parties were invited to provide written comments, which are now available.

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

Keywords: Data Aggregation, International Data Hub, Trade Repository

### Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio

- BCBS

April 16, 2014

Type of Information: Report

The BCBS issued frequently asked questions (FAQ) on Basel III's liquidity coverage ratio (LCR). To promote consistent global implementation of these requirements, the Committee has agreed to periodically review FAQs and publish answers, along with any technical elaboration of the text of the rules and any interpretative guidance that may be necessary.

The Committee has received a number of interpretative questions related to the January 2013 publication of the LCR standard. The FAQs published today correspond to the text set out in that standard.

Links: [FAQs](#), [LCR Standard](#)

Keywords: Basel III, FAQ, LCR

### Working Paper on Corporate Bond Markets

- IOSCO

April 15, 2014

Type of Information: Research

The IOSCO's report presents findings from an in-depth study on the development and functioning of corporate bond markets globally, with focus on both the emerging and the developed markets. Data have been aggregated from a sample of 91 emerging and developed countries. The aim of the report is to:

- » Provide an overview of corporate bond markets since 2000
- » Identify issues regarding market development, investor protection, and systemic risk
- » Highlight data gaps with a view to improving future data collection efforts

The main findings of the report can be summarized as follows:

- » Corporate bond markets are growing in terms of size and importance to the real economy and are extending their global nature.
- » Since the onset of the crisis, corporate bond markets are beginning to fill a gap left by bank and long-term/infrastructure financing and are showing potential for servicing small-medium enterprises (SMEs).
- » These trends are partly fueled by a search for yield. A changing interest rate environment may modify bond risks and raise new investor protection issues, especially from a retail investor perspective.
- » Meanwhile, secondary markets are evolving to accommodate a new economic and regulatory environment. Understanding this change is key to identifying both potential systemic risks and opportunities to develop these markets.

The report also identifies trends in financial vs. non-financial firm issuance; local vs. non-local currency issuance; issuances for refinancing purposes; and term length. These bonds are examined in the context of interest-rate risk, default risk, call risk, rollover risk, foreign-exchange risk and liquidity risk, with a focus on retail investors also. Finally, the report examines illiquidity in the secondary markets in the context of a changing regulatory environment. The report notes that before the crisis, corporate bond markets were awash with 'phantom liquidity' that has since decreased, creating higher liquidity risk for investors. This 'phantom liquidity' refers to liquidity provided to the market on the back of potentially systemically risky practices.

This staff working paper is the first in a three-volume series:

- » Volume I provides a view of how global corporate bond markets have changed, comparing developed and emerging markets
- » Volume II (emerging markets) and Volume III (developed markets) will provide more granular country-by-country data and analyses, in recognition of the diversity within different regions

Links: [Media Release](#), [Working Paper](#)

Keywords: Bond Risk, Corporate Bond Market, Systemic Risk

### Supervisory Framework for Measuring and Controlling Large Exposures

- BCBS

April 15, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The large exposure standard of BCBS includes a general limit applied to all of a bank's exposures to a single counterparty, which is set at 25% of a bank's tier 1 capital. This limit also applies to a bank's exposure to identified groups of connected counterparties (i.e., counterparties that are interdependent and likely to fail simultaneously).

A tighter limit will apply to exposures between banks that have been designated as global systemically important banks (G-SIBs). This limit has been set at 15% of tier 1 capital. This final standard takes into account comments on the Committee's March 2013 proposals. The initial proposal has been revised as follows:

- » Definition and reporting thresholds are now 10% of the eligible capital base (instead of the 5% initially proposed)
- » Treatment of a limited range of credit default swaps (CDS) used as hedges in the trading book has been modified to more closely align it with the risk-based capital framework
- » Initially proposed granularity threshold for exposures to securitization vehicles has been replaced with a materiality threshold related to the capital base of the bank (calibrated at 0.25% of the capital base)
- » A treatment that recognizes particular features of some covered bonds

By 2016, the Committee will review the appropriateness of setting a large exposure limit for exposures to qualifying central counterparties (QCCPs) related to clearing activities, which are currently exempted. It will also review the impact of the large exposures framework on monetary policy implementation.

It also covers banking book and trading book OTC derivatives (and any other instrument with counterparty credit risk). The exposure value for instruments that give rise to counterparty credit risk and are not securities financing transactions must be the exposure at default, according to the standardized approach for counterparty credit risk (SA-CCR).

Comments Due Date: N/A

Effective Date: January 01, 2019

First Reporting Date: N/A

Link: [Final Rule](#)

Keywords: Basel III, Large Exposures, SA-CCR

### FSB Chair's Letter to G-20 Ministers and Governors on Progress Toward Financial Reforms

- FSB

April 11, 2014

Type of Information: Report

The FSB Chair's letter summarizes the progress to complete the program of reform for the Brisbane summit begins to look ahead to plans for implementation beyond Brisbane.

The FSB's chair says, "We are on-track to deliver for the Brisbane Summit, but difficult decisions remain to be taken in three particular areas where the support of Ministers and Governors is essential":

- » Ending too-big-to-fail (TBTF)
- » Transforming shadow banking to transparent and resilient market-based financing
- » Making derivatives markets safer

The gone-concern loss-absorbing capacity (GLAC) issues, for which support is needed for the further intense work ahead of the Brisbane Summit:

- » The criteria that bank liabilities should meet to be considered
- » The appropriate amount of GLAC that systemically important banks should hold
- » Where in the structure of banking groups GLAC should be held

Link: [Letter](#)

Keywords: GLAC, Shadow Banking, TBTF

## Capital Requirements for Bank Exposures to Central Counterparties

- BCBS

April 10, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

The BCBS/CPSS and IOSCO completed the work on the capital treatment of bank exposures to central counterparties (CCPs), with the aim to improve the interim capital requirements published in July 2012. The interim requirements will continue to apply until the final standard takes effect (January 01, 2017).

When developing the final standard, the Basel Committee aimed to:

- » Simplify the interim policy framework
- » Complement relevant initiatives undertaken by other supervisory bodies, including the CPSS-IOSCO principles for financial market infrastructures (PFMI)
- » Support broader policy efforts advanced by the G-20 leaders and the FSB, particularly those related to central clearing of standardized OTC derivative contracts

Revisions to the framework for determining capital requirements for bank exposures to central counterparties are being introduced in a new section (Section XI) of Annex 4 of the International Convergence of Capital Measurement and Capital Standards: A Revised Framework—Comprehensive Version, June 2006 (hereafter referred to as Basel II). Section IX of that annex, which includes the interim capital requirements for bank exposures to CCPs, will be deleted in its entirety.

The final standard differs from the interim requirements by:

- » Including a single approach for calculating capital requirements for a bank's exposure that arises from its contributions to the mutualized default fund of a qualifying CCP (QCCP)
- » Employing the standardized approach for counterparty credit risk, or SA-CCR (as opposed to the Current Exposure Method or CEM), to measure the hypothetical capital requirement of a CCP
- » Including an explicit cap on the capital charges applicable to a bank's exposures to a QCCP
- » Specifying how to treat multi-level client structures, whereby an institution clears its trades through intermediaries linked to a CCP
- » Incorporating responses to frequently asked questions posed to the Basel Committee in the course of its work on the final standard

Comments Due Date: N/A

Effective Date: January 01, 2017

First Reporting Date: N/A

Links: [Final Standard](#), [Interim Requirements](#), [SA-CCR](#)

Keywords: CCP, PFMI, SA-CCR, Basel III, Default Fund, Hypothetical Capital

**Revised Guidance on Key Elements in Supervisory Review Process of Institutions Offering Islamic Financial Services**

- IFSB

April 08, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The Council of the Islamic Financial Services Board (IFSB) adopted on March 27, 2014 the revised guidance on key elements in supervisory review process of institutions offering Islamic financial services (excluding Islamic insurance institutions and Islamic collective investment schemes (IFSB-16). The areas addressed by this guidance include:

- » Regulatory capital requirements
- » Internal capital adequacy assessment process (ICAAP)
- » Risk management, including enterprise risk management
- » Corporate and Shari` ah governance
- » Securitization exposures
- » Concentration risk and counterparty credit risk
- » Assessment of the rate of return risk in the banking book
- » Sound stress-testing practices
- » Islamic windows operations
- » Consolidated and home-host supervision and supervisory colleges
- » Transparency and market discipline

The revised standard should be implemented by supervisory authorities in compliance with the legal framework of their respective jurisdictions. The IFSB will expect its members to apply this standard from January 2015 (or later, depending on the relevant application date of the substantive underlying provision). This means that by this date the guidance should be transposed into national supervisory guidelines and be reflected in the national supervisory manuals/handbooks, where applicable, and implemented in supervisory practices.

The IFSB is working on the preparation of supplementary guidance to IFSB-12 on the quantitative elements of Basel III, namely the Liquidity Coverage Ratio and the Net Stable Funding Ratio, in the form of a separate guidance note.

Comments Due Date: N/A

Effective Date: January 01, 2015

First Reporting Date: N/A

Link: [Guidance](#)

Keywords: Islamic Banking, Pillar 2, Stress Testing, Basel III

### Progress Report on OTC Derivatives Reforms

- FSB

April 08, 2014

Type of Information: Report

The FSB's progress report on OTC derivatives reforms reveals that substantial progress has been made toward meeting the G-20 commitments, through international policy development, jurisdictions' adoption of legislation and regulation, and expansion in the use of market infrastructure:

- » **Jurisdictions' implementation of reforms.** More than three-quarters of FSB member jurisdictions have regulations in place to require transactions to be reported to trade repositories. Frameworks for central clearing requirements are in place in jurisdictions with the largest derivatives markets, with some specific mandatory clearing rules now in effect.
- » **International standards.** Key international policy standards have been finalized in most commitment areas and work on the few remaining standards is on track to be finalized by end-2014 or earlier; these standards include capitalization of banks' central counterparty exposures, recovery and resolution of financial market infrastructures, and risk mitigation standards for non-centrally cleared derivatives.

The report also discusses areas in which further work is needed to complete the reforms and achieve the G-20 objectives, including for authorities to:

- » Put in place their remaining legislation and regulation promptly and in a form flexible enough to respond to issues of cross-border consistency and other issues that may arise
- » Provide clarity on their processes for making equivalency or comparability decisions
- » Continue to closely coordinate and cooperate as needed to promptly seek to resolve cross-border regulatory issues

Feedback can be submitted to the FSB by May 08, 2014.

