MOODY'S ANALYTICS

BANKS NEWSLETTER

Regulatory Insight

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In this month's edition of the newsletter, you will find details of the recent major developments taking place across the globe.

Key Developments at a Glance

The Financial Stability Board (FSB) agreed to its 2017 workplan. Included in this workplan is continued work enhancing the resiliency, recoverability, and resolvability of central counterparties (CCPs); workstreams to address misconduct in the financial sector; and work on reporting on the implementation and effects of G20 and FSB reforms.

The International Accounting Standards Board (IASB), which sets International Financial Reporting Standards (IFRS) used in more than 120 countries, published the conclusions from its recent Agenda Consultation and its five-year work plan. The Islamic Financial Services Board (IFSB) issued an Exposure Draft of Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (Sukūk and Islamic Collective Investment Schemes) for Public Consultation.

KEY DEVELOPMENTS PER REGION

> **EUROPE:** The European Banking Authority (EBA) published a report with qualitative and quantitative observations of its first impact assessment of the IFRS 9, accounting for financial instruments, standard. Separately, the European Securities and Markets Authority (ESMA) published a Public Statement on Issues for consideration in implementing IFRS 9.

In a series of separate publications, the EBA published final standards on assessment methodologies to validate market risk models; issued recommendations on the implementation of new counterparty and market risk frameworks; launched a consultation proposal to review the maturity ladder for liquidity reporting; launched a consultation proposal on revised standards of supervisory reporting; and begun an effort to solicit views on the new prudential regime for investment firms.

The European Commission (EC) presented a comprehensive package of reforms aimed at further strengthening the resilience of European Union (EU) banks. The European Central Bank (ECB) announced a new, more frequent, quarterly publication of banking supervision statistics.

The Bank of England's Prudential Regulation Authority (PRA) published feedback on the responses it received to its 'Regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements' consultation paper.

> **MIDDLE EAST & AFRICA:** The International Monetary Fund (IMF) published a mission concluding statement on its 2016 Article IV consultation with Kuwait.

> **AMERICAS:** The US Government Accounting Office (GAO) issued a report detailing additional actions which could help the Federal Reserve achieve its stress testing goals. Banco Central do Brasil, the central bank of Brazil, issued a consultation paper on the segmentation of financial institutions to facilitate proportionate prudential regulation.

> **ASIA PACIFIC**: The Hong Kong Monetary Authority (HKMA) issued a consultation on the local implementation of the Net Stable Funding Ratio (NSFR). The Australian Prudential Regulation Authority (APRA) released its final revised standard on securitization. The Monetary Authority of Singapore (MAS) released a consultation paper on NSFR and NSFR disclosure.

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International

Key Developments

Revisions to the Annexes on Correspondent Banking and General Guide to Account Opening *- Basel Committee* *November 23, 2016* *Type of Information: Regulation* *Regulatory Status: Proposed Rule*	The Basel Committee on Banking Supervision proposed revisions to the Annexes 2 and 4 of its guidelines on the Sound Management of Risks Related to Money Laundering and Financing of Terrorism; these guidelines were first issued in January 2014 and later revised in February 2016. The revisions have been proposed for Annex 2 on correspondent banking and for Annex 4 on general guide to account opening. The proposed revisions in Annex 2 are intended to guide banks in the application of the risk-based approach for correspondent banking relationships, recognizing that not all correspondent banking relationships bear the same level of risk. In Annex 4, revisions are proposed for only two paragraphs, clarifying supervisors' expectations about the quality of payment messages and conditions for using the Know Your Customer (KYC) utilities. The proposed revisions are consistent with the Financial Action Task Force (FATF) guidance on correspondent banking services (issued in October 2016) and clarify rules applicable to banks conducting the correspondent banking activities. These rules are part of a broader initiative of the international community to assess and address the decline in correspondent banking and the initiative is coordinated by the FSB. *Comments Due Date: February 22, 2017* *Effective Date: N/A* *First Reporting Date: N/A* *Links: Press Release, Consultation, FATF Guidance on Correspondent Banking, Guidelines on Risks for Money Laundering and Financing Terrorism* *Keywords: Correspondent Banking, KYC, Risk Based Approach*

Lists of Global Systemically Important Banks and Insurers for 2016

- FSB

November 21, 2016

Type of Information: Statement

The FSB published the list of global systemically important banks and insurers for 2016.

List of G-SIBs

The list of global systemically important banks (G-SIBs) was published in consultation with the Basel Committee and the national authorities and it contains the same 30 banks as the 2015 list. Four banks moved to a higher bucket while three banks moved to a lower bucket. The changes in the allocation of institutions across buckets reflect the combined effects of data-quality improvements, changes in underlying activity, and the use of supervisory judgment. G-SIBs are subject to the following requirements:

» ***Higher capital buffer requirements.*** In 2018, the G-SIBs identified this November will be required to hold 75% of the higher loss absorbency (HLA) applying to the bucket of systemic importance to which they have been allocated in the published list.

» ***Total Loss-Absorbing Capacity (TLAC) requirements.*** G-SIBs will be required to meet the TLAC standard and the regulatory capital requirements in the Basel III framework.

» ***Resolvability requirements.*** These include group-wide resolution planning and regular resolvability assessments. The resolvability of each G-SIB is also reviewed in a high level FSB Resolvability Assessment Process by senior regulators within the firms' Crisis Management Groups.

» ***Higher supervisory expectations.*** These include supervisory expectations for risk management functions, risk data aggregation capabilities, risk governance, and internal controls.

In connection with the updated list of G-SIBs, the Basel Committee released a list of all the banks in the assessment sample; the denominators of each indicator used to calculate the banks' scores; cut-off score that was used to identify the G-SIBs; thresholds used to allocate G-SIBs to buckets for calculating the specific HLA requirements; and links to disclosures of all banks in the assessment sample, among others.

List of G-SIIs

The FSB, in consultation with the IAIS and national authorities, identified nine insurers as global systemically important insurers (G-SIIs). Insurers on the 2016 G-SII list remain the same as those on the 2015 list and will be subject to the following internationally agreed standards:

» ***HLA requirements.*** These will be revised to reflect further work by the IAIS on the G-SII assessment methodology and they will be applied to the G-SIIs identified in November 2017, starting from January 2019.

» ***Enhanced group-wide supervision.*** This includes for the group-wide supervisor to have direct powers over holding companies and to oversee the development and implementation of a Systemic Risk Management Plan and a Liquidity Management Plan.

» ***Group-wide recovery and resolution planning and regular resolvability assessments.*** For the nine G-SIIs identified this year, the Resolvability Assessment Process will be conducted starting in 2017.

Links: Press Release: 2016 G-SIBs List, 2016 G-SIBs List, Details on Assessment of G-SIBs, Press Release: 2016 G-SIIs List, 2016 G-SIIs List
Keywords: G-SIB, G-SII

Report on Objective Setting and Communication of Macro-Prudential Policy

- CGFS

November 18, 2016

Type of Information: Report

The CGFS published a report providing an overview of the way objectives are set in macro-prudential policy and the way policy is communicated in practice.

This report underlines the importance of adopting a systematic policy framework that channels policymaking through a set of predictable procedures. It discusses the role that communication can play in macro-prudential policy, both in terms of helping to anchor stakeholders' expectations but also in influencing stakeholder behavior. The report also emphasizes that efforts are required to explain the macro-prudential policy framework and to ensure that the goal of maintaining financial stability is valued by the wider public. Such an appreciation facilitates policy actions early on in the cycle, when instruments may be more effective and adjustment less costly.

Links: Press Release, Report
Keywords: Financial Stability, Macro-Prudential Policy

Finalization of the 2017 Work Plan at the London Meeting

- FSB

November 17, 2016

Type of Information: Statement

At the FSB meeting in London, the Board agreed on the work plan for 2017, in addition to discussing the ongoing policy work and the existing vulnerabilities. The members noted that, post the regulatory reforms, the global financial system is more resilient, emphasizing the importance of completing implementation of the agreed reform program, including Basel III. The key highlights of the discussions follow:

» In consultation with the Basel Committee and the IAIS and national authorities, the FSB approved the 2016 lists of identified G-SIBs and G-SIIs; this list was released on November 21, 2016.

» The Plenary discussed the to-date implementation of TLAC standard for banks, agreeing that the guiding principles on internal TLAC will be released for consultation before year-end.

» The FSB reviewed progress on the workplan to enhancing the resilience, recovery planning, and resolvability of central counterparties (CCPs). In early 2017, the FSB plans to issue a public consultation for guidance on CCP resolution and resolution planning. This work is expected to be finalized by mid-2017, along with resilience and recovery guidance issued by the CPMI and IOSCO.

» The FSB announced that it will publish its final policy recommendations to address structural vulnerabilities from asset management activities by the end of 2016.

» By 2016-end, the FSB also plans to publish its progress report on the implementation of its four-point action plan to assess and address the decline in correspondent banking.

» The FSB members reviewed updates from the various workstreams to address misconduct in the financial sector. This includes progress on the FSB stocktake of practices for the deterrence of misconduct through corporate governance frameworks. The members also discussed updates on the development of guidance to supplement the FSB Compensation Principles and Standards on the use of compensation structures to reduce misconduct risk, which will be issued for public consultation in June 2017. Another review was on the work of the IOSCO Market Conduct Task Force to develop a toolkit for wholesale market conduct regulation, which is to be published in the first half of 2017.

» The FSB welcomed progress of the Task Force on Climate-related Financial Disclosures (TCFD) in finalizing recommendations, encouraging firms to respond to the TCFD's forthcoming consultation on the recommended voluntary disclosures and guidance (to be published on December 14, 2016).

» The workplan for reporting on the implementation and effects of G20 or FSB reforms was discussed. The discussion covered preparations for the third annual report to the G20 (to be published before July 2017 G20 Summit); the development of a post implementation policy evaluation framework to assess the effects of reforms; and workshops with academics and market participants in early 2017 to discuss approaches to analyzing effects and evidence to date.

» The FSB agreed to undertake, by July 2017, an assessment of progress in transforming shadow banking into resilient market-based finance. The Plenary discussed the preliminary high-level findings from this year's annual monitoring exercise of the global trends and risks in the shadow banking system. The results will be published near the end of 2016 in the Global Shadow Banking Monitoring Report.

» The FSB discussed regulatory approaches to re-hypothecation of client assets and measures of collateral reuse (consulted on in early 2016) and announce that the finalized measure, along with the FSB recommendations will be published by the end of 2016.

» Progress on the FSB FinTech workplan was reviewed, including topics such as authorities' innovation facilitators, FinTech credit intermediation, and issues for authorities in the use of distributed ledger technology. Members agreed on a workplan to identify the supervisory and regulatory issues in this area, from a financial stability perspective.

Link: Press Release
Keyword: Roadmap

Speech of Jamie Caruana on Challenges Facing the Banking Sector in Terms of Regulation, Governance, and Stability

- BIS

November 17, 2016

Type of Information: Speech

The BIS General Manager Jaime Caruana spoke—at the IESE Business School conference—about challenges facing the banking sector in the context of regulatory reforms and governance.

He highlighted that many banks already hold better-quality capital that significantly exceeds the new regulatory requirements, yet the market participants still lack trust in the banking sector. Market pressures—not just regulations—have prompted banks to be more conservative with their balance sheets. He also added that low price-to-book ratios of banks, a persistently wide cross-currency basis, and continued deleveraging are signs that creditors and investors are now much more ready to sanction banks that are deemed not well-capitalized. Therefore, he believes dialing back the post-crisis regulatory reforms is not a convincing strategy to help banks overcome these pressures.

Instead, banks should regain market participants' trust by cleaning up balance sheets and strengthening capital. The BIS General Manager emphasized that regulation is only one element of the business environment that banks take into account in their capital allocation decisions; however, the recent underlying challenges to banking seem to be more deeply rooted in "low profitability and unnecessarily costly funding." He suggested that "repairing balance sheets and increasing capital through greater retention of profit" would mitigate many problems facing the banking sector. In the coming year, instead of being busy with the new regulatory issues, he expects banks to be more focused on their core activities and on exploiting new financial technologies.

Link: Speech
Keywords: FinTech, Regulation

Report on Risks and Opportunities in Shadow Banking and Capital Markets

- G30

November 16, 2016

Type of Information: Report

The G30, a forum of leaders in international finance, released the report on its two-year study on risks and opportunities in the shadow banking and capital markets.

The report finds that the specific forms of nonbank credit intermediation most implicated in the 2007–08 financial crisis have declined significantly and have not reemerged or changed shape in response to the global regulatory steps since then. The report also finds that some new forms of credit extension are creating new risks in certain markets such as China, where shadow banking activities merit close attention. The report also details the G30's examination of shadow banking in China, where nearly 30% of credit is provided through various unregulated or imperfectly regulated shadow banking activities, entities, and structures; some of these are similar to those that proliferated in the advanced economies before the 2007–2008 crisis.

Additionally, the G30 study assessed the common assertion that securitization could play a greater role (particularly in Europe) in providing credit to small and medium enterprises (SMEs), which are often believed to be underserved by the banking system. The study revealed that SME debt is primarily provided by banks rather than market mechanisms in all economies, including the U.S. Differences between the U.S. and other markets, instead, lie primarily in the areas of equity finance and debt private placement. Hence, the report recommended that policies to expand the range of financing opportunities available to SMEs should focus on identifying and removing any barriers to the effectiveness of these markets, rather than on the probably impossible task of unleashing SME securitization markets. Overall, the report presents specific recommendations focused on the following:

- The need to monitor risk, improve data availability, and increase transparency in a continually evolving financial system
- Policy reforms that can help foster the development of debt capital markets
- Policies to support more sustainable forms of securitization than proliferated before the 2007–2008 crisis
- Appropriate approaches to improving SME access to finance, which should focus on equity finance and private placement, rather than on the development of SME securitization markets

FSB defines shadow banking as "activities related to credit provision extended outside or partially outside the banking system, but involving the distinctive features of banking, that is, leverage and maturity transformation."

Links: Press Release, Report
Keywords: Capital Markets Model, Securitization, Shadow Banking

Working Paper Evaluating Relationship Among Dollar, Bank Leverage, and Covered Interest Parity: Dollar as Gauge of Bank Appetite for Leverage

- BIS

November 15, 2016

Type of Information: Research

The BIS published a working paper evaluating the triangular relationship formed by the strength of the U.S. dollar, cross-border bank lending in dollars, and deviations from the covered interest parity (CIP).

The authors found that a stronger dollar goes hand-in-hand with bigger deviations from CIP and contractions of cross-border bank lending in dollars. They interpret the magnitude of CIP deviations as the price of bank balance sheet capacity and dollar-denominated credit as a proxy of bank leverage, arguing that such a triangular relationship exists because of the impact of the dollar on the shadow price of bank leverage. Thus, underpinning the triangle is the role of the dollar as proxy for the shadow price of bank leverage. The working paper, along with Wenxin Du from the U.S. FED, revealed that a stronger dollar crimps bank balance sheets and reduces banks' ability to take on risks. The paper highlights that a stronger dollar means wider deviations from CIP (signaling the higher cost of borrowing dollars in foreign exchange markets) as well as a pullback in cross-border bank lending in dollars.

Hyun Song Shin, who is one of the authors of this working paper, discussed the issue during his speech at the London School of Economics; he highlighted that bank leverage is now tied more closely to the dollar. He also stated that the dollar has ousted the Volatility Index (VIX) index as a barometer of the banking sector's appetite for leverage, with bank lending coming under pressure when the dollar appreciates. Mr. Shin highlighted that the link between the VIX and bank borrowing, or leverage, which was held before the crisis, has broken down. Bank leverage has been subdued despite low VIX readings. Before the crisis, the VIX index was a good summary measure of the price of balance sheets; however, after the crisis, the dollar has become a good measure of the price of balance sheets. The dollar has supplanted the VIX index as the variable most associated with the appetite for leverage. When the dollar is strong, risk appetite is weak.

Mr. Shin said the breakdown of rules of thumb for well-functioning markets, like the equalization of interest rates across different market segments, showed that incipient deleveraging pressures have been building in recent months. This rise in the cross-currency basis, which the premium banks charge borrowers of sought-after currencies like the U.S. dollar, reflects the breakdown of CIP. The developments showed the need for a global perspective in tracking the functioning of the financial system and the importance of capital market indicators in assessing strains that affect banks and the wider economy. "This link between banks and capital markets has gone global. We can begin to understand some of the big puzzles of our day when we lift our gaze to take in this global picture," he said.

Links: Working Paper, Speech
Keywords: CIP, Leverage, VIX

Report on Fast Payments

- CPMI

November 08, 2016

Type of Information: Report

The CPMI issued a report on fast payments, which enhance the speed and availability of retail payments and can be used 24/7, overcoming the limitations of traditional retail payment services. The report:

- Sets out key characteristics of fast payments
- Takes stock of different initiatives in CPMI jurisdictions
- Analyzes supply and demand factors that may foster or hinder the development of fast payments
- Sets out the benefits and risks of fast payments
- Examines the potential implications for different stakeholders, particularly central banks

Links: Notification, Report
Keywords: Fast Payments

Consultation on Other Credit Rating Agencies Products and Their Use by Market Participants

- IOSCO

November 07, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The IOSCO published a consultation report titled "Other CRA Products." This report seeks further insight into how market participants use non-traditional, credit-related products and services offered by credit rating agencies (CRAs). In the consultation report, IOSCO's questions for comment are primarily directed at CRAs; however, users of Other CRA Products and other interested persons are also invited to respond, specifically to the following questions:

» Are there additional Other CRA Products that you can identify?

» Are there other features of the six Other CRA Product groups that you believe should be added to the consultation report?

» Are there additional uses of the Other CRA Products that you can identify in addition to what is described in the consultation report?

» With respect to each of the six Other CRA Product groups identified in the consultation report, do you consider the Other CRA Product group to be covered by the Code of Conduct and the IOSCO CRA Principles? Please explain. Do you apply the Code of Conduct and the Principles to the Other CRA Products? Please explain.

The report aims to clarify information provided by respondents to two survey questionnaires (published by IOSCO in 2015) on Other CRA Products. The report also asks respondents to comment on IOSCO's current understanding of the CRA products and services and how they differ from the traditional issuer paid or subscriber paid credit ratings. The goal of the first questionnaire was to determine the difference between traditional credit ratings and other credit-related products. The second questionnaire was aimed at learning how issuers, investors, and others utilize and understand Other CRA Products. Based on responses to the questionnaire and additional consultation with several respondents, IOSCO made three observations:

» Few Other CRA Products share some common processes and features with traditional credit ratings.

» CRAs tend to create separate structures or business line organizations to offer Other CRA Products.

» Other CRA Products can be categorized in six primary groups.

Other CRA Products are certain non-traditional, credit-related products and services. They are important because market participants may use them to make investment and other credit-related decisions. Issuers and obligors may also use these products to make decisions about whether to obtain a credit rating from a particular CRA. Other CRA Products and services include private ratings, confidential ratings, expected ratings, indicative ratings, prospective ratings, provisional ratings, preliminary ratings, credit default swap spreads, bond indices, portfolio assessment tools, and other tools.

Comments Due Date: December 05, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: Media Release, Consultation Report, The 2015 Questionnaires
Keywords: CRA, Other CRA Products

Updates to the Research Project on Primary Financial Statements

- IASB

November 07, 2016

Type of Information: Research

The IASB published updates on the Primary Financial Statements project. The Primary Financial Statements project is an early-stage research project examining possible changes to the structure and content of the primary financial statements. It is an important part of the IASB's better communication theme.

The IASB conducted initial research, including outreach with investors, to help define the scope of the project on Primary Financial Statements. This research focused on the following aspects:

» The structure and content of the statements of financial performance, including assessing whether to require a defined subtotal for operating profit and examining the use of alternative performance measures (financial measures that are not defined or specified in International Financial Reporting Standard or IFRS)

» The potential demand for changes to the statement of cash flows and the statement of financial position

» The implications of digital reporting for the structure and content of the primary financial statements

The paper summarizing the research will be presented to the IASB from November 14, 2016 onward. The IASB is expected to decide the scope of the project in December 2016.

Additionally, on October 20, 2016, the UK Financial Reporting Council (FRC) launched a consultation on possible improvements to the statement of cash flows. Feedback received on that consultative document will also be relevant to the IASB's work on Primary Financial Statements. Further details about the FRC's consultation can be found on the FRC website. The deadline for responses on this consultation is February 28, 2017.

Links: IFRS Homepage, FRC Website
Keywords: Financial Statements, Insurance Contracts

Framework to Assess the Macroeconomic Impact of Basel III and Outstanding Reform Issues

- BIS

November 07, 2016

Type of Information: Research

The BIS published a paper presenting a conceptual framework to assess the macroeconomic impact of the core Basel III reforms. The Basel III reforms also include the leverage ratio surcharge being considered for G-SIBs.

The research is based on historical data for a large sample of major banks to generate a conservative approximation of the additional amount of capital that banks would need to raise to meet the new regulatory requirements. To estimate the additional capital needed, the authors also accounted for the potential impact of current efforts to enhance G-SIBs' total loss-absorbing capacity.

To provide a high-level proxy for the effect of changes in capital allocation and bank business models on the estimated net benefits of regulatory reform, the authors simulated the effect of banks converging toward the "critical" average risk weights implied by the combined risk-weighted and leverage ratio-based capital requirements. The paper suggests that Basel III can be expected to generate sizable macroeconomic net benefits, even after accounting for the sizable changes to banks' business models. However, quantifying the regulatory impact remains subject to caveats.

Link: Working Paper
Keywords: Basel III, G-SIB, Macroeconomic Impact

Update on Work Done on FinTech and Implementation Progress of G20 Reforms and its Impact

- FSB

November 03, 2016

Type of Information: Speech

The FSB Secretary General Svein Andresen, spoke at Chatham House Banking Revolution Conference on global regulatory developments and their impact on the industry. He also discussed the provided updates on the FSB's work in the area of FinTech. Mr. Andresen also highlighted that financial innovation enabled by the use of new technology, or FinTech, is a driver of change in the financial system and its importance will inevitably increase.

Mr. Andresen notes that there have been many interesting trends over last few years in FinTech. However, it is quite possible that a number of the changes either do not pose new risks or may pose risks that are already effectively regulated. The FSB Secretary General notes that a lot of hype surrounds the development of FinTech. For regulators, it is essential to understand the developments that may change the way financial markets operate and those that may not. FSB has been explicit in its desire to look at both financial stability benefits and risks, so as not to bias its work against FinTech. Regulators are acutely aware of the need to balance these issues and of the need to be proportionate. Mr. Andresen emphasizes the need to monitor and act on risks as they emerge. The first stage of this process is to actively monitor and assess developments in FinTech from a financial system's functioning and stability perspective. Within the FSB, this is done by a cross-sectoral group examining financial innovations. In addition, the FSB is working with the standard-setting bodies to share information on FinTech-related work and to collaborate whenever appropriate. This will enable FSB and standard-setting bodies to highlight the key issues that need policy attention and help the policymakers to articulate a consistent and well-thought-out position on FinTech.

Mr. Andresen highlights that good progress has been made on several FinTech innovations. FSB has considered the financial stability implications of distributed ledger technology and continues to work in this area, jointly with CPMI, to identify key issues that market participants and policymakers need to address. It is also conducting an in-depth study of the financial stability implications of peer-to-peer lending with the BIS' Committee on the Global Financial System. FSB is also stocktaking the work done on FinTech issues, by the FSB and the Basel Committee members at national levels. FSB is studying the key elements underlying the broad swath of FinTech innovations and examining the financial stability implications of these elements. It has identified three elemental promises common to a broad range of FinTech innovations:

- Greater access to and convenience of financial services
- Greater efficiency of financial services
- More decentralized financial system, in which FinTech firms may be disintermediating traditional financial institutions

These elements have financial stability implications, especially if the trend toward adoption of FinTech continues. Therefore, authorities should be vigilant and should actively monitor the effects that FinTech innovations have on specific products and services as well as on incumbent financial institutions, financial markets, and the economy. Authorities should also consider how their ability to supervise and regulate the system is affected. Mr. Andresen concluded his speech by reinforcing the need to monitor how the system adjusts to reforms and to innovation. He emphasized that the lesson from the financial crisis was not just about bringing reforms in specific areas of the financial system, but adopting a global response for regulating global firms.

Link: Speech
Keywords: FinTech, G20

Release of the Five-Year Work Plan

- IASB

November 02, 2016

Type of Information: Statement

IASB published the conclusions from its recent Agenda Consultation and its five-year work plan.

Based on the stakeholder feedback, Better Communication in financial statements is expected to be a key theme for the IASB's activities until 2021. IASB aims to take a fresh look at how financial information is presented and grouped. It will also continue to enhance disclosures and—through the IFRS Taxonomy—support the use of electronic reporting.

Completion of large projects is another focus area for the IASB's five-year plan. To this end, IASB will finalize the new insurance contracts standard and revise the Conceptual Framework (both expected to be issued in 2017). IASB plans to continue to develop support, including online support, for stakeholders' implementation of new IFRS Standards and to maintain the existing standards effectively through the IFRS Interpretations Committee and post-implementation reviews. Another key item on the agenda is reducing the number of research projects to enable stakeholders to more fully engage in the IASB's work and to ensure timely completion.

Links: Press Release, Work Plan 2017–2021
Keywords: Conceptual Framework, Insurance Contract, Roadmap

Exposure Draft on Disclosure Requirements for Islamic Capital Market Products

- IFSB

October 31, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The Islamic Financial Services Board (IFSB) issued, for public consultation, an exposure draft (ED-19) of the guiding principles on disclosure requirements for Islamic capital market products (Sukūk and Islamic Collective Investment Schemes, or ICIS).

The exposure draft categorizes and sets forth a set of general principles that are common to the disclosure of both Sukūk and ICIS, along with the specific principles applicable to each sector. It covers the main stages of disclosure, that is, initial, ongoing, (periodic and immediate), and point-of-sale disclosure. The exposure draft aims to:

» Provide a basis for regulatory and supervisory authorities to set rules and guidance on disclosure requirements for Islamic capital market products, specifically for Sukūk and ICIS

» Outline a basis for regulatory and supervisory authorities to assess the adequacy of disclosure frameworks specified by other organizations

» Provide a comprehensive disclosure framework for participants in the Islamic capital market sector

» Create harmonization of regulation and practice in the Islamic capital market to facilitate cross-border offerings

The exposure draft offers guidance on the disclosure requirements for private offerings, government, and multilateral issuances, and cross-border issuances with regard to Sukūk. It also suggests applications to legal and Sharī ʻah–related disclosures, operations-related disclosures, and specialist ICIS disclosures. Further guidance has been provided on structure-related disclosures as well as parties liable for such disclosures.

Comments Due Date: December 31, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: Press Release, Exposure Draft
Keywords: ICIS, Islamic Banking, Sukūk

Europe

European Union

Key Developments

Amendment to Regulation on Adopting Certain International Accounting Standards in Accordance with International Financial Reporting Standard 9

- EC

November 29, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The EC published in the *Official Journal of the European Union,* Regulation 2016/2067 to amend the Regulation 1126/2008 on adopting certain international accounting standards (IAS). These standards are in accordance to Regulation 1606/2002 with regard to the International Financial Reporting Standard (IFRS) 9.

This regulation makes several amendments to the Annex of Regulation 1126/2008. Several IAS are amended in accordance with IFRS 9 financial instruments as set out in the Annex to Regulation 2016/2067. The key amended IAS include IAS 36 Impairment of Assets; IAS 39 Financial Instruments: Recognition and Measurement; IFRS 4 Insurance Contracts; IFRS 7 Financial Instruments: Disclosures; and IFRS 13 Fair Value Measurement. Additionally, if a company elects to apply IFRS 9 *Financial Instruments* for its financial years beginning before January 01, 2018, it shall apply the provisions of paragraph 2 (Regulation 2016/2067) for those financial years.

On July 24, 2014, the IASB published the standard IFRS 9 Financial Instruments, which aims to improve the financial reporting of financial instruments. IFRS 9 responds to the G20's call to move to a more forward-looking model for the recognition of expected losses on financial assets. Adoption of IFRS 9 implies amendments to the IAS 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 13, Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 2, IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19, and interpretation of the Standing Interpretations Committee (SIC) 27, with the aim to ensure consistency between international accounting standards. To ensure consistency with EU law, a consequential amendment to IAS 39—related to fair value hedge accounting—has not been effected in Regulation 1126/2008. Furthermore, IFRS 9 repeals IFRIC 9.

The EC must adopt IAS in a timely manner to avoid undermining investor understanding and confidence. Nevertheless, while endorsing IFRS 9, the need for an optional deferral of its application for the insurance sector is recognized. The IASB has undertaken an initiative to address this issue and is expected to submit a proposal to secure a single internationally recognized solution. However, if the provisions adopted by the IASB by July 31, 2016 are not considered satisfactory, the EC intends to give an option to the insurance sector not to apply IFRS 9 for a limited period of time. Each company shall apply the amendments to Regulation 1126/2008 at the latest, as from the commencement date of its first financial year starting on or after January 01, 2018.