Link: [Press Release](#)

Keywords: Cross-border Issues, G-20, OTC Derivatives

### Framework for Assessing Risk Culture and Progress Report on Enhanced Supervision

- FSB

April 07, 2014

Type of Information: Report

The FSB published the following documents:

- » A framework for assessing risk culture (FARC), which takes into account public responses received on the consultative document issued on November 18, 2013
- » A progress report on enhanced supervision, which describes the changes in supervisory practices since the financial crisis and identifies areas in which more work is needed

The G-20 leaders and the Financial Stability Board (FSB) identified, as a priority, the need for more intense and effective supervision, particularly of systemically important financial institutions (SIFIs).

The framework applies to both bank and insurance SIFIs.

Link: [Press Release](#)

Keywords: Enhanced Supervision, FARC, SIFI

### Progress Report on Implementation of Basel Regulatory Framework

- BCBS

April 07, 2014

Type of Information: Report

This updated progress report on implementation of the Basel regulatory framework provides a high-level view of Basel Committee members' progress in adopting Basel II, Basel 2.5 and Basel III, as of the end of March 2014.

The report focuses on the status of domestic rule-making processes to ensure that the Committee's capital standards are transformed into national law or regulation according to the internationally agreed timeframes. The Committee believes that disclosure will provide additional incentive for members to fully comply with the international agreements. Annex 1 of the report contains assessments of consistency of capital regulations.

The Committee's assessment program of Basel III implementation remains on track. The Committee:

- » Recently concluded assessments of the consistency of Australia, Brazil, and China's capital regulations with the Basel III standards
- » Is assessing Canada, the European Union, and the U.S.

Link: [Report](#)

Keywords: Basel III, Monitoring, RCAP



### Frequently Asked Questions on Basel III Monitoring

- BCBS

April 02, 2014

Type of Information: Report

The frequently asked questions (FAQ) document answers technical and interpretive questions raised by supervisors and banks during the Committee's Basel III monitoring. The questions:

- » Added since the previous version of the FAQs are shaded in yellow
- » That have been revised (other than updated cell references) are shaded in red
- » Addressing issues in the original January 2014 version, which are no longer relevant for the version in March 2014, are shaded in green

Link: [FAQ](#)

Keywords: Basel III, FAQ

### Recent Trends in Foreign Exchange and Money Markets: A Speech by Peter Zöllner, Head of the BIS Banking Department

- BIS

March 31, 2014

Type of Information: Speech

While addressing the 53<sup>rd</sup> ACI Financial Markets World Congress 2014 in Berlin, Peter Zöllner, Head of the BIS Banking Department, spoke about the recent trends in foreign exchange and money markets, including:

- » **Collateralization of derivatives transactions and introduction of central clearing in derivatives and repo markets:** He said that the "recent regulatory reforms are based on widespread trading of OTC derivatives on electronic platforms and the clearing of these transactions through central counterparties (CCPs)... Counterparty risk can be significantly reduced by moving to centralized clearing, with its combination of collateralization and multilateral netting. Interestingly, central clearing is also increasingly becoming the market standard in repo markets, despite the absence of any relevant legislation. The euro money market survey conducted by the ECB indicates that 71% of all bilateral repo transactions in 2013 were cleared by CCPs, compared with a revised figure of 56% in 2012."
- » **Collateral management:** "... it has emerged as a central means for market participants to reduce funding costs and counterparty risk. The introduction of derivatives legislation and the centralized clearing of derivatives have led to an increased focus on collateral management. The banking industry's objective has been to become more active and efficient in the management of collateral across business lines, which requires a centralization of expertise."

According to him, banks seek:

- » A more efficient decision-making process, aided by increased transparency of available collateral
- » A reduction in operational risks on collateral transactions
- » An enhancement of banks' capabilities to monitor credit policies and control the credit risks associated with collateral transactions

He also said that banks are investing heavily in collateral management and they hope to generate significant profits from it, with services such as cheapest-to-deliver algorithms, collateral optimization, and collateral transformation. Commercial banks may be able to attract lucrative collateral management mandates from customers or smaller financial institutions through optimized infrastructure and reporting capabilities, specialized collateral management staff, and scalable business models.

Link: [Speech](#)

Keywords: Clearing, Collateral Management

## External Audits of Banks

- BIS

March 31, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

This document elaborates on Basel Core Principle 27 by setting out guidelines regarding the audit committee's responsibilities in overseeing the external audit function and the prudential supervisor's relationships with external auditors of banks and the audit oversight body.

This document sets out supervisory expectations of how:

- » Audit committees can contribute to audit quality in their oversight of the external audit function
- » External auditors can discharge their responsibilities more effectively
- » An effective relationship between the external auditor and the supervisor, which allows greater mutual understanding about the respective roles and responsibilities of supervisors and external auditors, can lead to regular communication of mutually useful information
- » Regular and effective dialog between the banking supervisory authorities and relevant audit oversight bodies can enhance the quality of bank audits

In addition to the proposed guidance, the Committee published a letter to the International Auditing and Assurance Standards Board (IAASB) on areas in which it believes international standards on auditing could be enhanced. Serving as an observer on the Basel Committee group that developed the revised guidance, the IAASB provided helpful and meaningful input to this effort.

Comments Due Date: N/A

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Letter to IAASB](#)

Keyword: Audit

## Global Financial Stability Report

- IMF

March 31, 2014

Type of Information: Report

The IMF's latest analysis for the Global Financial Stability Report (GFSR) reveals that big banks still benefit from implicit public subsidies created by the expectation that the government will support them if they are in financial trouble. In 2012, the implicit subsidy given to global systemically important banks represented up to \$70 billion in the U.S. and up to \$300 billion in the euro area, depending on the estimates.

Chapter 3 of the GFSR:

- » Looks at the issue of too-important-to-fail (TITF)
- » Provides new estimates of the implicit funding subsidy received by systemically important banks (see Box 3.5 titled "Recent Policy Initiatives Addressing the Too-Important-to-Fail Issue")

Link: [GFSR](#)

Keywords: D-SIB, G-SIFI, TITF

**Discussion on Work Plan for Completion of Core Financial Reforms, at Board Meeting in London**

- FSB

March 31, 2014

Type of Information: Report

At the meeting, the FSB discussed work plans for the remaining elements of the core post-crisis financial reforms in 2014. It covered:

- » **Ending too-big-to-fail (TBTF):** Deliverables in the ongoing work to address SIFIs:
  - April 2014: Guidance on risk culture, progress report on supervisory effectiveness
  - November 2014: Gone-concern, loss-absorbing capacity G-SIB; cross-border resolution; higher loss absorbency G-SII; report on cross-border impact of structural banking reforms
- » **Shadow banking:** The FSB:
  - Approved an information-sharing process, starting in May 2014, to support oversight and regulation of shadow banking entities other than money market funds
  - Approved the implementation table for policy recommendations, to be published in April 2014, to address risks associated with securities financing transactions (SFTs)
  - To finalize framework for haircuts on non-centrally cleared SFT in September 2014
  - Welcomed the BCBS' finalization of its supervisory framework for large exposures, to be published shortly, and risk-sensitive capital requirements for banks' investments in equity of funds, to mitigate spill-over effects between banks and shadow banking entities
- » **Implementation monitoring:** Thematic peer review on reducing reliance on credit rating agency (CRA) ratings in April 2014
- » **Making derivatives markets safer:** The members:
  - Welcomed the report published by the OTC Derivatives Regulators Group on its continuing work to resolve cross-border regulatory issues
  - Looked forward to the group's report, ahead of the G20 Brisbane Summit (November 2014)
- » **Data gaps:**
  - Welcomed the successful operation of Phase 1 since March 2013, to share, among relevant authorities, firm-level data on concentration risk and inter-linkages among G-SIBs, through a common data template and an International Data Hub hosted by the Bank for International Settlements (BIS)
  - Approved the launch of Phase 2, involving an expansion of data collection to include G-SIBs' liabilities and funding
  - Reviewed a roadmap for Phase 3, which is planned for 2016, involving the collection of granular data on G-SIBs' assets and liabilities

Links: [Press Release](#), [Capital Requirements for Banks' Investments in Equity](#), [Report on Cross-Border Implementation Issues: CFTC](#)  
 Keywords: G-SIB, G-SII, Large Exposure

## Europe

### European Union

#### Key Developments

##### **Banks to Get Six to Nine Months to Cover Capital Shortfalls Following Comprehensive Assessment**

- ECB

April 29, 2014

Type of Information: Report

The ECB has informed banks how capital shortfalls must be addressed, following the comprehensive assessment. This announcement follows the release by the EBA of the methodology and scenarios for the EU-wide stress test.

Along with the asset quality review (AQR), the stress test is a key pillar of the comprehensive assessment. The ECB has collaborated closely with the EBA on the stress test methodology and with the European Systemic Risk Board (ESRB), which produced the adverse scenario. The baseline scenario was produced by the European Commission. The ECB will publish results of the comprehensive assessment in October 2014, before it takes over its supervisory tasks within the Single Supervisory Mechanism (SSM).

Capital shortfalls will be expected to be covered within:

- » Six months for those identified in the AQR or the baseline stress-test scenario
- » Nine months for those identified in the adverse stress-test scenario

Recapitalization measures to cover any shortfalls detected should rely on capital instruments of the highest quality, unless the shortfalls are reduced through other means.

Links: [Press Release](#), [Comprehensive Assessment](#), [April 2014 Note on Comprehensive Assessment](#)

Keywords: AQR, Comprehensive Assessment, Stress Testing

##### **Release of Common Methodology and Scenarios for the 2014 EU-Banks Stress Test**

- EBA

April 29, 2014

Type of Information: Report

The EBA released its methodology and macroeconomic scenarios for the 2014 EU-wide stress test. The EU-wide stress test will be conducted on a sample of 124 EU banks.

The EBA's 2014 EU-wide stress test comes in the midst of the process of repair of EU banks' balance sheets and will follow AQRs undertaken by various competent authorities in the EU. The EBA's common methodology will be used by all EU supervisory authorities to ensure that all the main EU banks are assessed against common assumptions, definitions, and approaches.

The macroeconomic scenarios, developed by the European Systemic Risk Board (ESRB), were also released. These scenarios will be used to assess the impact that changes in the economic environment have on EU banks.