Comments Due Date: N/A
Effective Date: December 19, 2016
First Reporting Date: N/A

Link: Regulation 2016/2067
Keywords: ECL, IFRS 9

Proposed Rules for Recovery and Resolution of Central Counterparties *- EC* *November 28, 2016* *Type of Information: Regulation* *Regulatory Status: Proposed Rule*	The EC proposed new rules establishing the recovery and resolution framework for CCPs that are systemically important for the financial system. The proposed rules for CCPs set out provisions comparable to those in Bank Recovery and Resolution Directive, or BRRD, and are based on the international standards. However, as the business of CCPs differs from that of the banks, this proposal contains CCP-specific tools that better align with CCPs' default management procedures and operating rules, especially to determine how losses would be shared. The proposed rules require CCPs and authorities to prepare for and prevent potential problems, to intervene early to avert a problem, and to step in when things have gone wrong: ➢ ***Preparation and prevention.*** The proposed rules require CCPs to draw up recovery plans that would include measures to overcome any form of financial distress, which would exceed their default management resources and other requirements under European Market Infrastructure Regulation (EMIR). This should include scenarios involving defaults by clearing members of the CCP as well as the materialization of other risks and losses for the CCP, such as fraud or cyber-attacks. Recovery plans are to be reviewed by a CCP's supervisor. Authorities responsible for resolving CCPs are required to prepare resolution plans for how CCPs would be restructured and their critical functions maintained in the unlikely event of their failure. ➢ ***Early intervention.*** CCP supervisors have been granted specific powers to intervene in the operations of CCPs where their viability is at risk, but before they reach the point of failure or where their actions may be detrimental to overall financial stability. Supervisors could also require the CCP to undertake specific actions in its recovery plan or to make changes to its business strategy or legal or operational structure. ➢ ***Resolution powers and tools.*** In line with the guidance of the FSB, a CCP will be placed in resolution when it is failing or likely to fail, when no private sector alternative can avert failure, and when its failure would jeopardize the public interest and financial stability. In addition, it could be placed into resolution where the use of further recovery measures could compromise financial stability even when the conditions above are not met. The biggest CCPs operate internationally and it is important for authorities to cooperate across borders to ensure effective planning and orderly resolution, if needed. The proposal establishes resolution colleges for each CCP containing all the relevant authorities, including European Securities and Markets Authority (ESMA) and the EBA. The existing colleges under the European Market Infrastructure Regulation (EMIR) and the newly set-up resolution colleges should jointly undertake the specific tasks allocated to them. ESMA will facilitate joint actions and act as a binding mediator, if necessary. The draft Regulation will be submitted to the European Parliament and the Council of the EU for their approval and adoption. *Comments Due Date: N/A* *Effective Date: N/A* *First Reporting Date: N/A* *Links: Press Release, Proposed Regulation, Annexes to the Regulation, Impact Assessment on the Proposal, CCP Factsheet, Q&A* *Keywords: CCP, Resolution Plans*
Additional Banking Supervision Statistics *- ECB* *November 28, 2016* *Type of Information: Statement*	The ECB has started publishing additional banking supervision statistics on a quarterly basis to further strengthen the transparency and accountability of European Banking Supervision. The additional statistics offer more details on the financial health of the ECB-supervised financial institutions. The data include information on banks' profitability, capital adequacy, and the quality of their assets. Some of the statistics are also broken down by country and bank categories. Information on the individual banks has not been disclosed. The enhanced statistics are intended to enable the general public and market participants to analyze the data and form their views on banks' situation. *Links: Press Release, Banking Statistics Definition, Additional Banking Data: November 2016* *Keywords: Statistics, Supervisory Reporting*
Updates to Single Rulebook Q&A: Published as Final Q&A in November 2016 *- EBA* *November 25, 2016* *Type of Information: Q&A*	The updates for this month include 8 answers dated November 25, 2016; 10 answers dated November 18, 2016; and 17 answers dated November 11, 2016. The overall objective of the Questions and Answers (Q&A) tool is to ensure consistent and effective application of the new regulatory framework across the Single Market. Institutions, supervisors, and other stakeholders can use the Single Rulebook Q&A tool for submitting questions on Capital Requirements Directive IV (CRD IV), Capital Requirements Regulation (CRR), and the related technical standards developed by the EBA and adopted by the EC. *Link: Q&A* *Keywords: CRD IV, CRR, Single Rulebook*

Second Impact Assessment of International Financial Reporting Standard 9 on Banks in the European Union

- EBA

November 24, 2016

Type of Information: Statement

The European Banking Authority (EBA) launched the second impact assessment of IFRS 9, which builds on the results of the first assessment that was published on November 10, 2016. The EBA expects that institutions will be able to provide more detailed and accurate insights into their implementation of IFRS 9 as the information provided by the respondents in the first exercise reflected the early stage of implementation.

The sample of banks participating in this exercise constitutes nearly 50 institutions across the EU and is very similar to the previous one. In addition, this exercise includes questions focused on specific aspects of the key topics covered in the first impact assessment. The new exercise builds on the objectives of the first impact assessment, that is:

» The estimated impact of IFRS 9 on regulatory own funds

» The interaction between IFRS 9 and other prudential requirements

» The implementation issues related to IFRS 9

Links: Second Impact Assessment, First Impact Assessment
Keywords: IFRS 9, Impact Assessment

Financial Stability Review

- ECB

November 24, 2016

Type of Information: Report

The European Central Bank (ECB) published the Financial Stability Review, which offers an overview of the current developments relevant to the euro area financial stability. The Review contains three special features:

» The first addresses a framework to guide the design and calibration of macro-prudential leverage limits for alternative investment funds.

» The second discusses impediments to the functioning of a market for non-performing loan (NPL) sales. It highlights indicators of market failure and distinguishes between supply and demand factors that impede market functioning.

» The third special feature examines the financial stability implications of greater reliance by banks on fee and commission income.

Other key issues addressed in this Review include the increasing global nature of the euro area financial stress; monitoring of euro area residential real estate markets from a macro-prudential perspective; persistency of global uncertainty shocks; the ECB's monetary policy and bank profitability; the potential for spillovers from emerging markets to euro area banks; the evolution of sectoral holdings of bail-in-able bank debt; and assessment of the spillover potential between banks, shadow banks, and insurance companies in Europe

The Financial Stability Review assesses developments relevant for financial stability, including identifying and prioritizing the main sources of systemic risk and vulnerabilities for the euro area financial system. This is done to promote awareness of these systemic risks among policymakers, the financial industry, and the public at large, with the ultimate goal of promoting financial stability. The Review also plays an important role in relation to the ECB's new micro-prudential and macro-prudential competences. Although the ECB's new roles in the macro-prudential and micro-prudential realms rely primarily on banking sector instruments, the Financial Stability Review continues to focus on risks and vulnerabilities of the financial system at large, including—in addition to banks—shadow banking activities involving non-bank financial intermediaries, financial markets, and market infrastructures.

Links: Financial Stability Review: November 2016, Press Release on Global Risk Repricing, Overview: Financial Stability Review
Keywords: Financial Stability Review, Investment Companies, Macro-Prudential Policy

Draft Guidance on Leveraged Transactions

- ECB

November 23, 2016

Type of Information: Guideline

The ECB launched a public consultation on the draft guidance to develop clear and consistent definitions, measures, and monitoring with regard to leveraged transactions. The guidance specifies that:

» Banks should put in place a unique and overarching definition of leveraged transactions

» Banks should clearly define their strategy for leveraged transactions and appetite for underwriting and syndicating of the latter

» Banks should ensure, through a credit approval process and regular monitoring of leveraged portfolios, that realized transactions adhere to their risk appetite standards

» Banks' senior management should be a regular recipient of comprehensive reports about leveraged transactions

Leveraged transactions are an important part of the financing of economies. By ensuring safe and sound origination and distribution practices (through the adherence to this guidance), banks will contribute to a smooth financing of the real economy. The guidance is non-binding and qualitative and consultation on this guidance will end on January 27, 2017.

Links: Press Release, Draft Guidance on Leveraged Transactions, Q&A on Guidance
Keywords: Leveraged Transactions, Risk Appetite

Proposed Legislative Reforms Package to Further Strengthen Resilience of Banks in the European Union

- EC

November 23, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The EC proposed a comprehensive package of reforms to further strengthen the resilience of EU banks. The proposal amends the CRR and the CRD, were adopted in 2013 and set prudential requirements for credit institutions and investment firms, along with the rules on governance and supervision. It also amends the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation, which were adopted in 2014 and specify the rules on the recovery and resolution of failing institutions and establish the Single Resolution Mechanism. The aim is to implement some outstanding elements of the regulatory framework, which are essential to further reinforce banks' ability to withstand potential shocks. The package incorporates the remaining elements of the regulatory framework agreed recently within the Basel Committee and the FSB, including:

» Capital requirements in the area of market risk and counterparty credit risk and for exposures to CCP

» Implementation of methodologies that better reflect the risks to which banks are exposed

» Binding leverage ratio to prevent institutions from excessive leverage

» Binding net stable funding ratio (NSFR) to address the excessive reliance on short-term wholesale funding and to reduce long-term funding risk

» Requirement for global systemically important institutions to hold minimum levels of capital and other instruments that bear losses in resolution, also known as TLAC, to be integrated into the existing minimum requirement for own funds and eligible liabilities (MREL) system

Several measures have been suggested to improve banks' lending capacity to SMEs and to fund infrastructure projects. For non-complex, small banks, the plan is to reduce the administrative burden linked to certain rules in the area of remuneration. Another measure is about making the CRD and the CRR rules more proportionate and less burdensome for smaller and less complex institutions. Measures to support the creation of a Capital Markets Union (CMU) have also been proposed and these measures intend to:

» Avoid disproportionate capital requirements for trading book positions, including those related to market-making activities

» Reduce the costs of issuing or holding certain instruments (covered bonds, high-quality securitization instruments, sovereign debt instruments, and derivatives for hedging purposes)

» Avoid potential disincentives for institutions that act as intermediaries for clients in relation to trades cleared by CCPs

Comments Due Date: N/A
Effective Date: N/A
First Reporting Date: N/A

Links: Press Release, CRR Proposal, CRD Proposal, BRRD Proposal: Ranking of Unsecured Debt Instruments, BRRD Proposal: Loss-Absorbing and Recapitalization Capacity, SRM Proposal
Keywords: Basel III, CRD 5, CRR 2, IHC

Final Standards on Assessment Methodology to Validate Market Risk Models

- EBA

November 22, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The EBA published the final regulatory technical standards (RTS) on the assessment methodology to validate market risk models. These RTS specify the conditions under which competent authorities assess the significance of positions included in the scope of market risk internal models. These standards also specify the methodology that shall apply when assessing an institution's compliance with the requirements to use an internal model approach for market risk.

These RTS are a key component of the EBA's work to ensure consistency in model outputs, along with comparability of risk-weighted exposures. They provide objective criteria to be applied in the assessment of the significance of the positions included in the scope of the internal model. The RTS state two methodologies for general and specific risk categories, both of them based on the standardized rules for market risk. The EBA has considered international developments in the market risk capital standards (namely, Fundamental Review of the Trading Book or FRTB), before finalizing these RTS.

These RTS introduce some elements that go in the direction of the Basel review but, at the same time, can be implemented within the CRR current legal setting. To avoid any unnecessary burden, the EBA has dropped some elements, originally included in the consultation paper on RTS on assessment methodology for market risk internal models (published on December 2015) that will no longer be relevant once the new market risk framework has been implemented in the EU.

Comments Due Date: N/A
Effective Date: [EU OJ Date] + 20 Days
First Reporting Date: N/A

Links: Press Release, Final RTS
Keywords: CRR, Internal Models, Market Risk

Speech of Valdis Dombrovskis on Finalization of Basel III

- EC

November 21, 2016

Type of Information: Speech

The EC Vice President Valdis Dombrovskis gave an opening statement on the finalization of Basel III, at the European Parliament Plenary session in Strasbourg.

Mr. Dombrovskis highlighted that the use of internal models is a key focus of the Basel Committee. Under the current rules, capital requirements calculated using these internal models can vary in a way that does not always reflect the differences in banks' risk profiles; the Committee feels that such unjustified variations should be tackled. The EC supports the Basel Committee's broad objective but it believes that an intelligent solution is needed—a solution that maintains a risk-sensitive approach to setting capital requirements and does not significantly increase capital requirements.

The EC Vice President noted that the Basel Committee proposals could potentially come at the expense of reducing some of the justified variability, which would result in less risk-sensitive rules. The revisions contemplated by the Basel Committee should recognize that in a number of areas, banks and borrowers in Europe have their particularities. As William Coen (the Secretary General of the Basel Committee) told the ECON Committee recently, the Basel Committee has already made important changes to the initially proposed revisions to the rules, and some, but not all, EU specificities have been taken into account through those changes. For example, the capital requirements for mortgages have been adjusted to take into account the very stable mortgage markets we have in the EU. However, the EC considers that, at this stage, the changes do not fully ensure a level playing field between the different regions in the world.

The Basel Committee's proposals could address some weaknesses of the current rules and could therefore increase the soundness of the banking sector and, consequently, financial stability. The proposals will also lead to potentially significant increases in capital requirements of EU banks; this could have an adverse impact on lending to the economy, at least in the short term. Moreover, at a time when the EC is focused on supporting investment, it wants to avoid changes that would lead to a significant increase in the overall capital requirements shouldered by the banking sector in Europe. This is not just the EC's position—all member states backed it in July. Mr. Dombrovskis believes that the resolution to be voted in the upcoming plenary goes very much in the same direction. Moreover, this approach has been agreed by the Basel committee, as it believes that the completion of Basel III should not lead to the overall significant increases in capital requirements. In conclusion, the EC Vice President reiterated that the EC will continue to work on ensuring a solution that works for Europe and that does not put European banks at a disadvantage when compared to the global competitors.

Link: Speech
Keyword: Basel III

Annual Review of the Significance of Credit Institutions

- ECB

November 21, 2016

Type of Information: Report

The ECB published the results of its 2016 review of the significance of credit institutions.

This annual review brings the number of banks and banking groups directly supervised by the ECB to 127 (from 129). This year, Citibank Holdings Ireland Ltd., due to its increased size, has been identified as "significant" and will be supervised directly by the ECB from January 01, 2017. The number of banks and banking groups under ECB supervision changed this year, partly due to the changes in group structures and other developments that affected three banking groups. The changes concerned the merger of WGZ Bank and DZ Bank and the restructurings of State Street Bank Luxembourg and RFS Holding B.V. The

ECB regularly publishes the complete list of significant and less significant institutions. The specific grounds for classifying a given entity as significant are indicated in the published list of significant and less significant institutions. On an annual basis, the ECB reviews the parameters that determine whether a credit institution or a group fulfils any of the significance criteria according to the Single Supervisory Mechanism (SSM) Regulation, including total assets and cross-border activities. This annual assessment includes credit institutions, financial holding companies, and mixed financial holding companies established in the euro area, along with the branches of credit institutions established in other EU member states. Following this assessment, banks are classified as either significant or less significant. Significant credit institutions are directly supervised by the ECB whereas less significant credit institutions are supervised by their national competent authority, subject to the oversight of the ECB.

Links: Press Release, List of Supervised Entities
Keywords: Less Significant Credit Institutions, Significant Credit Institutions, SSM

Regulation on Criteria for Determining Whether Derivatives Subject to the Clearing Obligation Should be Subject to the Trading Obligation

- EC

November 19, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The EC published Commission Delegated Regulation (CDR) 2016/2020 in the *Official Journal of the European Union.* This regulation supplements Markets in Financial Instruments (MiFIR) with regard to RTS on criteria for determining whether derivatives subject to the clearing obligation should be subject to the trading obligation.

This regulation (Article 1) states that ESMA shall apply the criteria in Article 32(3) of MiFIR (EU Regulation No 600/2014) when establishing whether a class of derivatives, or relevant subset thereof, has sufficient third party buying and selling interest to be considered sufficiently liquid for the trading obligation. Moreover, in relation to the average frequency of trades (Article 2), ESMA shall consider the number of days on which trading took place, along with the number of trades. For the average size of trades (Article 3), ESMA shall consider the average daily turnover whereby the notional size of all trades combined shall be divided by the number of trading days. ESMA shall also consider the average value of trades whereby the notional size of all trades combined shall be divided by the number of trades. ESMA's analysis shall compare the ratio of market participants to the findings in the data obtained for the analyses of average size of trades and the average frequency of trades (Article 4). In relation to the number and type of active market participants, ESMA shall consider the:

- Total number of market participants trading in that class of derivatives or relevant subset thereof is not lower than two
- Number of trading venues that have admitted to trading or are trading the class of derivatives or a relevant subset thereof
- Number of market makers and other market participants under a binding written agreement or an obligation to provide liquidity

Finally, in relation to the average size of spreads (Article 5), ESMA shall consider the size of weighted spreads, including volume weighted spreads, over different periods of time, along with the spreads at different points in time of trading sessions. When information on spreads is not available, ESMA shall consider a proxy for the assessment of this criterion. This regulation shall apply from the date referred to in the second paragraph of Article 55 of MiFIR (that is, January 03, 2018).

Comments Due Date: N/A
Effective Date: December 09, 2016
First Reporting Date: N/A

Link: CDR 2016/2020
Keywords: Clearing Obligation, MiFIR, Trading Obligation

Regulatory Technical Standards on Access in Respect of Benchmarks

- EC

November 19, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The EC published CDR 2016/2021 in the *Official Journal of the European Union.* This regulation supplements MiFIR with regard to RTS on access in respect of benchmarks.

This regulation describes the information to be made available to CCPs and trading venues, along with the general conditions for the information through licensing to be provided to CCPs and trading venues. Additionally, it specifies the manner in which different conditions (including fees and their payment conditions) shall apply to each category of licensees, also stating the other conditions under which access is granted. The regulation provides the standards guiding how a benchmark may be proven to be new.

MiFIR provides for the non-discriminatory access for clearing and trading between CCPs and trading venues, including access to licenses of and information relating to benchmarks, which are used to determine the value of some financial instruments for trading and clearing purposes. The information that CCPs and trading venues need for clearing or trading purposes may vary, depending on a number of factors, including the relevant financial instrument being traded or cleared and the type of benchmark that the financial instrument references. Therefore, CCPs and trading venues should be allowed to request access to any information, provided it is required for clearing or trading purposes.

The diversity of benchmarks and the different uses identified render a one-size-fits-all approach inappropriate and a high degree of harmonization on the content of license agreements unsuitable. Limiting the conditions under which access is granted on predetermined and exhaustive terms might therefore be detrimental to all parties. New series of benchmarks are released on a periodic basis, such as credit default swaps benchmarks. In those cases, the newly released benchmark is a continuation of the previous series and should therefore not be considered a new benchmark. ESMA had conducted an open public consultation (September 29, 2016 to December 02, 2016) on the draft RTS on this regulation is based. This regulation shall apply from the date referred to in the fourth paragraph of Article 55 of MiFIR (that is, January 03, 2020).

Comments Due Date: N/A
Effective Date: December 09, 2016
First Reporting Date: N/A

Link: CDR 2016/2021
Keywords: Benchmark, MiFIR

List of Public Sector Entities for the Calculation of Capital Requirements

- EBA

November 18, 2016

Type of Information: Statement

The EBA published the list of public sector entities that may be treated as regional governments, local authorities, or central governments in the area of credit risk, in accordance with the CRR. This list will assist EU institutions in determining their capital requirements for credit risk.

The EBA compiled this list to enhance harmonization in the treatment of exposures to EU public sector entities, using the standardized approach to capital requirements. The list includes entities that are treated as regional governments, local authorities, or central governments due to their reduced risk level. As a result of this treatment, exposures to the public sector entities included in the list will qualify for the same risk weight as for the respective regional government, local authority, or central government.

The list was compiled using the information provided by the competent authorities and is based on the classification used in each individual country. Hence, differences persist in the approaches and eligibility criteria for public sector entities across countries.

Links: Press Release, List of Public Sector Entities
Keywords: CRR, Public Sector Entity

Consultation on How to Review the Maturity Ladder for Liquidity Reporting

- EBA

November 16, 2016

Type of Information: Guideline

The EBA launched a consultation to review its implementing technical standards (ITS) on additional monitoring metrics for liquidity reporting. This mainly encompasses reintroducing a maturity ladder in line with the reporting requirements laid down in the Commission's Delegated Act on the liquidity coverage ratio (LCR).

The revised maturity ladder will require less detail on assets other than high-quality liquid assets (HQLA) and on credit steps. It also captures the outflows from committed facilities as well as those due to downgrade triggers. In addition, a memorandum section has been included in the revised ITS to provide details on five LCR components, which help estimate any upcoming volatility of the LCR. Finally, the composition of the time buckets has been amended and the number of rows to be reported has been reduced.

The EBA originally submitted its final draft ITS on additional monitoring metrics for liquidity on December 18, 2013, in addition to a slightly updated version on July 24, 2014. On March 01, 2016, the Commission adopted the ITS without the maturity ladder, as the maturity ladder was based on the provisional approach of reporting requirements on liquid assets; therefore, it needed to be adapted to the detailed definitions of liquid assets laid down in the Commission's Delegated Act on the LCR. The deadline for submission of comments on this consultation is January 02, 2017.

Links: News Release, Consultation Paper, Annex XXIV: Template for Maturity Ladder, Annex XXV: Instructions for Maturity Ladder
Keywords: CRR, LCR, Liquidity Ladder

Speech of Vice President Valdis Dombrovskis on Approach to Regulate the Banking Sector in Europe

- EC

November 15, 2016

Type of Information: Speech

The EC Vice President Valdis Dombrovskis spoke, in Brussels, about his approach to regulating the banking sector in Europe.

Highlighting the need for a strong, diverse banking sector and a clear regulatory framework in Europe, the Vice President discussed the need for larger banks operating and lending across the single market and small banks servicing local communities and businesses. Acting on the temptation to reverse the reforms the EC undertook during the crisis, to lower requirements, and to give up on international standards and the single rulebook, could lead to more uncertainty and instability. The goal is to strengthen confidence and stability in the banking sector, by building on the new regulatory architecture to reduce risk and complete the Banking Union. Moreover, the European framework must be adjusted to make it more proportionate and growth-friendly. He said, "These twin priorities have underpinned our upcoming proposals to revise the CRR and CRD. And they will also be our approach to the measures still being discussed internationally, currently not covered by our upcoming proposals."

To enhance resilience and financial stability in the banking sector, the EC will integrate the standards agreed by the Basel Committee and the FSB into European legislation. To ensure that Europe fully tackles the risks linked to global and systemically important banks, the EC will propose that these banks hold a minimum TLAC. The bank resolution framework that was established in Europe a couple of years ago is appropriate for resolving ailing banks and limiting the impact on financial stability and taxpayers. Hence, the EC wants to maintain this framework and incorporate the TLAC rule into the existing MREL. The EC expects up to 13 banking groups to comply with the TLAC standard in the EU. Moreover, the resolution authorities are expected to deal with the other banks posing similar systemic risks on a case-by-case basis, under the MREL.

The plan also includes introduction of the NSFR and a binding leverage ratio of 3%, which will act as a backstop to banks' internal-model-based capital requirements. Furthermore, the EC wants to clarify the application of Pillar 2 capital requirements by national supervisors and to introduce disclosure obligations for the NSFR. The EC also plans to propose introducing a "SME supporting factor" to all SME loans and to apply similar measures to infrastructure finance. The EC will propose bank capital charges for investments in infrastructure projects to be reduced, providing these comply with criteria which lower risk profiles and increase the predictability of cash flows.

Mr. Dombrovskis added that EC will try to reduce the administrative burden linked to some rules in the area of remuneration. The EC's proposals will strengthen the proportionality of banking prudential legislation and make changes to reduce reporting burdens. The revisions to the CRR and CRD will aim to help banks support deeper and more liquid capital markets in Europe. Hence, the EC's proposals will include specific adjustments to avoid disproportionate capital requirements for trading book positions, including market-making activities. The EC will also reduce costs for issuing and holding certain high-quality financial instruments, such as covered bonds, securitization instruments, or derivatives for hedging. It will also offer incentives to institutions acting as intermediaries for trades cleared by CCPs.

Apart from the upcoming proposals, the completion of Banking Union remains a priority. He believes that risk-sharing needs to go hand-in-hand with the risk-reduction measures being incorporated into the legislation. The EC proposal for a European Deposit Insurance Scheme would reduce the vulnerability of national deposit guarantee schemes to large local shocks and weaken the link between banks and national governments; this proposal would provide stronger cover for all retail depositors in the Banking Union and ensure that depositor confidence in a bank would not depend on the bank's location.

Additionally, the EC will continue to work closely with member states to reduce high levels of NPLs. In the coming weeks, the EC will present a proposal for effective arrangements for restructuring viable business debt in the EU member states, giving companies a second chance. Through the European Semester process, the EC has made Country Specific Recommendations to six member states to address NPLs. The EC is also working with national authorities to find customized solutions in the framework of the existing rules on bank resolution and state aid. As part of the mid-term review of the CMU, the EC will assess the case for development of a secondary market for distressed debt.

Mr. Dombrovskis emphasized that this is the approach behind the Banking Union proposals already on the table and the proposals EC will shortly make to revise the CRR and CRD legislation. This approach will also underpin EC's follow-up to the Call for Evidence, the proposal on CCP Recovery and Resolution, and the review of the EMIR. He ended his speech by stating that this approach can make a real difference in supporting sustainable growth and jobs across the EU.

Link: Speech
Keywords: Basel III, CRD IV, CRR, Proportionality

Guidelines on Institutional Protection Schemes

- ECB

November 15, 2016

Type of Information: Guideline

The ECB published guidelines 2016/1993 and 2016/1994 on Institutional Protection Schemes (IPSs).

Guideline 2016/1993 lays down the principles for coordination between the ECB and the national competent authorities with regard to the assessment of IPSs for the purpose of granting prudential permissions and waivers to IPS members. It also lays down principles for monitoring of IPSs that have been recognized for prudential purposes. This guideline shall take effect on the day of its notification to the Single Supervisory Mechanism (SSM) competent authorities. The SSM competent authorities shall comply with this guideline from December 02, 2016

Guideline 2016/1994 lays down specifications for assessing the compliance of IPSs and their members with the requirements laid down in Article 113(7) of CRR, to determine whether permission within the meaning of that Article can be granted to individual institutions. National competent authorities shall apply the specifications in relation to less significant institutions. This guideline shall take effect on the day of its notification to the national competent authorities. The national competent authorities shall comply with this guideline from December 02, 2016.

Links: Guideline 2016/1993, Guideline 2016/1994
Keywords: CRR, IPS

Working Paper on Predicting Vulnerabilities in the European Union Banking Sector: Role of Global and Domestic Factors

- ESRB

November 14, 2016

Type of Information: Research

The European Systemic Risk Board (ESRB) published a working paper assessing the usefulness of credit and other macro-financial variables to predict banking sector vulnerabilities in a multivariate framework. Using data for 23 European countries, the paper seeks to provide an early warning model that can be used to guide the build-up and release of capital in the banking sector by:

- Examining the evolution of credit variables preceding banking crises in the EU member states
- Assessing usefulness of the credit variables in guiding the setting of the countercyclical capital buffer (CCB)
- Investigating the potential benefits of complementing private credit variables with other macro-financial and banking sector indicators in a multivariate logit framework

The paper finds that, in addition to credit variables, other domestic and global financial factors, such as equity and house prices and banking sector variables, help to predict macro-financial vulnerabilities in the EU member states. Even though credit variables are essential ingredients of early warning models, other macro-financial and banking sector variables are important covariates to control for and to improve the predictive power of models. The paper finds that global variables (particularly, global credit variables) are strong predictors of macro-financial vulnerabilities: these variables provide good signals when used as single indicators and demonstrate consistent and significant effects in multivariate logit models. This concurs with the view that excessive global liquidity was one of the factors that contributed to the accumulation of financial vulnerabilities ahead of the global financial crisis. The domestic credit-to-GDP also predicts vulnerabilities, although the effect is smaller than for the global credit variables.

Additionally, the evidence suggests that strong banking sector profitability may incur excessive risk taking, leading to increased vulnerability. However, a high banking sector capitalization decreases the probability of entering a vulnerable state. These results are important for policy makers involved in setting the CCB, reinforcing the notion that higher bank capital ratios reduce the likelihood of financial vulnerability. Moreover, in an increasingly integrated economy, vulnerabilities that develop at a global level potentially transmit to countries worldwide and should hence be taken into account by policy makers. The findings of this paper suggest that policy makers should take a broad approach in the analytical models that support risk identification and calibration of tools, instead of focusing only on the domestic credit-to-GDP gap to assess the level of cyclical systemic risk. Overall, these findings can inform decisions related to macro-prudential policy measures.

Link: Working Paper
Keywords: Systemic Risk, Early Warning Model, Macro-Prudential Policy

Consultation on Guidelines for Application of the Internal Ratings-Based Approach

- EBA

November 14, 2016

Type of Information: Guideline

The EBA launched a consultation on its draft guidelines on the estimation of risk parameters for non-defaulted exposures—namely, the probability of default (PD) and the loss given default (LGD)—and on the treatment of defaulted assets. These draft guidelines are part of the EBA's broader work on the review of the Internal Ratings-Based Approach (IRB) aimed at reducing the unjustified variability in the outcomes of internal models.