Link: [Press Release](#)

Keywords: AQR, Stress Testing, Systemic Risk

### Action Plan for Colleges of Supervisors

- EBA

April 28, 2014

Type of Information: Report

The EBA published its 2014 action plan for colleges of supervisors of the European Economic Area (EEA) banks. The plan:

- » Identifies key activities necessary in 2014 for the effective oversight of Europe's cross-border banking groups
- » Is issued alongside a report providing an assessment on the colleges functioning during 2013

In 2014, the completion of a common methodology for the supervisory review and evaluation process (SREP) in pillar 2 will allow for more consistency in the outcome of capital joint decisions by colleges of supervisors. In 2014, colleges of supervisors will need to reach, for the first time, a joint decision on liquidity, under CRD IV (Capital Requirements Directive 2013/36/EU).

The process of reaching joint decisions on liquidity will be supported by:

- » Technical standards
- » Common templates issued by the EBA
- » Common methodology for the assessment of liquidity under SREP

Colleges of supervisors will also play an important role in ensuring effective communication and coordination between national supervisors of cross-border banking groups during the 2014 AQRs and the EU-wide stress test exercise.

Link: [Press Release](#)

Keywords: AQR, Colleges of Supervisors, SREP, Stress Testing

### Financial Integration in Europe

- ECB

April 28, 2014

Type of Information: Report

The ECB and the EC have published reports analyzing financial integration and stability in Europe. The two annual publications, "Financial Integration in Europe" and the "European Financial Stability and Integration Report," show that significant financial fragmentation remains in the European Union and euro area, despite considerable improvements in the recent years.

"Both reports underline the crucial importance of implementing the banking union to restore the financial sector's capacity to support economic activity in the single market without creating excessive amounts of risk for society," said Internal Market and Services Commissioner Michel Barnier. "After the entry into force of the Single Supervisory Mechanism regulation, the Single Resolution Mechanism and Bank Recovery and Resolution Directive were voted by the European Parliament on April 15, and are scheduled to be voted by the Council in May. The new legal framework will ensure that banks will face the same market discipline as any other business, rather than being bailed out by European taxpayers."

In addition, the ECB presented a new Synthetic Indicator of Financial Integration (SYNFINT), which tracks the overall level of financial integration over time.

The SYNFINT has been constructed in a multi-layered structure that starts with the aggregation of selected indicators into four intermediate sub-indices for each relevant market segment: money, bonds, equities, and banking. Prior to aggregation, all indicators are homogenized in their distributional properties by an appropriate statistical transformation. Using the information contained both in prices and in cross-border quantities, two separate composite indicators (a price-based and a quantity-based SYNFINT) are then computed by using weighted averages of the relevant sub-indices. The weights reflect the average relative size of each market segment in terms of outstanding amounts.

The general statistical framework is similar to that of the Composite Indicator of Systemic Stress (CISS), as presented by the ECB in 2012. One exception being that the SYNFINT does not apply correlation weighting when aggregating the segment-specific indices into the composite indicator.

Links: [Press Release](#), [Working Paper on CISS](#)

Keywords: CISS, SYNFINT, Systemic Risk

### Single Supervisory Mechanism Framework Regulation

- ECB

April 25, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The ECB published its Single Supervisory Mechanism (SSM) Framework Regulation, which lays the basis for the work of the SSM after it takes over as the banking supervisor. ECB is expected to fully assume its supervisory tasks on November 01, 2014. This is an important milestone in the set-up of the SSM and is being delivered as scheduled.

The SSM Framework Regulation reflects the comments received from interested parties during a public consultation. These responses, along with the Feedback Statement and the SSM Framework Regulation, have been published on the ECB website.

The identification of significant banks, which will be subject to direct supervision by the ECB, will take place based on the criteria set out in the SSM Council Regulation and further developed in the SSM Framework Regulation. The result of this process is due to be announced in September.

Comments Due Date: N/A

Effective Date: November 04, 2014

First Reporting Date: N/A

Links: [Press Release](#), [Final Rule](#)

Keyword: SSM

### Answers to Single Rulebook Questions

- EBA

April 25, 2014

Type of Information: Report

This month, under the Single Rulebook Q&A, 40 questions were answered, among which:

- » 3 answers were dated April 25, 2014
- » 1 answer was dated April 16, 2014
- » 12 answers were dated April 11, 2014
- » 24 answers were dated April 04, 2014

The Single Rulebook Q&A tool can be used by institutions, supervisors, and other stakeholders to submit questions on CRD, CRR, RTS, and ITS, as well as EBA guidelines.

Link: [Q&A](#)

Keywords: CRD IV, CRR, Single Rulebook, Basel III, COREP, FINREP

### Banking Union's Meaning and Implications for Future of Banking: A Speech by Vice-President of ECB

- ECB

April 24, 2014

Type of Information: Speech

While speaking at the Banking Union Conference, Vítor Constâncio, Vice-President of the ECB, focused on two practical and immediate goals of the banking union:

- » To eliminate the sovereign-bank loop and thereby reduce financial fragmentation
- » To repair bank's balance sheets, recover the impaired credit channel, and consolidate the ongoing mild economic recovery

Constâncio also discussed implications for the financial system's future and for the role of macro-prudential policies. He said, "It seems likely that the Banking Union will create the conditions for further integration of the European banking market. Unified supervision should create greater trust among banks and cross-border banking groups will be able to optimize their internal management of capital and liquidity and reduce compliance costs."

Link: [Speech](#)

Keywords: Banking Union, SRM, SSM

### List of Incorrect ITS Validation Rules

- EBA

April 16, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The EBA announced that some initial tests based on real data from reporting firms and some answers to questions submitted via the EBA Q&A tool showed that several validation rules in its implementing technical standards (ITS) on supervisory reporting were incorrect. As more real data will become available in the near future, the list of incorrect validation rules is expected to increase.

The updated validation rule files are available in the Supervisory Reporting section of the EBA website. The EBA will publish updated versions of this list well in advance of the remittance date (which is June 30, 2014) for Q1 2014 data.

ITS validations rules in reporting solutions:

- » Explain logical relationships between data points (that is, cells of reporting templates)
- » Result in validation reports on the formal correctness and quality of data

Comments Due Date: N/A

Effective Date: N/A

First Reporting Date: N/A

Links: [News Release](#), [Updated Validation Rules](#)

Keywords: CRD IV, ITS, Regulatory Reporting, COREP, FINREP

### Update of Work Program for 2014

- EBA

April 16, 2014

Type of Information: Report

The EBA issued an addendum to its work plan for 2014, following a series of calls for advice from the EC. The additional work will mostly consist of technical advice on a number of topics related to provisions in the CRR/CRD.

It will inform the EC in the preparation of reports to the European Parliament and the Council and, where appropriate, legislative acts.

Link: [News Release](#)

Keywords: CRD IV, CRR, Work Plan

### Technical Standards on Supervisory Reporting Endorsed with Amended Calendar

- EBA

April 16, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The EC adopted the EBA's implementing technical standards (ITS) on supervisory reporting. In accordance with an Opinion issued by the EBA, the remittance dates of the first set of supervisory reports will be postponed from April/May 2014 to the end of June 2014, but there is no change to reference dates. This decision will ensure legal coherence and clarity, given the later-than-scheduled entry into force of the ITS.

The postponement concerns banks' submissions to competent authorities of:

- » The first quarterly reports on own funds, large exposures, leverage ratio, and net stable funding ratio, with reference dates as of March 31, 2014 to the end of June 2014, as opposed to the end of May 2014
- » The first monthly liquidity reports with reference dates as of March 31, 2014 and April 30, 2014 to the end of June 2014, as opposed to April 2014

Following the later-than-scheduled adoption of the ITS by the EC, the postponement of the first remittance dates to the end of June 2014 will avoid a situation where banks are asked to submit reports before the actual entry into force of the ITS.

It has also agreed to delay the implementation of the draft ITS on reporting of asset encumbrance. The first reporting reference date for asset encumbrance will be December 31, 2014 and the first remittance date will be February 11, 2015.

Comments Due Date: N/A

Effective Date: N/A

First Reporting Date: N/A

Links: [News Release](#), [Supervisory Reporting Calendar](#)

Keywords: CRD IV, ITS, Regulatory Reporting

### Texts Adopted by European Parliament During its April 2014 Plenary

- EC

April 16, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The European Parliament and the Council have adopted texts on the following:

- » Omnibus II Directive (additional powers for EIOPA/ESMA and amended provisions for Solvency II)
- » Market Abuse Regulation (MAR)
- » Deposit Guarantee Scheme Directive (DGSD)
- » Criminal Sanctions for Market Abuse Directive (CSMAD)

Comments Due Date: N/A

Effective Date: [OJ Date]

First Reporting Date: N/A

Links: [Omnibus II Directive](#), [DGS Directive](#), [MAR](#), [CSMAD](#)

Keywords: CSMAD, DGSD, MAR, Omnibus II

### Finalizing the Banking Union: European Parliament Backs Commission's Proposals

- EC

April 15, 2014

Type of Information: Statement

The European Parliament adopted three interconnected texts on Bank Recovery and Resolution Directive (BRRD), Deposit Guarantee Schemes Directive (DGSD), and Single Resolution Mechanism (SRM).

The EC's Internal Market and Services Commissioner, Michel Barnier, said, "Today, the European Parliament has adopted three key texts to complete the legislative work underpinning the banking union. Thanks to the assiduous work of the co-legislators, we have turned the idea of a Banking Union into reality in less than two years. The EU has lived up to its commitments: the banking union completes the economic and monetary union and ensures taxpayers will no longer foot the bill when banks face difficulties.... With today's vote, we remain on track for the operational work to start later this year."

Links: [Press Release](#), [SRM](#), [BRRD](#), [DGSD](#)

Keywords: BRRD, DGSD, SRM

### Markets in Financial Instruments Directive: Commissioner Michel Barnier Welcomes Agreement in Trilogue on Revised European Rules

- EC

April 14, 2014

Type of Information: Statement

In his statement, Commissioner Michel Barnier said, "The MiFID II reform means that organized trading of financial instruments must shift to multilateral and well-regulated trading platforms. Strict transparency rules will ensure that dark trading of shares and other equity instruments, which undermine efficient and fair price formation, will no longer be allowed."

In fulfilment of the G-20 commitments, the introduction of a trading obligation for derivatives will make trading safer and more efficient and will complement the compulsory clearing requirements under the EMIR. MiFID:

- » Will contribute to orderly pricing and will prevent market abuse, by introducing a harmonized EU system that is setting limits on the positions held in commodity derivatives
- » Provides for strengthened supervisory powers and a harmonized position-limits regime for commodity derivatives to improve transparency, support orderly pricing, and prevent market abuse

Barnier also said that, under this system, competent authorities will impose limits on persons' positions, in accordance with a calculation methodology set by the European Securities and Markets Authority (ESMA). In addition, it also introduces a position-reporting obligation by the category of trader.