For non-defaulted exposures, the draft guidelines detail the estimation of PD and LGD parameters, including specification of main definitions, requirements for the data used, and clarifications on modeling techniques. However, for defaulted assets, these guidelines provide clarifications on the estimation of risk parameters such as best estimate of expected loss and LGD in-default based on the requirements specified for the LGD for non-defaulted exposures. These guidelines also specify other aspects that are common to all risk parameters, such as the:

- Judgmental component when developing and applying internal models
- Appropriate level of conservatism that should be included in risk parameters
- Need for regular reviews of the models to ensure the necessary changes are applied in case of their deteriorated performance

The consultation ends on February 10, 2017. While finalizing these guidelines, the EBA will also consider results of its quantitative survey to assess the impact of the proposed requirements on the rating systems. As these guidelines may entail material changes to the numerous rating systems, their implementation has been proposed by the end of 2020.

Links: News Release, Consultation Paper
Keywords: CRR, IRB

Creation of the Internal Task Force on Financial Technology

- EC

November 14, 2016

Type of Information: Statement

The EC launched a Task Force on Financial Technology (TFFT) that aims to assess and make the most of innovation in financial technology. The task forces has been also tasked with developing strategies to address the potential challenges posed by FinTech. The work of this task force is expected to build on the EC's goal to develop a comprehensive strategy on FinTech.

Technological development provides great opportunities for existing financial institutions, alternative service providers, and new business models, provided that any risks are carefully managed. This internal task force brings together the expertise of EC staff across several areas, such as financial and digital services, digital innovation and security, and competition and consumer protection. It will also engage with stakeholders and present policy suggestions and recommendations in the first half of 2017.

Link: News Release
Keywords: FinTech, TFFT

Letter to European Supervisory Authorities to Amend Packaged Retail and Insurance-Based Investment Products Rules and Develop Guidance

- EC

November 14, 2016

Type of Information: Statement

The EC sent a letter to the ESAs on setting out the proposed amendments to the draft RTS on key information documents (KID) for packaged retail and insurance based investment products (PRIIPs), accompanied by the amended RTS. The EC invited the ESAs to submit an opinion on amending the RTS, based on the proposed amendments, within six weeks. The EC also asked the ESAs to develop the guidance in line with the relevant provisions of the RTS on the practical application of credit risk mitigation factors for insurers.

In April 2016, the ESAs had jointly submitted, to the EC, the draft RTS, which was endorsed by the EC. The Council of the EU raised no objections; however, the European Parliament rejected the RTS on September 14, 2016. The EC considers that amendments to the RTS provisions on multi-option PRIIPs, performance scenarios, and the comprehension alert are required to address the concerns expressed by the European Parliament.

The EC expects the PRIIPs rules to enter into force on January 01, 2018, instead of January 01, 2017.

Links: News Release, Letter on Proposed Amendments, RTS on Multi-Option PRIIPs
Keywords: KID, PRIIP

Final Report on Clearing Obligation Proposing a Delay in Phase-In Period for Central Clearing for Small Financial Counterparties *- ESMA* *November 14, 2016* *Type of Information: Statement*	ESMA published its final report on clearing obligation, proposing to amend EMIR's Delegated Regulations (classified in Category 3) on the clearing obligation to prolong, by two years the phase-in period for central clearing of OTC derivatives applicable to financial counterparties with a limited volume of derivative activity. The report explains a range of reasons (particularly relevant EU legislations being under review or finalization) for postponing the phase-in period. ESMA also proposed to align the three compliance dates for Category 3 firms in the Delegated Regulations regarding Interest Rate Swaps and Credit Default Swaps. The newly proposed compliance date would be June 21, 2019. The final report was submitted to the EC for endorsement of the draft RTS presented in the Annex of the final report. The EC should decide, within three months from the submission date, whether or not to endorse the RTS. *Links: News Release, Final Report* *Keywords: Clearing, Central Clearing for Small Counterparties*
Consultation on Guide to Assessments of Board Members *- ECB* *November 14, 2016* *Type of Information: Guideline*	The ECB launched a public consultation on the guide to fit and proper assessments of board members of banks. The guide explains how ECB Banking Supervision evaluates the qualifications, skills, and proper standing of a candidate for a position on the board of a bank. The guide builds on the draft guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU of the ESMA and EBA, which were published for consultation by EBA on October 28, 2016. Both the national competent authorities and the ECB are involved in the assessment. The quality of the top management in banks is crucial for the stability of a financial institution and for the overall banking system. The ECB's role is to ensure that banks comply with the rules aimed at ensuring good governance in banks. In its fit and proper assessments, ECB Banking Supervision applies the relevant Union law and its transposition in the national law of the 19 euro area countries. Where Union law leaves room for member states to determine how it will be transposed, national differences may continue to exist. As part of this consultation, the ECB will hold a public hearing on January 13, 2017 in Frankfurt. This consultation closes on January 20, 2017 and its outcome will be taken into account when the guide is finalized. Relevant documents, comprising the draft guide and frequently asked questions, are available on the ECB's Banking Supervision website. *Links: Press Release, Consultation* *Keywords: Board Member Assessments*
Consultation on Revised Standards on Supervisory Reporting *- EBA* *November 14, 2016* *Type of Information: Regulation* *Regulatory Status: Proposed Rule*	The EBA launched a consultation on the revised ITS on supervisory reporting. The proposed amendments include: » New requirements for the reporting of information on sovereign exposures » Changed requirements for the reporting of operational risk data The standards on supervisory reporting aim to collect information on institutions' compliance with prudential requirements in a consistent way and need to be updated whenever prudential or supervisory requirements change. The proposed draft ITS include additional information on sovereign exposures as the currently available data suffers from several shortcomings, which has required ad-hoc collections from the competent authorities. The draft ITS also propose improvements to the reported information on operational risk. These changes will allow supervisors to monitor the losses due to this risk and to analyze drivers behind the events triggering such material losses. The EBA expects to submit these revised draft ITS to the EC in March or April 2017. The revised requirements will be applicable in March 2018, with March 31, 2018 as the first reporting reference date. *Comments Due Date: January 07, 2017* *Effective Date: N/A* *First Reporting Date: N/A* *Links: News Release, Consultation Paper, Template: Operational Risk, Template With Changes, Reporting Instructions* *Keywords: Operational Risk, Reporting, Sovereign Exposure*

Adoption of Legislative Acts on Securities Settlement and Central Securities Depositories in the European Union *- EC* *November 11, 2016* *Type of Information: Regulation* *Regulatory Status: Final Rule*	The EC adopted a package of legislative acts to implement specific provisions of the Central Securities Depositories Regulation (CSDR). These acts include of a delegated act, three RTS, and two ITS to complement the obligations defined under the regulation on improving securities settlement in the EU and on central securities depositories (CSDs). These RTS and ITS were developed by the ESAs and have been endorsed by the EC without modification. The EC developed the delegated act based on ESMA's technical advice. The package lays down specific requirements to ensure that CSDs are prudentially sound, have high-quality risk management and corporate governance standards, and meet appropriate capital requirements. The package also sets penalties for settlement failures as well as measures to ensure the transparency of internalized settlements that take place outside CSDs. It also clarifies the framework under which supervisors should cooperate and exchange information. In combination with the Regulation on OTC derivatives, CCPs, and trade repositories (EMIR) and the Markets in Financial Instruments Directive (MiFID), this framework sets out a series of rules for systemically important securities infrastructures (trading venues, CCPs, trade repositories, and CSDs). The ITS on the templates and procedures for reporting and transmission information on internalized settlements shall enter into force two years following its publication in the *Official Journal of the European Union*. However, the other ITS and the three RTS, along with the delegated act, will be effective from the twentieth day of their publication in the *Official Journal of the European Union.* *Comments Due Date: N/A* *Effective Date: N/A* *First Reporting Date: N/A* *Links: Press Release, Delegated Act, RTS on CSD Requirements, RTS on Internalized Settlements, RTS on Prudential Requirements, ITS on CSD Requirements, ITS on Internalized Settlements* *Keywords: CSD, Securities Settlement*
Views of the Members of European Parliament on Revision of Basel III *- ECON* *November 10, 2016* *Type of Information: Statement*	The European Parliament published views of its Members of Parliament (MEPs) while voting on finalizing Basel III. In their vote on finalization of Basel III, Monetary Committee MEPs stressed that the Basel III rules should be revised in such a way that: » The overall capital requirements do not increase significantly while strengthening the overall financial position of European banks » They promote a global level playing field while "mitigating rather than exacerbating the differences between jurisdictions and banking models and not unduly penalizing the EU banking model" MEPs underlined the specificities of the European banking models, the different sizes and risk profiles that had to be taken into account to maintain the diversity and respect proportionality. Additionally, MEPs reinforced the importance of a risk-based approach, with the same rules being applied to the same risk and reducing the scope of regulatory arbitrage. They underlined the key role of the European and national banking supervisors in ensuring convergence. MEPs also stressed that the EC, the ECB, and the EBA should engage in the work of Basel Committee and provide transparent and comprehensive updates through regular briefings in the ECON Committee. A discussion with the EC representative, along with the plenary vote, will take place during the November plenary session in Strasbourg. *Link: Press Release* *Keyword: Basel III*

Release 0.2 of Banks' Integrated Reporting Dictionary

- BIRD

November 10, 2016

Type of Information: Statement

Version 0.2 of the Banks' Integrated Reporting Dictionary (BIRD) has been released. The new release comprises a draft definition of the input layer and some transformation rules to fulfill the reporting requirements for resident credit institutions and resident foreign branches of credit institutions.

This release contains the output cubes that represent a draft formal description of AnaCredit requirements. The structure of the input layer related to the AnaCredit requirements is almost complete while the definition of transformation rules will be finalized in the next releases. The formal description of the transformation rules using Validation and Transformation Language (VTL) will change (in form but not in content). Significant changes can be expected in the VTL syntax due to ongoing developments in the VTL Task force and the publication of VTL version 1.1 at the beginning of 2017. The BIRD group also intends to cover the requirements related to banking groups' data defined in the Regulation (EU) No 1011/2012 concerning Statistics on Holdings of Securities, as amended by Regulation (EU) 2016/1384. These will be covered in one of the next releases. The BIRD documentation is described in the database and in technical guidelines.

A 2015, ECB-hosted workshop with the industry indicated that covering the new requirements on the collection of granular credit and credit risk data (AnaCredit) is the best approach for launching the implementation of BIRD. Keeping in mind the paucity of time, the authorities initiated a light short-term solution, with a BIRD pilot covering AnaCredit and Statistics on Holdings of Securities. The pilot started in 2015 and its conclusions are expected in the first quarter of 2017. Depending on the result, BIRD will be further developed with the intention to cover all the European statistical and supervisory requirements.

BIRD's application is voluntary and it covers several statistical and supervisory reporting requirements; the covered requirements include AnaCredit, Securities Holdings Statistics, Monetary Financial Institutions' Balance Sheet Items Statistics, Monetary Financial Institutions' Interest Rate Statistics, other statistics (such as the balance of payments and national accounts), common reporting (COREP), and financial reports (FINREP).

Links: BIRD Release 0.2, Status of BIRD Project, BIRD Overview
Keywords: AnaCredit, Statistics, Securities Holdings Statistics

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Results of the First Impact Assessment of International Financial Reporting Standards 9

- EBA

November 10, 2016

Type of Information: Statement

The EBA published a report on qualitative and quantitative observations of its first impact assessment of IFRS 9. The report also describes relevant recommendations and future actions, covering the interaction of IFRS 9 with the existing prudential requirements.

The report, on the qualitative side, highlights that when the exercise was launched (in December 2015), banks were still at an early stage of preparation for the IFRS 9 implementation; however, larger banks seemed more advanced. Banks still needed to make some key accounting policy decisions when this assessment was performed. The report shows that many respondents plan to perform parallel runs to test the implementation of IFRS 9, but this testing maybe more limited than originally envisaged.

With respect to the quantitative assessment, responses show that the estimated impact of IFRS 9 is mainly driven by IFRS 9 impairment requirements. The estimated increase of provisions is on average 18% (and up to 30% for 86% of the respondents) compared to the current levels of provisions under IAS 39. The common equity tier 1 (CET1) ratios are expected to decrease on average by up to 59 basis points (bps) (and up to 75 bps for 79% of the respondents). In limited cases, the impact of IFRS 9 could be higher.

The EBA will closely monitor implementation of IFRS 9 by EU institutions and will encourage banks to continue their efforts toward a high-quality implementation of the standard. The EBA is launching a second impact assessment, following the analysis of the information collected in the first exercise. As banks are expected to have further developed their methodologies for the IFRS 9 implementation, the new exercise will enable better understanding of the possible impact of IFRS 9 and the way it is being implemented.

In parallel, the ESMA published a public statement on issues to be considered when implementing IFRS 9. The statement highlights the need for consistent, high-quality implementation of IFRS 9 and the need for transparency on its impact to users of financial statements.

Links: Press Release, Impact Assessment Results, Issues for Consideration in IFRS 9 Implementation
Keywords: ECL, IFRS 9, Impairment

Statement on Issues for Consideration in Implementing International Financial Reporting Standards 9

- ESMA

November 10, 2016

Type of Information: Statement

ESMA published a statement on issues for consideration in implementing IFRS 9. The statement highlights the need for consistent, high-quality implementation of IFRS 9 and the need for transparency on its impact to users of financial statements. ESMA expects this statement to be taken into account and reflected in the 2016 and 2017 annual financial statements and 2017 interim financial statements by firms; this will enhance transparency and comparability of IFRS financial statements in the EU.

ESMA's annual public statement on European Common Enforcement Priorities for 2016, which was released in October, had identified the disclosures of the impact of the new standards on IFRS financial statements; this included IFRS 9 as a priority for ESMA and national enforcers when they examine listed companies' 2016 financial statements. IFRS 9 replaces major parts of "IAS 39 Financial Instruments: Recognition and Measurement" and contains a new impairment model based on expected credit losses (ECLs). It also includes new requirements and guidance on the classification and measurement of financial assets and introduces new requirements to address own credit risk issue. The effective date of application of IFRS 9 in the EU should be January 01, 2018.

The EBA also published a report on results from the EBA impact assessment of IFRS 9, following its January 2016 impact assessment of the standard on a sample of approximately 50 institutions across the European economic area.

Links: News Release, Issues for IFRS 9 Implementation, Common Enforcement Priorities for 2016
Keywords: ECL, IFRS 9, Impairment

Speech of Vice President Dombrovskis on Strengthening the Financial Sector

- EC

November 09, 2016

Type of Information: Speech

The EC Vice President Valdis Dombrovskis spoke about building a safe and competitive financial sector and supporting investment and sustainable growth in Europe. He presented his views at the Structured Dialogue with the European Parliament's ECON.

The EC Vice President highlighted the plan to adopt a proposal to amend the CRR and CRD IV. "This proposal delivers on two fronts," he said. First, it will tackle the remaining risks in the banking sector by implementing international standards in a way that works for European businesses lending to the wider economy. Second, EC is revising its legislation to make it more proportionate to the amendments. Building on the work of the European Parliament and Burkhard Balz (who is an MEP), the EC wants to follow through on the Call for Evidence on all financial services legislation. The EC Vice President emphasized on the need to consider adjustments to increase funding to the wider economy. Additionally, EC will propose some immediate changes through reviews the CRR and the EMIR.

Mr. Dombrovskis hopes for an agreement to be reached on money market funds (MMF) by the end of the year. He expects that a balance can be struck between mitigating the risks of MMFs while maintaining them as a viable product meeting the needs of end investors. Mr. Dombrovskis also revealed that the EC will make a proposal on CCP recovery and resolution by end of the year. The proposal will build on existing European rules (the EMIR and the BRRD). The EC wants to be as consistent as possible with existing recovery and resolution legislation and to respond to the specific features of CCPs. Next year, EC plans to come up with proposals to update the macro-prudential framework. EC will build on the responses received on the consultation to make the macro-prudential framework stronger.

Additionally, Mr. Dombrovskis briefly spoke about the PRIIPs Delegated Regulation, on which the European Parliament expressed its dissatisfaction. The EC has carefully assessed the European Parliament's resolution on PRIIPs. The EC has been working with the ESAs to address the concerns and has sent its proposals to the ESAs. This will allow the RTS to be re-proposed to the ECON without further delay. The EC has also proposed a twelve-month extension to the PRIIPs regulation to give companies more time to prepare for new rules coming into force and to allow time for the revised RTS to be finalized. This is done based on a shared understanding that Level 1 legislation will not be reopened.

Link: Speech
Keywords: CRD IV, CRR, EMIR, PRIIP

Newsletter for October 2016

- EBA

November 09, 2016

Type of Information: Statement

The EBA's October newsletter lists the key EBA publications from June to October 2016 and the EBA publications expected by the end of 2016, along with a focus on the internal models.

The newsletter highlights that the EBA has been taking measures to achieve greater consistency of the approaches, particularly by implementing a regular process of benchmarking for the institutions' own estimates of risk parameters. The EBA work on the review of IRB approach brings convergence in the development and assessment of internal models as well as in the comparability of the estimates of risk parameters. While keeping a high degree of risk sensitivity of capital requirements for credit risk, it focuses on the main drivers of non-risk-based variability of risk parameters. The review was performed in accordance with the roadmap outlined in the report published in February 2016. In July 2016, the EBA published the first phase of this work in the form of the final draft RTS on the assessment methodology for credit risk models. The second phase of the IRB review, which was finalized in September 2016, focused on the definition of default.

The third and fourth phases of the IRB review are yet to be completed. As part of the third phase, the EBA is working on the specification of the consultation paper on the guidelines on the PD and LGD estimation and the treatment of defaulted assets. These guidelines will specify key aspects related to the development and calibration of IRB models and will provide technical clarifications on the estimation of PD and LGD for non-defaulted exposures as well as best estimate of expected loss and LGD for exposures in default. The fourth and final phase of the IRB review will be related to the credit risk mitigation framework. However, the scope of this review is still under consideration and will be subject to further discussions both within the EBA and with the Commission, as a broader review might require changes to the CRR.

Link: Newsletter
Keywords: Internal Models, Newsletter

Extension of the Application Date of the Regulation on Key Information Documents for Packaged Retail and Insurance-Based Investment Products

- EC

November 09, 2016

Type of Information: Statement

The EC proposed an extension to the date of application of the regulation on KIDs for PRIIPs. This one-year extension is being proposed to ensure a smooth implementation for European consumers and to ensure legal certainty for the sector.

After the European Parliament rejected the RTS that underpin the format and methodology used to compile the KIDs, both the European Parliament and a large majority of member states also called for a postponement in the entry into application of the regulation. While the EC believes that the PRIIPs regulation is sufficiently clear as well as directly applicable on its own, its objectives would be better served by having the RTS on KIDs already in place. The RTS will be important in offering consumers the benefit of having KIDs that are more easily comparable and standardized. The delay gives issuers and distributors of PRIIPs products until January 01, 2018 to put the provisions in place.

The EC is working closely with the three ESAs to resubmit the revised RTS. The aim is to meet some of the concerns raised by the European Parliament, while not compromising the balance previously achieved. The EC has asked the ESAs to make targeted changes in certain areas (that is, multi-option products, performance scenarios, comprehension alert, and presentation of insurance-related costs). To ensure greater clarity for insurance companies, the EC is inviting the ESAs to develop guidance on the practical application of credit risk mitigation factors under the RTS for insurers. This guidance needs to be in line with the relevant provisions of the RTS and not alter their substance. The ESAs have six weeks to resubmit the revised RTS to the EC. The RTS will have to be adopted by the EC and then be subject to scrutiny by the European Parliament and the Council. The EC expects the revised PRIIPs framework to be in place during the first half of 2017 and for it to apply as of January 01, 2018.

The PRIIPs regulation is a key piece of legislation that aims to improve the quality of information provided to consumers. It introduces a standardized factsheet, known as a KID, which is designed to present the main features of an investment product in a simple and accessible manner. Via the KID, EU consumers will, for the first time, be able to easily compare the potential risks and rewards of investment products, funds, and investment-linked insurance policies.

Link: Press Release
Keywords: KID, PRIIP

Report on Motion for a Parliament Resolution on Green Paper on Retail Financial Services

- ECON

November 09, 2016

Type of Information: Report

The Committee on Economic and Monetary Affairs (ECON) published a report containing a motion for a Parliament resolution on the "Green Paper on Retail Financial Services," an explanatory statement by the rapporteur Olle Ludvigsson, and a copy of the Committee's opinion on the Internal Market and Consumer Protection.

It is to be noted that, for the first quarter of 2016, the FinTech funding in Europe accounted for only USD 348 million, compared to USD 1.8 billion in North America and USD 2.6 billion in China: this demonstrates the urgent need for a quick mentality shift and an adequate regulatory response to technological developments to enable Europe to become a lead market for innovation. A genuine single market for retail financial services, where a level playing field for new market entrants is ensured, should make the EU attractive as a hub for innovative financial services and provide consumers with more and better choices, at lower rates. Although disruptive technologies present regulatory challenges, they also offer a stimulus for economic growth and jobs, along with great opportunities for innovation that benefits end-users.

Mr. Ludvigsson believes that the Green Paper had been presented at the right time. He believes that for making the new pieces of legislation work well in a fast-changing market context, there is a need to be active. This is a key aspect of the Green Paper. Hence, there is a need to ensure level 2 measures are fit. He highlighted that a lot of work is pending in building a single market in retail financial services. For the majority of retail financial products, the ECON is still facing 28 diverging and not-so-competitive national markets. The cross-border activity is limited due to multitude of barriers. This is bad for consumers, for innovative enterprises, and for the overall functioning of the European economy. Another reason Mr. Ludvigsson believes that the Green Paper has been released at the right time is because digitalization is now opening up new possibilities at a fast pace. If properly dealt with, digitalization could create the momentum needed to start to take away the cross-border barriers. There is an opportunity to link financial actors established across Europe to consumers residing all over Europe. This opportunity should not be missed.

The report states that there are some major challenges that have to be dealt with to bring the retail financial services agenda forward:

» One challenge is to build a stronger EU level capacity for data collection and analysis. While a number of the ideas in the Green Paper seem promising, most of them have to be underpinned by broad and adequate empirical information before moving on to any legislative process. As a general observation in this field, the Commission impact assessments could from time to time be stronger on the empirical side.

» Another challenge is to make identification work in practice. Presently, identification problems generate various obstacles in the development of new services and in many types of cross-border situations. Authentication technologies are also a part of this picture. The interpretation of anti-money laundering rules has to be fine-tuned within a tighter European framework for secure and efficient identification.

» Creating and maintaining a level playing field is also a challenge to be overcome. Any new legislative initiative based on the Green Paper will have to be as technology- and business-model-neutral as feasible. It is important to highlight the challenge of making certain that there are no unnecessary or unfair differences between euro and non-euro member states.

» The final challenge is to ensure financial inclusion, which is a widespread issue across Europe. New Payment Accounts Directive is one step taken to deal with this issue. This Directive is to be fully implemented this autumn, which will give every consumer a right to a basic payment account.

The debate in plenary on the Green Paper is scheduled for November 23, 2016, followed by vote in plenary on November 24, 2016.

Links: Report on Green Paper, Green Paper on Retail Financial Services, Green Paper Debate
Keywords: Green Paper, Retail Financial Services

Consultation on Standards Specifying Information Requirements for the Authorization of Credit Institutions

- EBA

November 08, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The EBA launched a consultation on regulatory technical standards (RTS) on the information to be provided to competent authorities for the authorization of credit institutions. The EBA also seeks feedback on implementing technical standards (ITS) on the templates and procedures for the provision of information to be provided to competent authorities. These standards aim at harmonizing the information requirements in the authorization process across the EU, thus facilitating the application process and ensuring a level playing field.

The application for authorizing a credit institution needs to be supported by a substantial amount of information. The RTS aim at structuring such information, which includes the history of the applicant credit institution, the activities it intends to carry out, its own funds, its shareholders with qualifying majority, the management body, and the obstacles that may prevent effective the exercise of the competent authority's supervisory functions. The RTS also introduced some flexibility in the information requirements to adjust them to the different nature of each application.

Comments Due Date: February 08, 2017
Effective Date: N/A
First Reporting Date: N/A

Links: News Release, Consultation Paper
Keywords: Authorization, Information Requirements

Speech of Chairman Steven Maijoor on the Review of Macro-Prudential Framework in the European Union

- ESMA

November 07, 2016

Type of Information: Speech

The ESMA Chairman Steven Maijoor spoke at the public hearing on the review of macro-prudential framework in the EU.

The Chairman highlighted that ESMA supports the Commission's CMU agenda. The growth potential and need for capital markets in the EU is strong and well-documented. He believes that implementation of the Commission's Action Plan has the potential to unleash additional growth in the capital markets in EU. Additionally, ESMA plays a central role in implementing of the Action Plan; it has been entrusted with financial-stability responsibilities for all segments under its remit, including the securities markets and investment funds, as well as financial market infrastructures and CRAs.

The ESMA chairman also noted that an extension of the macro-prudential framework to non-banking will not need to be built from scratch. Important conceptual work is already in progress. At the global level, the FSB and IOSCO are providing financial stability recommendations relevant to the non-banking sector, including market infrastructures, asset management, and securities financing transactions (SFTs). At the EU level, the work of ESMA and the ESRB support that evolution. These activities can serve as a basis for further work, and help ensure international consistency and effectiveness. Thus, making the best use of existing competencies should be an important pillar of developing non-bank macro-prudential policies. This is considered important as the non-bank activities are highly heterogeneous and non-bank entities, such as investment funds, special purpose vehicles, and CCPs present very different risk profiles. Thus, there is a need to ensure that the securities markets regulators are sufficiently involved in various phases of the decision making process at the ESRB. Moreover, macro-prudential tools designed for non-banks need to be fit for purpose and not a mechanistic transposition of macro-prudential tools used in the banking space.

The suitability of existing micro tools and available data should be assessed in a macro-prudential context. Using the existing micro tools to address macro-prudential risks will be a key precondition for an effective nonbank macro-prudential system. This is because, in asset management, Alternative Investment Fund Manager Directive (AIFMD) already provides a comprehensive framework for supervision and prudential oversight of alternative funds and private equity in the EU, including leverage limits, as a policy tool that ESMA and the national competent authorities (NCAs) can use to address excessive exposures. AIFMD also sets a framework for collection of extensive data from funds for the first time. For CCPs, ESMA's technical standards on margins include provisions to limit pro-cyclicality. Moreover, the first EU-wide stress test, in 2016, provided an important insight into the resilience of CCPs. ESMA is also working, in cooperation with the ESRB, on further developing the EU-wide stress testing as a tool to assess the resilience of financial market participants to adverse market developments.

The ESMA Chairman also highlighted that the financial crisis demonstrated the need for regulators to be able to monitor the evolution of SFT markets, the availability of collateral, and innovations such as new forms of collateral and trades. To this end, the SFTR, which ESMA oversees, establishes a robust framework on reporting, data collection, and data management. These are examples of powers that are already at ESMA's disposal and that could be used to meet macro-prudential objectives. Mr. Maijoor believes that, going forward, the types of powers and instruments that will need to be made available for other segments of the non-banking sector, to contribute to a consistent EU macro-prudential framework, must be assessed.

Link: Speech
Keywords: Macro-Prudential Policy, Non-Banks, Stress Testing

Recommendations on the Implementation of New Counterparty and Market Risk Frameworks

- EBA

November 04, 2016

Type of Information: Report

The EBA published a report to assess the impact that the implementation of the two new international frameworks (Standardized Approach for Counterparty Credit Risk, or SA-CCR, and Fundamental Review of the Trading Book, or FRTB) proposed by the Basel Committee is likely to have on institutions. This assessment is done both from a quantitative and qualitative perspectives. The report also highlights a number of interpretative and operational issues that might need to be addressed before the rules are fully implemented.

This report has been published in response to the two calls for advice to assist the EC in the adoption into European legislation of SA-CCR and FRTB. In the report, the EBA focuses on the envisaged impact of these two frameworks, for both large and small firms, and issues recommendations on their implementation. Given the technical complexity that the new requirements might entail, the report assesses the convenience of introducing greater proportionality into both frameworks. Based on its assessment, the EBA recommended the following:

- Increasing the threshold value for small trading book business, below which institutions are able to use the non-trading book approach for the computation of capital requirements
- Introducing a threshold for small derivative businesses, below which institutions are allowed to use simple approaches currently used for the computation of counterparty risk capital requirements, subject to recalibration
- Considering additional proportionality solutions for banks outside the traditional scope of the Basel standards that could include, for both counterparty risk and market risk purposes, the use of approaches that are simpler and more conservative than the ones developed in Basel
- Implementing large technical parts of these international standards using delegated acts or mandates for RTS, to allow the EBA to reflect key changes in the regulation in a timely fashion
- Including more granularity in COREP to provide a better overview of institutions' counterparty risk exposures and the information needed to monitor the computation of the different proportionality thresholds included in legislation

Links: Press Release, Report
Keywords: FRTB, SA-CCR

Comments Sought on New Prudential Regime for Investment Firms

- EBA

November 04, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The EBA launched a consultation in response to the EC's call for technical advice on the design of a new prudential regime for investment firms. This new prudential regime is tailored to the needs of investment firms' different business models and inherent risks.

The aim of this work is to develop a single, harmonized set of requirements that are reasonably simple, proportionate, and more relevant to the nature of investment business. The discussion paper published for the consultation covers the most important aspects related to the new prudential requirements for investment firms, including three possible alternatives to set minimum liquidity requirements. All three alternatives aim at addressing the liquidity profile of investment firms in a more appropriate way than the LCR and the NSFR.

The EBA is proposing that the ongoing capital requirements shall be calculated based on capital factors (K-factors) that are attributed to one of the risks that investment firms pose to customers and to market integrity and liquidity. As a result, firms that pose more risk to customers and markets should get higher capital requirements than those who pose less risk and firms that pose similar risk to customers and markets, but with more own risk, should hold more capital than those with less own risk.