Links: [Press Release](#), [MiFID](#), [MiFIR](#)

Keywords: EMIR, MiFID, MiFIR



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**Market Abuse: EU Enacts Criminal Sanctions to Defend Market Integrity**

- EC

April 14, 2014

Type of Information:  
Statement

The EU Council adopted the amended:

- » **Market Abuse Directive (MAD 2):** It is sometimes referred to as the Criminal Sanctions for Market Abuse Directive (CSMAD). The new MAR extends the scope of the rules to include financial instruments traded on more recently created venues such as multilateral trading facilities and organized trading facilities, along with OTC-traded financial instruments.
- » **Market Abuse Regulation (MAR):** The new MAD obliges member states to provide, in their national legislation, for criminal sanctions on insider dealing, market manipulation, and unlawful disclosure of inside information.

Adoption of the regulation and the directive follows agreements reached with the European Parliament at first reading. Publication in the *Official Journal of the European Union* is expected in June 2014; there will be a 24-month period for the:

- » Adoption of implementing measures by the Commission concerning the regulation
- » Member states to implement the directive in national legislation

The new rules comprise a:

- » Regulation aimed at enhancing the protection of investors and amending and replacing directive 2003/6/EC, which prohibits insider dealing and the manipulation of financial instruments
- » Directive establishing a framework for criminal sanctions

Links: [Press Release by EU Council](#), [Press Release by European Commission](#)

Keywords: CSMAD, MAD 2, MAR

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### Consultation on Draft Technical Standards for the European Market Infrastructure Regulation

- ESAs

April 14, 2014

Type of Information: Regulation

Regulatory Status: Proposed Rule

The European Supervisory Authorities (ESAs) launched a consultation on draft regulatory technical standards (RTS) outlining the framework of the European Market Infrastructure Regulation (EMIR). These RTS cover:

- » Risk-management procedures for counterparties in non-centrally cleared over-the-counter (OTC) derivatives
- » Criteria concerning intragroup exemptions
- » Definitions of practical and legal impediments

For those OTC derivative transactions that will not be subject to central clearing, these draft RTS:

- » Prescribe that counterparties apply robust risk-mitigation techniques to their bilateral relationships, which will include mandatory exchange of initial and variation margins. This will:
  - Reduce counterparty credit risk
  - Mitigate any potential systemic risk
  - Ensure alignment with international standards
- » Elaborate on the risk-management procedures for the exchange of collateral and on the procedures concerning intragroup exemptions, including the criteria that identify practical and legal impediments to the prompt transfer of funds

This proposal fully aligns the requirements with international standards. Initially, the requirements will only apply to the largest market participants. Subsequently, after four years, more market participants will become subject to the requirements:

- » From December 01, 2015, market participants with an aggregate month-end average notional amount of non-centrally cleared derivatives exceeding EUR 3 trillion will be subject to the requirements from the outset
- » From 1 December 2019, any counterparty belonging to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives exceeds EUR 8 billion will be subject to the requirements

Comments Due Date: July 14, 2014

Effective Date: December 01, 2015

First Reporting Date: N/A

Link: [Press Release](#)

Keywords: EMIR, Margin, OTC Derivatives

### The Impaired EU Securitization Market: Causes, Roadblocks, and How to Deal With Them

- ECB/BOE

April 11, 2014

Type of Information: Report

This paper assesses the current EU securitization market, including a forward-looking perspective. A particular focus is the promotion of simple structures and well-identified and transparent underlying asset pools with predictable performance (so-called 'high-quality' securitization), while still impeding the resurgence of the more complex and opaque structures that contributed to the financial crisis.

A key question is the actual criteria to distinguish high-quality transactions. In this regard, central bank eligibility criteria aiming at ABS with simple structures and well-identified and transparent underlying asset pools with predictable performance could form a useful guide. This short paper was prepared for the G-20/IMF Spring meetings. A longer, more substantive joint discussion paper will be issued in May.

Market participants continue to cite the lack of transparency and standardization of ABS and related data on underlying assets as a key constraint. This is despite expending significant effort to create standards for quality, transparency, and simplicity, thus helping to boost investor trust. The central banks' loan-level data reporting templates and market-led initiatives are encouraging steps toward more transparency and harmonization of reporting standards.

Link: [Report](#)

Keywords: ABS, Securitization, SME

**Banks, SMEs and Securitization: A Speech by Yves Mersch, Member of the Executive Board of ECB**

- ECB

April 07, 2014

Type of Information: Speech

Yves Mersch spoke about the revised securitization framework at the Deutsche Boerse–Clearstream 'Exchange of Ideas' event in London.

He said the "revised securitization framework should reflect the risk-mitigating features of high-quality securitization. It is therefore important that the EU moves ahead swiftly in addressing inconsistencies in the treatment of high-quality securitization. The EU has already innovated in certain areas; for example, introducing preferential risk weights for certain covered bonds. I do not wish to claim that ABSs present as low risks as covered bonds, but it is odd that certain covered bonds can earn preferential risk weights even though they are not subject to the same tight standards regarding transparency and harmonized regulatory frameworks at the EU level, such as ABS risk retention requirements. It is also odd that proposals for insurer securitization capital requirements would require far more capital than if an insurer held the underlying asset pool directly. These are level-playing field issues that are specific to the EU and, in my view, should be kept in mind when reflecting on the EU-specific securitization framework. In any event, it is reasonable to (re-) establish the consistency in the regulatory treatment across asset classes without prejudice to prudential principles."

He proposes that "the central bank's ABS eligibility criteria could form a useful starting point for identifying 'qualified' ABSs. This is because these criteria are determined using a common risk-tolerance threshold, are widely accepted by market participants, and are set without conflicts of interest. Of course, we should not entirely rely on central bank eligibility criteria. In this regard, I believe the approach recently developed by EIOPA, and partly inspired by the Eurosystem eligibility framework, has many merits, not least being relatively simple while managing to exclude many particularly risky ABSs."

Mr. Mersch states that the next step is deciding the treatment to be granted, after having defined the criteria for the so-called "high-quality securitization." For instance, either supervisory parameters can be adjusted in the current securitization proposals or another option is adopting straightforward preferential risk weights in a manner similar to covered bonds in the CRR. These arrangements could then be reviewed, in case BCBS reaches an agreement on a similar framework.

Other barriers to the securitization market include the somewhat-arbitrary imposition of caps on ABS ratings by certain credit rating agencies. These are becoming increasingly untenable, not only in view of asset performance but also because of structural reforms in the euro area institutional structure, not least the banking union and the SRM. In addition, the Liquidity Coverage Ratio also leaves out some ABS types that could have been included. However, taking a step back, it seems more important to achieve an appropriate capital treatment. This is because with "too-high" capital requirements, European ABSs are unlikely to be created in the first place, much less traded.

Links: [Speech](#), [ABS: Loan-level Initiative](#), [Eligibility Criteria](#), [EIOPA: Proposed Capital Requirements for Debt Securitization](#)

Keywords: ABS, Securitization, SME

**Annual Report, 2013**

- ECB

April 07, 2014

Type of Information: Report

The report reveals that a major step toward enhancing the resilience of the financial system in the EU was taken in 2013, with implementation of the new international standards on capital and liquidity (Basel III) in the EU through the Capital Requirements Regulation and Directive (CRR/CRD IV).

The provisions of the regulation are directly applicable in all member states, as of January 01, 2014. They form a single rulebook for financial regulation and supervision across the EU. The Single Supervisory Mechanism (SSM) will also rely on the single rulebook and will become operational in November 2014. The Single Resolution Mechanism (SRM) will be the next step toward banking union. The entry into force of the regulation is envisaged in mid-2014 and the SRM should become fully operational from 2015.

An effective SRM also requires a comprehensive set of enforceable tools and powers, as provided for in the Bank Recovery and Resolution Directive (BRRD), on which agreement was reached between the European Parliament, EU Member States, and the European Commission on December 12, 2013. The BRRD is expected to enter into force in 2015 and the bail-in tool will be effective as of January 01, 2016. One of the key relevant sections of the report is Chapter 4, titled "Financial stability, tasks related to the ESRB, and financial integration."

Link: [Annual Report](#)

Keywords: Basel III, SRM, SSM

### Consultation on Revised Guidelines on Remuneration Benchmarking and Data Collection for High Earners

- EBA

April 07, 2014

Type of Information:  
Regulation

Regulatory Status:  
Proposed Rule

The EBA has published Consultation on revised guidelines on remuneration benchmarking and data collection for high earners.

The major changes in the EBA draft guidelines concern the reporting templates, which have been revised to include more granular data and to ensure even better quality of the data collected. However, the main approach and processes to collect and process the data are maintained in these updated guidelines. The revised templates already should have been used for the collection of data for the financial year 2013.

The updated templates for the remuneration benchmarking exercise introduce a more granular collection of remuneration for different business areas, control, and corporate functions. This ensures more meaningful benchmarking practices across different classes of staff.

Comments Due Date: May 07, 2014

Effective Date: N/A

First Reporting Date: N/A

Link: [Press Release](#)

Keywords: CRD IV, CRR, Remuneration

### European Parliament Backs Commission Proposals on New Rules to Improve Quality of Statutory Audit

- EC

April 03, 2014

Type of Information:  
Regulation

Regulatory Status:  
Proposed Rule

The European Parliament has adopted, in the plenary session, the amended directive on statutory audit and the regulation on specific requirements regarding the statutory audit of public-interest entities.

The new rules will:

- » Strengthen the quality of statutory audit
- » Reinforce the independence of statutory auditors
- » Improve supervision

Stricter requirements will apply to the statutory audit of public-interest entities.

Comments Due Date: N/A

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Texts Adopted: Statutory Audit of Public-Interest Entities](#)

Keywords: Audit

### Report on Risks and Vulnerabilities in European Union's Financial System

- EBA

April 02, 2014

Type of Information: Report

The Joint Committee of the European Supervisory Authorities (ESAs) published its third bi-annual report on risks and vulnerabilities in the European Union's financial system. The report identifies a number of potential vulnerabilities and cross-sectoral risks to the stability of the European financial system.

Andrea Enria, Chairman of EBA, said, "The cross-sectoral risks identified in this report will help focus the scenarios of the stress tests for banks and insurance companies."

Link: [Press Release](#)

Keywords: Stress Testing, Systemic Risk

### Trade Repository Supervision Work Plan 2014

- ESMA

April 01, 2014

Type of Information: Statement

The ESMA has published a summary of its 2014 supervisory work plan in relation to trade repositories.

Trade repositories centrally collect and maintain the records of derivative trades and play a central role in enhancing the transparency of derivative markets. In November 2013, the ESMA registered six trade repositories. The obligation for counterparties to report their derivative trades to the registered repositories began on February 12, 2014.

In 2014, the ESMA will implement the tools and procedures needed to perform its trade repository supervisory activities through the development of a risk-based approach (RBA) adapted to the structure of the trade repository industry.

The main risks to which trade repositories are exposed are operational risk, legal risk, governance risk, and general business risk. EMIR and the relevant standards have developed these general risk categories into the following specific requirements for trade repositories:

- » Legal requirements
- » Organizational requirements
- » Financial requirements
- » Operational requirements
- » Data access requirements

Link: [Workplan](#)

Keywords: RBA, Trade Repository

### The Known Unknowns of Central Clearing: A Speech by Benoît Cœuré, Member of the Executive Board

- ECB

March 31, 2014

Type of Information: Speech

The speech of Benoît Cœuré, Member of the Executive Board of ECB, at the meeting on global economy and financial system hosted by the University of Chicago Booth School of Business Initiative on Global Markets covered the following issues:

- » Systemic effects of mandatory clearing
- » Recovery versus resolution of central counterparties
- » Optimal design of loss allocation tools
- » Evolution of global clearing structures

The CPSS-IOSCO and the Financial Stability Board (FSB) will provide guidance on the recovery and resolution of CCPs by mid-2014. It is critically important to:

- » Enforce the new reporting requirements to trade repositories
- » Be able to aggregate data collected by trade repositories across products, institutions, and jurisdictions, and to conduct analytical work based on this data

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

Keywords: CCP, Trade Repository

### Final Draft Technical Standards on Prudent Valuation

- EBA

March 31, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

The final draft RTS on prudent valuation put forward a methodology to calculate additional valuation adjustments (AVAs) for determining the prudent value of fair-valued positions. Two approaches are proposed to take proportionality into account, particularly for institutions with limited exposure to fair-valued positions:

- » A Simplified approach, which can be used by institutions to calculate AVAs, provided their absolute value of on- and off-balance-sheet fair-valued assets and liabilities is below EUR 15 billion and provided they are not part of a group that exceeds this threshold
- » A Core approach, which is intended to provide a consistent framework for determining AVAs under a target level of certainty of 90%, using either a data-based or expert-based approach and including diversification benefits

These final draft RTS reflect the:

- » Feedback received from the consultation document
- » Results of the Quantitative Impact Study (QIS)

Fifty-nine institutions across 15 jurisdictions completed the QIS on a best effort basis. The QIS results showed that on average the expected AVA would be equivalent to 1.5% of the CET1 of institutions in absolute terms (on average EUR 227 million per institution), which is on average 0.07% of the value of fair-valued positions on banks' balance sheets. These results were used in the final calibration of the prudent valuation framework.

Comments Due Date: N/A

Effective Date: [OJ Date] + 20 Days

First Reporting Date: N/A

Link: [Press Release](#)

Keywords: AVA CRR, RTS, CRD IV, Basel III

## Belgium

### Key Developments

#### Implementation of New Reporting Defined by the EBA

- NBB

April 09, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

The EC recently decided to extend the deadline for transmission (remittance dates) of reporting from April 30, 2014 (publication in EU Official Journal expected shortly):

- » Reporting on coverage requirements liquidity needs will be the first to be application; that is to say, the data will be transmitted no later than June 30, 2014 for the original date
- » The COREP and reporting on stable funding, losses generated by collateralized on property, large exposures and exposures to leverage be sent no later than June 30, 2014
- » The FINREP will be implemented for the situation as at September 30, 2014, with transmission data for November 12 at the latest
- » Reporting on encumbered assets will apply from the positions adopted as of December 31, 2014

Text from the National Bank of Belgium, or NBB, is available in French and Dutch only.

Comments Due Date: N/A

Effective Date: June 30, 2014

First Reporting Date: N/A

Links: [NBB Circular](#) (to original language material), [CRD IV](#)

Keywords: COREP, FINREP, Regulatory Reporting

## Germany

### Key Developments

#### German Action Plan to Reduce Overreliance on CRA Ratings

- BaFin

April 14, 2014

Type of Information:  
Report

The German action plan to reduce overreliance on the credit rating agency (CRA) ratings complements the respective actions being taken at the EU level. It sets out additional measures and milestones for developing alternative credit-risk assessment methods and for motivating market participants to implement and use them in practice.

All actions are described in detail in the annexure in a table format. Similar to the EU action plan, it comprises a multi-layer approach. This action plan builds on the already existing first layer, which consists of legal provisions and administrative rules in (mostly EU) laws and German administrative guidance. The effective date is January 01, 2014.

Link: [Action Plan](#)

Keyword: CRA

#### Peer Review of Germany

- FSB

April 09, 2014

Type of Information:  
Report

The FSB has established a regular program of country and thematic peer reviews of its member jurisdictions. The country reviews:

- » Focus on the implementation and effectiveness of regulatory, supervisory, or other financial- sector standards and policies agreed within the FSB, as well as their effectiveness in achieving desired outcomes
- » Examine the steps taken or planned by national authorities to address International Monetary Fund-World Bank Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability
- » Focus on regulatory, supervisory, or other financial-sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyze a jurisdiction's financial system structure or policies, or its compliance with international financial standards

This report:

- » Describes findings and conclusions of Germany's peer review
- » Is the 11<sup>th</sup> country peer review conducted by the FSB and the 5<sup>th</sup> using the revised objectives and guidelines for the conduct of peer reviews set forth in the Handbook for FSB Peer Reviews

To supplement the EBA's reporting requirements, the German supervisors have strengthened national reporting requirements and will implement several new regulatory reports during 2014 and 2015. In particular, the granularity and timeliness of certain types of financial information will be enhanced, especially those relating to profit and loss items such as trading results, fees, and commissions. Banks will be expected to report their forecasts for these key items and will be required to provide additional data on specific risk areas such as credit quality.

In 2013, BaFin began its "Strengthening prospective supervision" initiative, with the aim of refining its supervision of insurers. For 2014, BaFin is planning to enhance its stress tests to have a more market value-based focus and to refine the systematic and market-wide analysis of stress tests.

Links: [Review Report](#), [Handbook for FSB Peer Reviews](#)

Keywords: FSAP, Peer Review, ROSC, Stress Testing

## Italy

### Key Developments

#### Banking Law and Circulars Implementing CRD/CRR

- BDI

April 16, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The Bank of Italy (Banca d'Italia or BDI) published the following documents:

- » Banking Law (Testo unico bancario)—consolidated text (248 pages)
- » Supervisory reports of banks and financial institutions and schemes and instructions for submitting the information flows (Segnalazioni di vigilanza delle istituzioni creditizie e finanziarie e Schemi di rilevazione e istruzioni per l'inoltro dei flussi informativi)—circular 154, consolidated text (968 pages)
- » Instructions for prudential reporting of banks and brokerage companies (Istruzioni per la compilazione delle segnalazioni prudenziali per le banche e le società di intermediazione mobiliare)—circular 286, consolidated text (683 pages)

Comments Due Date: N/A

Effective Date: N/A

First Reporting Date: N/A

Links (to original language material): [Banking Law](#), [Circular 154](#), [Circular 286](#)

Keywords: CRD IV, CRR, Regulatory Reporting

## United Kingdom

### Key Developments

#### Statements for Implementing CRD IV Provisions on Capital Buffers

- BOE

April 30, 2014

Type of Information: Statement

The BOE published the following statements for implementing the CRD IV provisions on capital buffers:

- » Policy Statement (PS 3/14) — It contains the final rules implementing the capital buffers requirements of the Capital Requirements Directive (2013/36/EU). It is relevant to banks, building societies, and PRA-designated investment firms.
- » Supervisory Statement (SS 6/14) — It is aimed at firms to which CRD IV applies and complements the requirements set out in Title VII Chapter 4 of the CRD and the capital buffers rules of the PRA Rulebook.

Links: [PS 3/14](#), [SS 6/14](#)

Keywords: CRD IV, CCB

#### Details of UK Stress Test for Major UK Banks and Building Societies

- BOE

April 29, 2014

Type of Information: Report

The Bank of England set out further details of the scenario for the stress tests that the eight major UK banks and building societies will be undertaking this year.

The 2014 UK stress testing exercise will be built on the EU-wide stress test, announced in January 2014 by the European Banking Authority (EBA); the exercise will assess the resilience of EU banks under a common adverse scenario and provides for national variants. The UK stress test will be run alongside the EBA's EU-wide exercise. The BOE will add, to the EBA stress test, a number of additional UK layers (UK variant), which explore particular vulnerabilities facing the UK banking system.

The BOE's UK-variant stress scenario is a coherent, "tail risk" scenario designed to assess the resilience of UK banks and building societies, predominantly to a very severe housing market shock and to a sharp rise or snap back in interest rates.

Link: [News Release](#)

Keywords: AQR, Stress Testing, Systemic Risk



**The Age of Asset Management: A Speech by Andrew G Haldane, Executive Director, Financial Stability and Member of the Financial Policy Committee**

- BOE

April 04, 2014

Type of Information: Speech

In his speech at the London Business School's Asset Management Conference, Andrew Haldane, Executive Director of Financial Stability, discusses the risks posed by the asset management industry to financial stability, along with their associated policy implications.

Andrew first asked whether the size of the industry means it poses the same too-big-to-fail (TBTf) challenges as the banking industry. The risks are different to banking, he notes, because asset managers do not bear credit, market, and liquidity risks on their portfolios. Yet their size means that distress at an asset manager could aggravate frictions in financial markets; for example, through forced asset fire-sales: "even if the 'fail' element of too-big-to-fail is a red-herring, the 'big' is not."

The second risk he highlights is the potential for asset management "to amplify pro-cyclical swings in the financial system and wider economy. If so, it may contribute to the mispricing of risk with risk premia undergoing cycles of feast and famine." He describes the channels that could generate pro-cyclicality, such as performance benchmarking and accounting and regulatory rules.