The EC's call for advice of June 13, 2016 follows up on the first two recommendations included in the EBA's report on investment firms (published on December 15, 2015) and is addressed to all investment firms that are not systemic and bank-like. The EBA recommends a framework focused on the risks that investment firms pose to customers and to market integrity and liquidity.

Comments Due Date: February 02, 2017
Effective Date: N/A
First Reporting Date: N/A

Links: Press Release, Discussion Paper, Report on Investment Firms
Keywords: Investment Firms, Prudential Regulations

Guidelines on Authorization and Registration Under Payment Service Directive

- EBA

November 03, 2016

Type of Information: Guideline

The EBA launched a consultation on its draft guidelines specifying the information to be provided by applicants intending to obtain authorization as payment institution and to register as account information services provider under the revised Payment Service Directive (PSD2). The consultation runs until February 03, 2017.

The PSD2 sets out information requirements for the application as payment institution and for the registration as account information services provider. The draft guidelines specify the detailed information and documentation that applicants need to submit to national authorities in the authorization or registration process, to comply with these requirements. The guidelines are structured into three separate sections, which are addressed to payment institutions, account information service providers, and electronic money institutions. The information requirements specified in the draft guidelines include:

- Details on the applicant's program of operations
- Its business plan
- Evidence of initial capital
- The measures taken for safeguarding payment service users' funds
- The applicant's governance arrangements and internal control mechanisms
- The procedures in place to monitor, handle, and follow up a security incident and security-related customer complaints and to file, monitor, track, and restrict access to sensitive payment data
- The identity and evidence of the suitability of persons holding qualifying holding and of persons responsible for the management of the payment institution

Links: Press Release, Consultation Paper, Guidelines Under PSD2
Keyword: PSD2

Amendment of Guidelines Related to the Monetary Policy Implementation of Eurosystem

- ECB

November 03, 2016

Type of Information: Statement

The ECB amended certain guidelines on the monetary policy implementation framework in the Eurosystem. The three new guidelines (ECB/2016/31, ECB/2016/32 and ECB/2016/33) amend the

» General documentation guideline on implementation of the Eurosystem's monetary policy (ECB/2014/60)

» Guideline on Valuation Haircuts (ECB/2015/35)

» Guideline on Additional Temporary Measures related to Eurosystem refinancing operations and eligibility of collateral (ECB/2014/31)

The amended guidelines introduce the following key changes to the monetary policy implementation framework:

» The Eurosystem introduced some changes to the collateral eligibility criteria and risk control measures with respect to senior unsecured debt instruments issued by credit institutions or investment firms.

» The Eurosystem amended the rules on acceptable coupon structures to make certain assets with negative cash flows eligible. According to the new requirements, negative cash flows are allowed for coupon payments of marketable assets and for non–marketable debt instruments backed by eligible credit claims so as to reflect the current context of low or negative market rates.

» In the context of asset-backed securities loan-level data, the Eurosystem further clarified the criteria for a loan-level data repository to become "designated by the Eurosystem" and the application process for designation. Only asset-backed security for which loan-level data submissions have been made to "designated" repositories may be considered for compliance with the Eurosystem's asset-backed security loan-level requirements.

» A further specification will be introduced to the collateral eligibility criteria relating to credit claims, as of January 01, 2018. The Eurosystem will explicitly require only those credit claims be mobilized as collateral for Eurosystem credit operations in which the set-off risk has been excluded or significantly mitigated.

» The Eurosystem will update the haircut schedules for assets used as collateral in monetary policy operations.

» The Eurosystem introduced minimum disclosure requirements for covered bond ratings issued by credit rating agencies (CRAs) accepted in the Eurosystem credit assessment framework. According to these requirements, as of July 01, 2017, CRAs will be required to publish new issue reports and quarterly surveillance reports for rated covered bond programs to meet the high credit standards of the Eurosystem credit assessment framework. If these requirements are not met, the credit rating may not be used to establish the credit quality requirements for marketable assets.

» The Eurosystem clarified the acceptance criteria for CRAs as External Credit Assessment Institutions (ECAIs) in the Eurosystem credit assessment framework. Further clarity is provided on the Eurosystem's minimum coverage requirements for ratings of eligible issuers and assets, along with additional details on how coverage is calculated.

These guidelines, which will be published in the *Official Journal of the European Union* in December 2016, are expected to be published in the 23 official EU languages.

Links: Press Release, ECB/2016/31, ECB/2016/32, ECB/2016/33
Keywords: Collateral, Eurosystem, Monetary Policy

Guidelines on Information Collection for Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process

- EBA

November 03, 2016

Type of Information: Guideline

The EBA published its final guidelines on the collection of information related to the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP). These guidelines aim to facilitate a consistent approach to the supervisory assessment of ICAAP and ILAAP frameworks across the EU, as part of the supervisory review and evaluation process (SREP).

The guidelines introduce a common approach and specify the information that competent authorities should collect from institutions to assess the ICAAP and ILAAP frameworks and the reliability of ICAAP and ILAAP capital and liquidity estimates. For this, the competent authorities should follow the criteria specified in the EBA SREP guidelines. The competent authorities should collect the following information:

» General information about ICAAP and ILAAP frameworks, business model and strategy, and governance arrangements

» ICAAP-specific methodological, policy, and operational information

» ILAAP-specific methodological, policy, and operational information

» Management conclusions on ICAAP, ILAAP, and quality assurance information

These guidelines also set the criteria for competent authorities to organize the collection of ICAAP and ILAAP information taking into account the principle of proportionality. This principle is recognized in the guidelines in relation to the frequency, reference, and remittance dates, along with the scope for the ICAAP and ILAAP information that should be determined in relation to the SREP categorization of institutions.

The guidelines do not introduce any new ICAAP or ILAAP assessment criteria, nor any specific ICAAP or ILAAP report, but identify information items and their core content; the guidelines also recognize that such information can be provided either through a single report specifically prepared by an institution for the purpose of ICAAP or ILAAP submissions, or through separate documents that are already available at the bank. According to the EBA's impact assessment, introducing greater convergence into the collection of ICAAP and ILAAP information across the EU by means of these guidelines does not necessarily result in significant additional costs for the institutions, as this information is already being collected by the competent authorities.

Link: Press Release
Keywords: ICAAP, ILAAP, SREP

Consultation on Guideline and Recommendation on the Exercise of Options and Discretions for Less Significant Institutions

- ECB

November 03, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The ECB launched a public consultation on a draft guideline and recommendation on the exercise of options and discretions (O&Ds) available in the EU law for less significant institutions that are supervised by the national competent authorities (NCAs). The ECB also published a consolidated version of the guide on O&Ds available in the Union law.

The draft guideline lays out how NCAs should exercise the seven O&Ds of general application for less significant institutions. For these O&Ds, a specific policy rationale justifies the adoption of a uniform approach for all credit institutions in the countries in which the SSM) applies. The guideline will be legally binding once approved by the Governing Council.

The draft recommendation, which is a non-legally binding act, aims to harmonize 43 O&Ds that are not for general application but are assessed on a case-by-case basis. It also provides guidance to NCAs on how to assess these O&Ds individually. In addition, the draft recommendation covers eight O&Ds for which a common approach specific to less significant institutions is warranted. The ECB will hold a public hearing as part of this consultation on November 17, 2016.

The ECB decided in 2015 to harmonize the application of O&Ds for the direct supervision of the 129 significant institutions. For this purpose, an ECB regulation, an ECB guide on the exercise of O&Ds available in Union law, an addendum to this guide, and the ECB approach for the recognition of institutional protection schemes were adopted earlier this year. A consolidated version of the guide was published on the ECB's Banking supervision website. Further explanations regarding the choice and nature of the legal instruments used to harmonize the exercise of O&Ds are provided in the Q&A.

Comments Due Date: January 05, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: Press Release, Consultation on Exercise of O&Ds, Consolidated Guide on O&Ds
Keywords: CRD IV, CRR, O&D

Technical Standards on Measurement of Additional Collateral Outflows in an Adverse Market Scenario *- EC* *October 31, 2016* *Type of Information: Regulation* *Regulatory Status: Final Rule*	The EC published the CDR on the RTS for additional liquidity outflows corresponding to collateral needs, resulting from the impact of an adverse market scenario on an institution's derivatives transactions. The provisions of this CDR determine the method for measurement of the additional collateral outflows resulting from the impact of an adverse market scenario on institutions' derivative transactions, as a component of the liquidity coverage requirement specified in CDR 2015/61 to supplement CRR with regard to liquidity coverage requirement for credit institutions. The method of calculation included in this CDR is based on the amended draft RTS submitted by the EBA. This method is based on the Historical Look Back Approach (HLBA) for market valuation changes; this approach has been developed by the Basel Committee for determining the additional collateral outflows in paragraph 123 of the Basel Committee's document "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," which was published in January 2013; further elaboration was provided via paragraph 10 of the Basel Committee's document "Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio framework, April 2014." In addition, this CDR determines the threshold above which an institution's derivative transactions must be considered material for the purpose of the first subparagraph of Article 423(3) of CRR. Hence, the threshold must fall within the scope of application of the delegated act. *Comments Due Date: N/A* *Effective Date: [OJ Date+20 Days]* *First Reporting Date: N/A* *Links: Final Rule, Basel III LCR and Liquidity Risk Monitoring Tools, Basel Committee FAQ on LCR Framework* *Keywords: Adverse Market Scenario, CRR, LCR, Liquidity Outflows*
Report on Appropriate Target Level Basis for Resolution Financing Arrangements *- EBA* *October 31, 2016* *Type of Information: Statement*	The EBA published its final report on the reference point for the target level of national resolution financing arrangements. In the report, the EBA recommends changing the basis from covered deposits to a total liabilities-based measure and, particularly, total liabilities (excluding own funds) less covered deposits. The proposed methodology would align the target level basis with the reference base used for the calculation of individual contributions to national resolution financing arrangements. The main reasons for such a recommendation is that this basis is consistent with the regulatory framework and calculation methodology for the individual contributions and is simple and transparent. The report further recommends that, if the EC issues a legislative proposal on amending the target level basis for national resolution financing arrangements, it should consider adjusting the percentage of the target level. The report also recommends that EC should consider whether a corresponding change to the target level basis would also be appropriate for the Single Resolution Fund. The EC will consider the recommendations of this report and decide whether to submit a legislative proposal to amend the target level basis for resolution financing arrangements by December 31, 2016. Article 102(4) of the Bank Recovery and Resolution Directive (BRRD) requires the EBA, to submit to the EC, a report with recommendations on the appropriate reference point for setting the target level for resolution financing arrangements, particularly on whether total liabilities constitute a more appropriate basis than covered deposits. The deadline for the submission of the report was October 31, 2016. *Links: Press Release, Report* *Keywords: BRRD, MREL, Target Level for Resolution*

Bulgaria

Key Developments

Staff Report and Selected Issues Report for the 2016 Article IV Consultation

- IMF

November 10, 2016

Type of Information: Report

The International Monetary Fund (IMF) published its staff report (CR16/344) and selected issues report (CR16/345) in the context of the 2016 Article IV consultation with Bulgaria.

The report highlights that the authorities have taken steps to strengthen supervision and confidence in the banking system, following a large bank (KTB) failure in 2014. The report reveals that the authorities undertook the Basel Core Principle (BCP) and the International Association of Deposit Insurers (IADI) assessments to strengthen bank supervision and resolution. The authorities are also implementing a detailed reform plan to follow-up on their recommendations. Additionally, to reduce uncertainty and enhance transparency, the authorities have recently concluded an asset quality review (AQR) and stress test of the banking system.

The Directors welcomed the completion of the AQR and stress test, considering this to be a positive step toward strengthening confidence in the banking sector and the Bulgarian National Bank's (BNB) ability to supervise it. While most banks remained well-capitalized after the AQR adjustments, a few domestically owned banks have capital buffer shortfalls that require prompt action. Directors welcomed the authorities' readiness to attract new bona fide investors in the identified banks and to intervene if these banks are not able to successfully restore capital buffers to the required levels within the announced time frame. The high stock of non-performing loans (NPLs) requires further attention. Directors welcomed the recent progress to strengthen the institutional framework for financial system oversight and encouraged the authorities to continue these reforms and pursue a more risk-based supervisory review and evaluation process. They looked forward to the findings of the Financial Sector Assessment Program (FSAP), which is underway and will be finalized in the first half of 2017.

The purpose of the selected issues report is to shed light on Bulgaria's state-owned enterprises sector and to assess its performance in a regional perspective. A detailed firm-level dataset of state-owned and private firms was compiled for this note to compare key performance indicators of state-owned enterprises to private firms in the same sector and to similar firms in Croatia and Romania for a regional comparison.

Links: Staff Report, Selected Issues Report
Keywords: Article IV Consultation, FSAP, Stress Testing

Germany

Key Developments

Speech of Dr. Andreas Dombret on the "New Normal" in Banking

- Bundesbank

November 15, 2016

Type of Information: Speech

Dr. Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, spoke at the Bundesbank reception in Frankfurt. He highlighted that "new normal" is an important topic of this year's Euro Finance Week and that the Basel Committee's Santiago meeting is just over two weeks away. Although good progress has been made toward the needed financial reforms, the following three objectives of the Basel reform package still need to be aligned:

- Reduce excessive fluctuations in the calculation of risk-weighted assets (RWAs) by internal models
- Maintain risk-sensitivity
- Avoid significant increase in the currently applicable overall capital requirements

He believes that these three objectives could be at risk because provisional impact assessment studies point to a significant increase in the overall capital requirements. Therefore, Bundesbank has pledged to use the available "latitude" for lowering the requirements. From the German perspective, he highlighted the two essential areas of action for negotiations at the end of November: one being the preservation of internal credit risk models (and, therefore, of a risk-sensitive approach) and the other being "not introducing an output floor." According to Mr. Dombret, the following points will be brought to the negotiations:

- Need to reduce supervisory LGD under foundation internal ratings-based approach from 45% to 40%
- Eliminating of the scaling factor of 1.06, which is a remnant of the Basel II rules
- Opposition to the general implementation of an output floor. In theory, it acts as a way of putting a stop to the frivolous calculation exercises associated with using internal models. In practice, however, it works against the focus on risk. The Bundesbank has no interest in banks taking on additional unwanted risks. Basel III has developed other instruments, such as the leverage ratio, to fight against risks of modeling and misuse
- Abolition of the internal models for calculating operational risks, known as Advanced Measurement Approach, as planned and use of an appropriate standard solution instead

In conclusion, Mr. Dombret reinforced the significance of international agreement such as Basel III, which combats regulatory arbitrage and shifting of risks. He added, "I very much hope that with the new administration in the United States, the cooperation on the Basel Committee will continue to be based on mutual trust." However, he emphasized "that the Bundesbank is not prepared to reach an agreement at any price."