While asking "what policy response might best deal with the risks and opportunities posed by asset management," he focuses on three areas:

- » International work is underway to help identify whether asset managers are classified as G-SIFIs
- » Natural first line of defense against pro-cyclical swings is macro-prudential policy
- » Initiatives to encourage the financing of long-term investment

Among these, he highlights work on securitization, where, "slowly, the market is being rehabilitated and reconstructed in a different image, helped by public and private sector initiatives to improve transparency." The bank intends to actively support international work to consider a "high-quality securitization product" that "might comprise much simpler structuring of payoffs and high and transparent underwriting standards." If successful, he believes that "the prize for regulators and asset managers is a big one."

Links: [News Release](#), [Speech](#)

Keywords: Asset Management, Macro-prudential Policy, Shadow Banking

## Middle East & Africa

### Bahrain

#### Key Developments

**Consultations on Capital Adequacy Modules for Conventional (Vol. 1) and Islamic Banks (Vol. 2) and on Financial Crime Module**

- CBB

April 24, 2014

Type of Information: Regulation

Regulatory Status: Proposed Rule

The proposed changes to Capital Adequacy Module are in respect of Pillar 1 (Capital Adequacy) of Basel III. Other draft changes to Rulebook Modules will be sent out in due course in reference to Pillars 2 and 3 and Liquidity and Public Disclosure, along with any ancillary changes to other Rulebook Modules.

Capital Adequacy Vol. 2 is proposed to come into effect in January 2015 and is based on the:

- » December 2013 IFSB standard 15, Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services (IFSB-15)
- » BCBS Basel III standard

Comments Due Date: May 15, 2014 for Module on Capital Adequacy for Conventional Banks

May 22, 2014 for Module on Capital Adequacy for Islamic Banks

May 20, 2014 for Financial Crime Module

Effective Date: N/A

First Reporting Date: N/A

Links: [Consultations](#), [IFSB 15](#)

Keywords: Basel III, IFSB-15, Pillar 1

## Americas

### United States of America

#### Key Developments

**Recordkeeping and Reporting Requirements for Security-Based Swap Dealers, Major Security-Based Swap Participants, and Broker-Dealers; Capital Rule for Certain Security-Based Swap Dealers**

- SEC

April 17, 2014

Type of Information:  
Regulation

Regulatory Status:  
Proposed Rule

The SEC proposed new rules (17 CFR Parts 240 and 249) for security-based swap dealers (SBSDs) and major security-based swap market participants (MSBSPs). In accordance with the Dodd-Frank Act, the SEC—pursuant to the Securities Exchange Act of 1934 (Exchange Act)—is proposing:

- » Recordkeeping, reporting, and notification requirements applicable to SBSDs and MSBSPs, securities count requirements applicable to certain SBSDs, and additional recordkeeping requirements applicable to broker-dealers to account for their security-based swap and swap activities
- » An additional capital charge provision that would be added to the proposed capital rule for certain SBSDs
- » Technical amendments to the broker-dealer recordkeeping, reporting, and notification requirements

The SEC estimates that:

- » Fifty or fewer entities ultimately may be required to register as SBSDs based on available data regarding the single-name credit default swap market
- » The number of MSBSPs is likely to be five or fewer and, in actuality, may be zero; therefore, the Commission estimates that five entities will register with it as MSBSPs
- » There will be fifty SBSDs and five MSBSPs for calculating PRA reporting burdens

Comments Due Date: [FR Date] + 60 days

Effective Date: N/A

First Reporting Date: N/A

Links: [Press Release](#), [Proposed Rule](#)

Keywords: Dodd-Frank Act, MSBSP, SBSD

**Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule**

- FDIC

April 14, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The FDIC is adopting the Basel III interim final rule (FDIC 12 CFR Parts 303, 308, 324, 327, 333, 337, 347, 349, 360, 362, 363, 364, 365, 390, and 391) as the final rule with no substantive changes. The only changes in this final rule are technical revisions to conform it to the final rules issued by the FED and the OCC. The changes include the following:

- » The final rule uses the correct compliance date, January 01, 2015, in section 324.63(a) rather than January 01, 2014, as used in the Basel III interim final rule
- » Several sections of the final rule have been clarified to read, "this paragraph (x)", instead of "this paragraph," to match internal references in the final rule adopted by the Federal Reserve and the OCC
- » Consistent with the Basel III interim final rule, the final rule is intended to improve both the quality and quantity of FDIC-supervised institutions' capital

The final rule:

- » Implements a revised definition of regulatory capital
- » Implements a new common equity tier 1 minimum capital requirement
- » Implements a higher minimum tier 1 capital requirement
- » Implements a supplementary leverage ratio that incorporates a broader set of exposures in the denominator measure (that is, total leverage exposure), for FDIC-supervised institutions subject to the advanced approaches
- » Codifies the FDIC's regulatory capital rules, which have previously resided in various appendices to their respective regulations, into a harmonized integrated regulatory framework
- » Amends the market risk capital rule (market risk rule) to apply to state savings associations

The mandatory compliance dates are:

- » January 01, 2014 for advanced approaches FDIC-supervised institutions
- » January 01, 2015 for all other FDIC-supervised institutions

The *Federal Register* Notice spans 8 pages, with half being the preamble, including comments, and with the other half containing text of actual revisions.

Comments Due Date: N/A

Effective Date: April 14, 2014

First Reporting Date: N/A

Link: [Federal Register Notice](#)

Keywords: Basel III, Dodd-Frank Act

**Adoption of Enhanced Supplementary Leverage Ratio Final Rule; Issuance of Notice of Proposed Rulemaking for Denominator Calculation for Supplementary Leverage Ratio and for Technical Correction to the Definition of "Eligible Guarantee"**

- US Agencies

April 08, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

The US agencies adopted the final rule to strengthen the leverage ratio standards for the largest, most interconnected U.S. banking organizations. The final rule applies to U.S. top-tier bank-holding companies (BHCs) with more than \$700 billion in consolidated total assets or more than \$10 trillion in assets under custody (covered BHCs) and their insured depository institution (IDI) subsidiaries.

The covered BHCs must maintain a leverage buffer greater than 2 percentage points above the minimum supplementary leverage ratio requirement of 3%, for a total of more than 5%, to avoid restrictions on capital distributions and discretionary bonus payments. IDI subsidiaries of covered BHCs must maintain at least a 6% supplementary leverage ratio to be considered "well capitalized" under the agencies' prompt corrective action framework.

The final rule applies to eight large U.S. banking organizations that meet the size thresholds and their IDI subsidiaries. In a separate action, the FDIC Board also adopted as final its Basel III interim final rule, which is substantively identical to the final rules adopted by the Federal Reserve Board and the OCC in July 2013.

The banking agencies also issued two notices of proposed rulemaking (NPR):

- » Modifying the denominator calculation for the supplementary leverage ratio (SLR) in a manner consistent with the recent changes agreed to by the BCBS. The revisions in the NPR would apply to all internationally active banking organizations, including those subject to the enhanced supplementary leverage ratio final rule. Advanced Approach banks will start disclosing SLR from January 1, 2015.
- » Proposing a technical correction to the definition of "eligible guarantee" in the agencies' risk-based capital rules. Comments on both NPRs will be welcomed through June 13, 2014.

Comments Due Date: June 13, 2014

Effective Date: January 01, 2018

First Reporting Date: N/A

Link: [Press Release](#)

Keywords: Dodd-Frank Act, Leverage Ratio

**Statement Regarding Treatment of Collateralized Loan Obligations Under Section 13 of the Bank Holding Company Act**

- FED

April 07, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

The FED announced that it intends to exercise its authority to give banking entities two additional one-year extensions to conform their ownership interests in and sponsorship of certain collateralized loan obligations (CLOs) covered by section 619 of the Dodd-Frank Act, commonly referred to as the Volcker rule. CLOs are securitization vehicles backed predominantly by commercial loans.

Only CLOs in place as of December 31, 2013, that do not qualify for the exclusion in the final rule for loan securitizations would be eligible for the extension.

The FED consulted other agencies charged with enforcing the Volcker rule (OCC, FDIC, SEC, and CFTC); the agencies plan to administer their oversight of banking entities under their respective jurisdictions in accordance with the Board's conformance rule, including any extension of the conformance period applicable to CLOs.

Comments Due Date: N/A

Effective Date: July 21, 2017

First Reporting Date: N/A

Link: [Press Release](#)

Keywords: CLO, Dodd-Frank Act, Volcker Rule

### Consolidated Reports of Condition and Income for First Quarter of 2014

- FDIC

April 07, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

The FDIC has released materials (FIL-14-2014) for the Consolidated Reports of Condition and Income (Call Report) for the March 31, 2014 report date.

The completed Call Report must be received by Wednesday, April 30, 2014. As the Federal Financial Institutions Examination Council (FFIEC) previously advised (FIL 3-2014), certain Call Report revisions take effect this quarter.

In addition, revisions to Call Report Schedule RC-R, Regulatory Capital, that are consistent with the revised regulatory capital rules approved by the banking agencies in July 2013 (Basel III) will begin to be implemented this quarter.

Comments Due Date: N/A  
Effective Date: April 30, 2014  
First Reporting Date: N/A

Links: [FIL-14-2014](#), [FIL 3-2014](#)  
Keywords: Basel III, Call Reports

## Canada

### Key Developments

#### Capital Adequacy Requirements, 2014

- OSFI

April 25, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

The OSFI issued an amended version of the Capital Adequacy Requirements (CAR) guideline. The guideline has been revised to:

- » Incorporate a number of clarifications to facilitate the interpretation of guidance in a number of chapters
- » Revise incorrect paragraph cross-references included in the previous version

Annex 1 provides a list of paragraphs affected by the edits, all of which continue to align with international standards set by the BCBS.

The revisions to the guideline are effective immediately and should be reflected in reported information, commencing in the third quarter of 2014. To facilitate the accurate reporting of these changes, minor modifications will be made to the reporting forms, which align with this Guideline. These changes will be incorporated into the revised forms, already scheduled to be in use by institutions, beginning the first quarter of 2015.

In addition, Phase 2 of the regulatory reporting system (RRS) will be implemented during April 04-27, 2014.

Comments Due Date: N/A  
Effective Date: January 01, 2015  
First Reporting Date: N/A

Links: [CAR 2014](#), [RRS](#)  
Keywords: Basel III, Capital Adequacy Requirements, Regulatory Reporting

**Public Capital Disclosure Requirements Related to Basel III Pillar 3**

- OSFI

April 25, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

On June 26, 2012, the BCBS issued its final rules on the information banks must publicly disclose when detailing the composition of their capital. The publication specifies a framework to ensure that the components of banks' capital bases are publicly disclosed in standardized formats across and within jurisdictions, for banks subject to Basel III. In Canada, this includes:

- » All banks
- » Bank holding companies
- » Federally regulated trust and loan companies
- » Cooperative retail associations (collectively institutions) regardless of size or public listings

This advisory provides clarification on the implementation of BCBS Disclosure Rules for all institutions and has been revised to provide:

- » Guidance on the disclosure modifications required as a result of OSFI's August 21, 2013 letter on Credit Valuation Adjustment (CVA) grandfathering
- » Minor clarification edits to address queries received since the initial issuance of this advisory

Reporting templates and three-step approach to reconciliation are also included.

Comments Due Date: N/A

Effective Date: July 31, 2014

First Reporting Date: N/A

Link: [Advisory](#)

Keywords: Basel III, Disclosure, Pillar 3

**Global Systemically Important Banks: Public Disclosure Requirements**

- OSFI

March 31, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The OSFI's Advisory clarifies the implementation, in Canada, of the annual public disclosure requirements outlined in the G-SIB framework. It applies to federally regulated banks with a Basel III leverage ratio exposure measure exceeding €200 billion at financial year-end.

The published report to shareholders should at least provide a direct link to the completed disclosures on the bank's website. Public disclosure of:

- » The 2014 and the 2013 year-end data required no later than the date of a bank's Q1 2015 public disclosure of shareholder financial data
- » Data for year-ends subsequent to 2014 required annually, no later than the date of a bank's annual public disclosure of shareholder financial data

Comments Due Date: N/A

Effective Date: N/A

First Reporting Date: N/A

Links: [Advisory](#), [G-SIB Framework](#), [Reporting Templates and Instructions](#)

Keywords: Basel III, Disclosure, G-SIB

## Asia Pacific

### Australia

#### Key Developments

##### **Simplified Prudential Framework for Securitization**

- APRA

April 29, 2014

Type of Information:  
Regulation

Regulatory Status:  
Proposed Rule

APRA released a discussion paper on its proposals to simplify the prudential framework for securitization for authorized deposit-taking institutions (ADIs). In APRA's view, the prudential framework for securitization needs, as much as possible, to be clear and simple for stakeholders to understand.

APRA's proposed approach features:

- » A set of key principles that apply to securitization
- » A simple two-credit class structure, which reduces the likelihood of opaque risk transfer and enhances benefits for system stability
- » A simple "skin-in-the-game" requirement to mitigate agency risks
- » Explicit recognition of funding-only securitization, with a simple but robust prudential regime that also allows for revolving securitizations or master trusts
- » Simpler requirements for capital relief, matching risk to the amount of regulatory capital held
- » Better integration of securitization with the ADI liquidity regime
- » Clarification of the treatment of warehouses and similar structures

The securitization market in Australia has been an important contributor to competition, efficiency, and contestability in the ADI industry. Provided securitizations are well-structured, transparent, and based on quality assets, these benefits outweigh any additional risks associated with this financing technique.

APRA's proposed reform of the prudential framework for securitization is intended to assist in the further recovery of this market in the country. APRA intends to release a second consultation package in 2015 that will include a draft prudential standard, prudential practice guide, and associated reporting requirements, taking into account the BCBS' proposed revisions on securitization.

Comments Due Date: July 31, 2014

Effective Date: N/A

First Reporting Date: N/A

Link: [Media Release](#)

Keywords: Basel III, Securitization

##### **Improved Capital-Raising Options for Mutually Owned Authorized Deposit-Taking Institutions**

- APRA

April 15, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

APRA released an amended Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111). This standard provides additional capital-raising options for mutually owned authorized deposit-taking institutions (mutual ADIs). In October 2013, APRA proposed to allow mutual ADIs to issue AT1 or T2 Capital instruments that could, if the relevant conversion provisions were triggered, convert to mutual equity interests in the issuing ADI. On conversion, mutual equity interests will be included as Common Equity Tier 1 (CET1) Capital for capital adequacy purposes.

APRA has amended APS 111 to give effect to this change. The change is consistent with discretion given to supervisory authorities, under the Basel III capital framework, to take into account the specific constitution and legal structure of non-joint stock companies, such as mutuals, provided that the substantive quality of regulatory capital is preserved.

Comments Due Date: N/A

Effective Date: N/A

First Reporting Date: N/A

Link: [Media Release](#)

Keywords: Basel III, Regulatory Capital

## Changes to Liquidity Reporting Arrangements

- APRA

April 11, 2014

Type of Information:  
Regulation

Regulatory Status:  
Proposed Rule

APRA's letter:

- » Advises authorized deposit-taking institutions (ADIs) of changes to funding and liquidity reporting arrangements
- » Seeks submissions on the proposal that all ADIs have the capacity to produce set-format summary liquidity data

APRA intends to discontinue two liquidity reports (monthly and twice-monthly) with immediate effect, as it will use other sources of data from Reporting Standard ARS 210 Liquidity (ARS 210) to replicate its current analysis. However, APRA expects ADIs that will retain the operational capacity to produce this data until these ADIs have the operational capacity to produce the proposed daily liquidity report.

APRA is proposing that an ADI be able to submit to it, on request, a completed report in Microsoft® Excel® format using the prescribed template, with a time lag of no more than one business day. Draft instructions also form a part of the reporting template.

The report is intended to be used by APRA and the Reserve Bank of Australia to assist in assessing the liquidity position of an ADI, or a group of ADIs, where there are doubts about that position. An ADI would not need to produce the report every day but would need to have the operational capacity to do so on APRA's request—potentially for a number of consecutive business days.

APRA proposes to run a program of periodic and random 'fire-drill' exercises to test an ADI's operational capacity.

Comments Due Date: May 21, 2014

Effective Date: April 01, 2015

First Reporting Date: N/A

Links: [Proposed Rule](#), [Template and Instructions](#)

Keywords: Basel III, Liquidity Risk, Regulatory Reporting

## Reporting Standard on Liquidity

- APRA

April 10, 2014

Type of Information:  
Regulation

Regulatory Status: Final  
Rule

APRA released:

- » Final liquidity forms and instructions (ARS 210.0)
- » Validation rules for all prudential reporting (over 4,000)
- » Instructions for submission, which are valid from May 30, 2014
- » Guidelines to assist reporting entities in explaining data to APRA

Comments Due Date: N/A

Effective Date: June 30, 2014

First Reporting Date: N/A

Links: [Reporting Framework](#), [Reporting Forms and Instructions](#)

Keywords: Basel III, LCR, Regulatory Reporting



### Report on Australian OTC Derivatives Market

- Australian Regulators

April 03, 2014

Type of Information: Report

The Reserve Bank of Australia, Australian Prudential Regulation Authority, and Australian Securities and Investments Commission (the Regulators) released a report on the Australian over-the-counter (OTC) derivatives market. This report constitutes the latest advice from the regulators, to the Minister, on mandatory requirements for:

- » Central clearing
- » Platform trading
- » Trade reporting of OTC derivatives

The report recommends the government to consider a central clearing mandate for trades between internationally active dealers in Australian dollar-denominated interest-rate derivatives. The regulators:

- » Do not see a case for implementing a central clearing mandate for North American, European, and Japanese referenced credit index derivatives
- » Do not believe it is appropriate to mandate central clearing for non-dealers
- » Have not made a specific recommendation regarding a mandatory platform trading obligation at this time but will continue to monitor developments

Links: [Media Release](#), [Report](#)

Keywords: CCP, OTC Derivatives

## Bangladesh

### Key Developments

#### Implementation of Basel III

- BB

March 31, 2014

Type of Information: Statement

The Bangladesh Bank (BB) has conducted a Quantitative Impact Study (QIS) to assess the preparedness of banks for implementing Basel III in Bangladesh. Based on the findings of the last QIS, an action plan/roadmap is finalized with the approval of the competent authority:

- » Issuance of guidelines: June 2014
- » Capacity building of banks: June-December 2014
- » Basel III implementation process: Starts July 2014
- » Full implementation of Basel III: January 2019

Link: [Statement](#)

Keywords: Basel III, Implementation Plan

## China

### Key Developments

<p><b>Approval for Use of Internal Models for Six Banks</b></p> <p>- CBRC</p> <p>April 22, 2014</p> <p>Type of Information: Statement</p>	<p>Under the Basel III Pillar I (Credit Risk/Market Risk), the China Banking Regulatory Commission (CBRC) has approved the use of internal models for six banks in China:</p> <ul style="list-style-type: none"> <li>» Industrial and Commercial Bank of China</li> <li>» Agricultural Bank</li> <li>» Bank of China</li> <li>» Construction Bank</li> <li>» Bank of Communications</li> <li>» China Merchants Bank</li> </ul> <p>Links (to original language material): <a href="#">News Release 1</a>, <a href="#">News Release 2</a></p> <p>Keywords: Basel III, Internal Model, Pillar 1</p>
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<p><b>Additional Guidance for Commercial Banks to Issue Preference Shares in Tier 1</b></p> <p>- CBRC</p> <p>April 18, 2014</p> <p>Type of Information: Statement</p>	<p>The CBRC issued detailed rules on the commercial bank issuance of preferred shares (a hybrid security with characteristics of debt and equity), as banks have to phase-in stricter capital adequacy requirements for Basel III.</p> <p>Links (to original language material): <a href="#">Statement</a>, <a href="#">Guidance for Commercial Banks</a></p> <p>Keywords: Basel III, Preferred Shares, Regulatory Capital</p>
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## Hong Kong

### Key Developments

<p><b>Implementation of New Large Exposures Framework of Basel Committee</b></p> <p>- HKMA</p> <p>April 24, 2014</p> <p>Type of Information: Statement</p>	<p>The HKMA intends to implement the New Large Exposures Framework in accordance with the BCBS implementation timetable. The industry will be consulted on the implementation proposals in due course. Authorized institutions that engage in derivatives activities are strongly recommended to review and consider the relevant implications of the final standard.</p> <p>The BCBS' new supervisory framework for measuring and controlling large exposures is scheduled to take effect from January 01, 2019. Under this framework (BCBS, 283 par 33), the exposure value for instruments that give rise to counterparty credit risk— and are not securities financing transactions— must be the exposure at default according to the standardized approach for counterparty credit risk (SA-CCR).</p> <p>Links: <a href="#">HKMA Statement (hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20140424e1.pdf)</a>, <a href="#">BCBS Final Standard</a></p> <p>Keywords: Basel III, Large Exposure, SA-CCR</p>
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### Issuance and Implementation of Final Standard for Capital Treatment of Bank Exposures to Central Counterparties

- HKMA

April 16, 2014

Type of Information:  
Statement

The HKMA's current intention is to implement the final standard for capital treatment of bank exposures to central counterparties, or CCPs, in accordance with the BCBS implementation timetable. The industry will be consulted on the implementation proposals in due course.

Authorized institutions that engage in derivatives activities are strongly recommended to review and consider the relevant implications of the final standard. Major changes in the final standard, which replaces the interim requirements, include:

- » Calculating the capital requirements of a bank's exposures arising from its default fund contributions to qualifying CCPs (QCCPs)
- » Replacing the existing methodology with a single approach, which is simpler and uses the new standardized approach for counterparty credit risk or SA-CCR (refer to the HKMA entry for April 10, 2014)

The final standard is scheduled to take effect on January 01, 2017.

Links: [Changes in the Final Standard \(hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20140416e1.pdf\)](http://hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20140416e1.pdf), [BCBS Final Standard](#)

Keywords: Basel III, CCP, SA-CCR

### Implementation of the New Standardized Approach for Measuring Counterparty Credit Risk Exposures

- HKMA

April 10, 2014

Type of Information:  
Statement

The HKMA intends to implement the new standardized approach for measuring counterparty credit risk exposures (SA-CCR), in accordance with the BCBS implementation timetable. The industry will be consulted on the implementation proposals in due course.

The SA-CCR requires more data and complex computation than the CEM. Therefore, authorized institutions that are using the CEM and have no near-term plan to transition to the internal models (counterparty credit risk) approach are strongly recommended to:

- » Review the final standard
- » Consider the implications of implementation for their institutions, including identifying areas that may need to be enhanced to implement the SA-CCR

These areas include:

- » Operational capacity
- » Data sufficiency
- » Management information systems
- » IT infrastructure

The final standard is scheduled to take effect on January 01, 2017.

Links: [HKMA Supervisory Letter \(hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20140410e1.pdf\)](http://hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20140410e1.pdf), [Implementation Timetable of BCBS](#)

Keywords: Basel III, SA-CCR

## India

### Key Developments

#### Framework for Conduct of Macro-Prudential Policy in India: Experiences and Perspectives

- RBI

April 23, 2014

Type of Information: Report

The report reveals that the use of macro-prudential policy in India has been extensive and multi-faceted:

- » Spanning the banking and non-banking financial companies
- » Addressing asset price spirals and credit booms
- » Encompassing capital flows and systemic liquidity management
- » Dealing with large and complex financial institutions
- » Calibrating the development of OTC derivative markets
- » Tackling interconnectedness in the banking and financial sector and between the financial and the real sector

The countercyclical measures have included development of investment fluctuation reserve and use of time-varying risk weights and provisioning norms. In addition, the policies to address the cross-sectional dimensions of systemic risks have covered dealing with interconnectedness and common exposures (multiple limits; for example, interbank, NBFC) and monitoring of financial conglomerates.

Link: [rbidocs.rbi.org.in/rdocs/Speeches/PDFs/BDFDG230414.pdf](http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/BDFDG230414.pdf)

Keywords: Limits, Macro-Prudential Policy, Systemic Risk

## Japan

### Key Developments

#### English Translations of Two Japanese Laws Published

- go.jp

April 22, 2014

Type of Information: Regulation

Regulatory Status: Final Rule

The English translations of two Japanese laws have been published recently:

- » Act on Securitization of Assets
- » Banking Act (different formats available for download, bilingual or English only)

Comments Due Date: N/A

Effective Date: June 30, 2014

First Reporting Date: N/A

Links: [Act on Securitization of Assets](#), [Banking Act](#)

Keywords: Banking Law, Legal Texts, Securitization

## Malaysia

### Key Developments

#### Technical Notes under the Financial Sector Assessment Program, 2014

- IMF

April 17, 2014

Type of Information: Report

The IMF recently published the following technical notes on Malaysia:

- » Banking System Spillovers (cr1495)
- » Monetary Liquidity Frameworks (cr1496)
- » Stress Testing the Malaysian and Labuan IBFC Banking Sectors (cr 1497)
- » Financial Sector Performance, Vulnerabilities and Derivatives (cr1498)
- » Housing Market (cr1499)

The technical note titled, "Stress Testing the Malaysian and Labuan IBFC Banking Sector," highlights the following:

- » Conservative supervision, regular sensitivity, and thematic stress-testing set against the backdrop of a resilient domestic macroeconomic environment boosted capital and liquidity buffers of Malaysian banks
- » Capital ratios, in particular, are well in excess of Basel III requirements

Link: [IMF Reports on Malaysia](#)

Keywords: Basel III, FSAP, Stress Testing

## Republic of Korea

### Key Developments

#### Staff Report on 2013 Article IV Consultation: Republic of Korea

- IMF

April 17, 2014

Type of Information: Report

The IMF's staff report on the 2013 Article IV Consultation with the Republic of Korea reveals the following:

- » While the current supervisory framework has been reasonably effective, it should be enhanced further
- » Banks' supervisory structure needs to be strengthened by minimizing the perception of political influence and by eliminating complex processes and overlap of responsibilities across multiple agencies

As the recently completed Financial Sector Assessment Program (FSAP) pointed out, the key recommended improvements to financial supervision include:

- » A more risk-sensitive approach
- » Extension of Basel II to financial holding companies (which came into effect on December 01, 2013)
- » Expansion of supervisory activities on a group-wide basis
- » Better assessment of banks' corporate governance
- » Regulation of large non-bank depository institutions should be aligned with that for banks, with stricter supervision and higher capital and provisioning requirements

In addition, the FSAP found that stress testing conducted by the authorities could be further improved. The capital framework of institutions sized similarly to banks should be strengthened and calculated using the Basel computations and definitions.

Link: [Report](#)

Keywords: Basel II, FSAP, Stress Testing

## Glossary

ABS	Asset-Backed Securities	FSB	Financial Stability Board
ADI	Authorized Deposit-Taking Institution	G-20	Group of 20 Countries
APRA	Australian Prudential Regulation Authority	G-SIB	Global Systemically Important Bank
APS	APRA Prudential Standard	G-SII	Global Systemically Important Insurer
AQR	Asset Quality Review	GLAC	Gone-Concern Loss-Absorbing Capacity
ARS	APRA Reporting Standard	HKMA	Hong Kong Monetary Authority
AVA	Additional Value Adjustment	IAS	International Accounting Standard
BaFin	Federal Financial Supervisory Authority of Germany	IASB	International Accounting Standards Board
BB	Bangladesh Bank	IBFC	International Business and Financial Centre
BCBS	Basel Committee on Banking Supervision	ICAAP	Internal Capital Adequacy Assessment Process
BDI	Banca d'Italia or Bank of Italy	IDI	Insured Depository Institution
BHC	Bank Holding Company	IFRS	International Financial Reporting Standard
BIS	Bank for International Settlements	IFSB	Islamic Financial Services Board
BOE	Bank of England	IFSB-15	Revised Capital Adequacy Standard for Institutions
BRRD	Bank Recovery and Resolution Directive		Offering Islamic Financial Services
CAR	Capital Adequacy Requirements	IOSCO	International Organization of Securities Commissions
CBB	Central Bank of Bahrain	IMF	International Monetary Fund
CBK	Central Bank of Kenya	ITS	Implementing Technical Standard
CBRC	China Banking Regulatory Commission	LCR	Liquidity Coverage Ratio
CCB	Countercyclical Capital Buffer	MAD	Market Abuse Directive
CCP	Central Counterparties	MAR	Market Abuse Regulation
CCR	Counterparty Credit Risk	MiFID	Markets in Financial Instruments Directive
CDS	Credit Default Swap	MiFIR	Markets in Financial Instruments Regulation
CEM	Current Exposure Method	MSBSP	Major Security-Based Swap Participant
CET1	Common Equity Tier 1	NBB	National Bank of Belgium
CFTC	Commodity Futures Trading Commission	NBFC	Non-Banking Financial Company
CISS	Composite Indicator of Systemic Stress	NPR	Notice of Proposed Rulemaking
CLO	Collateralized Loan Obligation	OCC	Office of the Comptroller of the Currency
COREP	Common Reporting	OSFI	Office of the Superintendent of Financial Institutions
CPSS	Committee on Payment and Settlement Systems	PFMI	Principles for Financial Market Infrastructures
CRA	Credit Rating Agency	PRA	Prudential Regulation Authority
CRD	EU Capital Requirements Directive IV	QCCP	Qualifying Central Counterparty
CRR	Capital Requirements Regulation EU	QIS	Quantitative Impact Study
CSMAD	Criminal Sanctions for Market Abuse Directive	RBA	Risk-Based Approach
CVA	Credit Valuation Adjustment	RBI	Reserve Bank of India
D-SIB	Domestic Systemically Important Bank	RCAP	Regulatory Consistency Assessment Program
DGSD	Deposit Guarantee Schemes Directive	ROSC	Report on Observance of Standards and Codes
EBA	European Banking Authority	RRS	Regulatory Reporting System
EC	European Commission	RTS	Regulatory Technical Standard
ECB	European Central Bank	SA-CCR	Standardized Approach for Counterparty Credit Risk
EIOPA	European Insurance and Occupational Pensions Authority	SBSD	Security-Based Swap Dealer
EMIR	European Market Infrastructure Regulation	SEC	Securities and Exchange Commission
ESA	European Supervisory Authority	SFT	Securities Financing Transaction
ESMA	European Securities and Monetary Authority	SIFI	Systemically Important Financial Institution
ESRB	European Systemic Risk Board	SME	Small and Medium-Sized Enterprise
FAQ	Frequently Asked Questions	SREP	Supervisory Review and Evaluation Process
FARC	Framework for Assessing Risk Culture	SRM	Single Resolution Mechanism
FDIC	Federal Deposit Insurance Corporation	SSM	EU Single Supervisory Mechanism
FED	Board of Governors of the Federal Reserve System	SYNFINT	Synthetic Indicator of Financial Integration
FFIEC	Federal Financial Institutions Examination Council	TBTF	Too Big To Fail
FINREP	Financial Reporting	TITF	Too Important To Fail
FSAP	Financial Sector Assessment Program		

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