Link: Speech
Keywords: Basel III, Internal Model, Output Floor

Switzerland

Key Developments

Strategic Goals for 2017 to 2020

- FINMA

November 16, 2016

Type of Information: Statement

The Swiss Financial Market Supervisory Authority (FINMA) has set out the priorities for its work over the next four years (2017 to 2020) in the form of seven strategic goals. These goals explain how FINMA intends to fulfil its statutory mandate and deal with new challenges. The key issues include a strong capitalization of financial institutions, proper business conduct, a pro-innovation approach to supervision and regulation, and dealing with emerging risks.

The new strategic goals emphasize the importance of the stability of financial institutions. FINMA remains committed to ensuring that banks and insurance companies have a strong capitalization (Goal 1), and to protecting creditors and insured persons by accompanying the structural change in the financial industry (Goal 4). Viable emergency plans and credible resolution strategies will further mitigate the too-big-to-fail problem (Goal 3). FINMA will also increase its focus on fighting misconduct, especially money laundering, and combining forward-looking supervision with preventive enforcement measures (Goal 2).

The long-term success of the country's financial center depends largely on its ability to innovate. FINMA is, therefore, adopting a more pro-innovation approach to regulation and supervision and will push for the removal of unnecessary regulatory obstacles for innovative business models (Goal 5). It also remains committed to a principle-based financial market regulation and will continue to promote equivalence with the relevant international requirements (Goal 6). Additionally, FINMA aims to achieve further efficiency gains both in-house and in the regulatory audits delegated to audit firms. The freed-up resources will be redeployed into analyzing new risks (such as cyber criminality) and limiting their potential negative impact (Goal 7).

Links: Press Release, Strategic Goals (2017–2020)
Keyword: Priorities

Redefinition of Corporate Governance Guidelines for Banks

- FINMA

November 01, 2016

Type of Information: Guideline

FINMA issued the circular 2017/1 titled "Corporate governance – banks"; this circular revises the corporate governance requirements for banks by consolidating the provisions of circular 2008/24 (titled "Supervision and internal control – banks"), the associated FAQ, and requirements defined in other circulars. FINMA also revised its circulars on operational risks (2008/21) and remuneration schemes (2010/1). These circulars will enter into force on July 01, 2017.

The circular on corporate governance at banks underlines the importance of modern corporate governance and appropriate and effective risk management. This circular sets minimum requirements not only for the composition of boards and the qualifications of their members but also for the organization of internal control systems at banks. The revised circular on operational risks introduces new guidelines on managing IT and cyber risks and incorporates the principles from the FINMA position paper "Legal and reputational risks in cross-border financial services." The circular on remuneration schemes must only be applied in full by the biggest banks and insurance companies and explicitly prohibits hedging transactions. It remains a key guideline for all banks and insurance companies. Furthermore, all corporate governance requirements related to disclosures will be moved to circular 2016/1 (titled "Offenlegung – Banken"); this circular is undergoing review and it is expected to be published in December 2016. In this circular, FINMA will also bring together all the disclosure-related requirements in the banking sector.

FINMA conducted a wide-ranging consultation in March 2016, on streamlining and modernizing requirements for corporate governance at banks. FINMA accepted a number of key recommendations from the consultation, including specifying the division of responsibilities between the board of directors and the executive board in greater detail and reducing the diversity requirements within boards of directors. In addition, smaller banks will be allowed to form a combined audit and risk committee, instead of being required to have two separate committees. FINMA has also granted exceptions to the rule that a majority of committee members must be independent. The new circular also allows the chief risk officer to be responsible for other non-profit-generating functions (for example, compliance). Finally, FINMA has decided not to introduce a clawback clause in the "Remuneration schemes" circular.

Links: News Release, Circular: Corporate Governance, Circular: Remuneration Schemes, Circular: Operational Risks, Consultation
Keywords: Corporate Governance, Disclosures, Operational Risk

Basel III Capital Adequacy Reporting Forms

- SNB

November 01, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The Swiss National Bank (SNB) published forms for the Basel III capital adequacy reporting on the single entity basis and the consolidated basis.

Capital adequacy reporting on a single entity basis includes all banks and securities dealers as defined by the Banking Act of November 08, 1934 and the Stock Exchange Act of March 24, 1995 (with the exception of branches of foreign banks and securities dealers). The Liechtenstein banks are excluded from this reporting.

Capital adequacy reporting on a consolidated basis includes the proprietary companies of financial groups or of financial conglomerates dominated by banks or security traders, which are subject to group and conglomerate supervision by FINMA, are required to report data, and, in this context, are required to comply with capital adequacy reporting regulations on a consolidated basis. Proprietary companies of subsidiary financial groups are also required to report data in accordance with Article 11 Capital Adequacy Ordinance, unless FINMA has exempt them from this obligation.

Comments Due Date: N/A
Effective Date: N/A
First Reporting Date: N/A

Links: Reporting Forms, Overview of Forms
Keywords: Basel III, Reporting

United Kingdom

Key Developments

Amendments to Rules on Loan-to-Income Ratios in Mortgage Lending *- PRA* *November 30, 2016* *Type of Information: Regulation* *Regulatory Status: Proposed Rule*	The PRA published a consultation paper (CP44/16) that sets out proposed amendments to the Housing Part of the PRA Rulebook, in respect of the Financial Policy Committee (FPC) recommendation on loan-to-income (LTI) ratios in mortgage lending in the owner occupied market. The paper proposed to amend the PRA's rules to change the current fixed quarterly limit into a four-quarter rolling limit. It also clarifies the scope of the LTI flow limit regarding interest roll-up bridging loans and mortgages ported to another property where there is no increase in the principal outstanding. In concluding the 2016 review of its housing recommendations, the FPC has agreed to maintain the LTI flow limit recommendation at its current calibration. As outlined in the November 2016 Financial Stability Report (FSR), the FPC regularly reviews its recommendations to assess whether they remain appropriate. The PRA plans to continue working with the Financial Conduct Authority (FCA) to monitor developments relevant to the LTI flow limit. The PRA proposed that the change to the rules should be effective as soon as it is practical; the aim is that the first quarter in which the four-quarterly rolling limit would apply would be in first quarter of 2017, subject to the responses to the consultation paper. This would mean that, starting from the first quarter of 2017, the PRA would monitor the LTI flow limit on a four-quarter rolling basis, which is for first quarter of 2017 would be incorporating data on flows from second quarter of 2016, third quarter of 2016, fourth quarter of 2016, and first quarter of 2017. Compliance under a fixed quarterly limit (which is the current expectation) automatically implies compliance with the limit under a four-quarter rolling basis. The proposal does not represent a significant change from the existing policy position and gives firms additional flexibility to comply with the limit; this will allow for a swifter implementation of the change, subject to comments received. *Comments Due Date: January 10, 2017* *Effective Date: N/A* *First Reporting Date: N/A* *Links: Notification, CP44/16, November 2016 FSR* *Keywords: LTI, Mortgage Lending*
Financial Stability Report and Stress Test Results 2016 *- BOE* *November 30, 2016* *Type of Information: Report*	The Bank of England (BOE) published the FSR and the results of the 2016 stress tests for banks. The FSR sets out the FPC's view of the outlook for financial stability in the UK. The report covers the FPC's assessment of major risks and vulnerabilities to the financial stability in the UK and the actions being taken to remove or reduce these risks. It also reports on the activities of the Committee over the reporting period and on the extent to which the Committee's previous policy actions have succeeded in meeting the Committee's objectives. The 2016 stress test incorporated a synchronized UK and global recession, with associated shocks to financial market prices and an independent stress of misconduct costs. The test, which is the first conducted under the bank's new approach to stress testing, examined the resilience of the system to a more severe stress than in 2014 and 2015. The test results revealed capital inadequacies for three banks—The Royal Bank of Scotland Group, Barclays, and Standard Chartered—and these banks now have plans to build further resilience. The FPC judged that, as a consequence of the stress test, the banking system is, in aggregate, capitalized to support the real economy in a severe, broad, and synchronized stress scenario. *Links: FSR, 2016 Stress Testing Results, Governor's Opening Remarks* *Keywords: FSR, Stress Testing*

Consultation on Rules to Transpose Parts of Markets in Financial Instruments Directive II: Part Two

- PRA

November 25, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The PRA published a consultation paper (CP43/16) setting out rules to transpose parts of the MiFID II. This consultation is part of the legislative package comprising MiFID II (2014/65/EU), MiFIR (2014/600/EU), and CDR on organizational requirements and operating conditions.

CP43/16 includes proposals to enhance governance through the MiFID II management body requirements and the key organizational requirements that will apply to the MiFID and non-MiFID business; these MiFID II requirements are aligned to requirements under CRD IV. The consultation also contains proposals for granting authorizations in respect of a new MiFID investment activity, operation of an organized trading facility, a new MiFID financial instrument emission allowances, and structured deposits. The power for the PRA to accept applications from firms for these permissions in advance of January 03, 2018 may be granted by Her Majesty's (HM) Treasury in a statutory instrument. If the PRA is granted this power, the PRA proposes for firms to be able to apply for permissions in advance of January 03, 2018. The PRA also sets out proposals for consequential amendments under the General Provisions part of this consultation paper and the Glossary.

This is the second PRA consultation on implementing MiFID II and it follows CP9/16 "Implementation of MiFID II: Part 1," which consulted on implementation of the MiFID II passporting regime and algorithmic trading and was published in March 2016. The final rules, following CP9/16, were published in PS29/16.

Comments Due Date: February 27, 2017
Effective Date: January 01, 2018
First Reporting Date: N/A

Links: Press Release, CP43/16, CP9/16, Response to CP9/16: PS29/16
Keywords: CP43/16, MiFID II

Feedback on Responses to Forecast Capital Data Proposals

- PRA

November 15, 2016

Type of Information: Statement

The PRA published a policy statement (PS32/16) that provides feedback on responses received to the forecast capital data proposals in Chapter 3 of the consultation paper (CP17/16) titled "Regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements."

The appendices to this policy statement contain the final rules (Appendix 1), supervisory statement (SS34/15) (Appendix 2), and templates and instructions (Appendix 3) for the new reporting requirements related to forecast capital data in the Regulatory Reporting part of the PRA Rulebook. The templates and reporting instructions are also available on the "CRD firms - Reporting Requirements" webpage. As set out in the policy statement (paragraph 1.8), on this webpage, the PRA will also publish, by January 31, 2017, the details of systems that firms will use to report the new returns.

In CP17/16, the PRA had proposed formalizing the collection of the existing Capital+ (forecast capital resources and requirements) return through the introduction of three new returns (PRA101, PRA102, and PRA103). CP17/16 also included proposals related to the future reporting requirements for balance sheet and statement of profit or loss data (Chapter 3). The PRA is deferring publication of the final requirements to harmonize them with upcoming changes relating to IFRS 9 and Taxonomy 2.7. Additionally, CP17/16 discussed data requirements resulting from the introduction of IFRS 9 (in Chapter 4). A formal consultation paper will be published shortly on the resulting proposals relating to IFRS 9 and the final policy following proposals on balance sheet and statement of profit or loss in CP17/16.

The PRA will publish details of the systems which will be used by firms to report the new returns by January 31, 2017 on the "CRD firms - Reporting Requirements" webpage. The PRA also confirmed that the implementation date of the formalized reporting has been deferred from July 01, 2017 to October 01, 2017.

Links: Notification, PS32/16, CP17/16, PRA 101: Template, PRA 101: Instructions, PRA 102: Template, PRA 102: Instructions, PRA 103: Template, PRA 103: Instructions, SS34/15, PRA Rulebook: CRR Firms Regulatory Reporting Amendment, CRD Firms Reporting Requirements Webpage
Keywords: Forecast Capital Data, IFRS 9, Reporting

Feedback on Responses to Consultation on Credit Union Regulatory Reporting

- PRA

November 14, 2016

Type of Information: Statement

The PRA published a policy statement (PS 31/16) providing feedback to responses to the consultation paper (CP24/16) "Credit union regulatory reporting." The statement also sets out final rules, updated annual and quarterly returns, and updated notes on completing credit union returns that change the format and frequency of reporting requirements applying to credit unions. This statement is relevant to credit unions and will take effect from January 03, 2017.

- » Material changes have not been made to the proposals in CP24/16 and the PRA had proposed to:
- » Require electronic submission of credit union returns
- » Move the credit union reporting rules from the Regulatory Reporting part to the Credit Unions part
- » Update the notes on completing credit union returns
- » Update existing quarterly and annual returns to align with the data requirements of the Credit Unions part introduced in February 2016

The appendices to PS31/16 contain final rules, reporting templates, and notes. The supervisory statement (SS34/15) titled "Guidelines for completing regulatory reports" has been updated to remove, from its appendices, the notes for completing credit union returns. The notes for completing credit union returns are available on the "Credit unions - Forms and guidance" page. The notes on completing returns will also be included in the appendices to supervisory statement (SS2/16) titled "The prudential regulation of credit unions" on January 03, 2017.

Credit unions will be required to use the Bank of England's Electronic Data Submission (BEEDS) portal for the submission of quarterly and annual returns. The PRA is working on making the portal available to credit unions from January 03, 2017. The PRA supervision team contacted the credit unions to request some basic details to grant access the BEEDS portal. This includes a request for the nomination of a "principal user" who will (i) act as the main contact for the PRA with respect to BEEDS; (ii) complete the credit union's registration on BEEDS; and (iii) be able to register additional users and submit returns. Credit unions must respond to the request by December 09, 2016. Additional instructions on how to access BEEDS, along with an information guide, will be sent directly to the nominated principal user.

Links: PS 31/16, Supporting Material, Including Templates and Notes
Keywords: Credit Unions, Reporting

Policies on Minimum Requirement for Own Funds and Eligible Liabilities

- PRA

November 08, 2016

Type of Information: Statement

The BOE announced the policies on setting the minimum requirement for own funds and eligible liabilities (MREL), which is a critical element of an effective resolution strategy.

The document on the BOE's approach to setting MREL contains the final Policy Statement (in Appendix) and feedback on responses to a consultation that was published in December 2015. The Policy Statement PS30/16 provides feedback on responses to the consultation paper (CP 44/15) "The minimum requirement for own funds and eligible liabilities (MREL)—Buffers and Threshold Conditions." It also contains the final supervisory statement (SS 16/16) on the relationship between MREL and buffers and MREL and threshold conditions. SS 16/16 describes PRA's expectations on the relationship between the MREL and both capital and leverage ratio buffers as well as the implications that a breach of MREL would have for the PRA's consideration of whether a firm is failing, or likely to fail, to satisfy the threshold conditions. The MREL will be set for individual institutions in accordance with the following:

- » For small firms, a payout of covered depositors, by the Financial Services Compensation Scheme, would meet the resolution objectives. These institutions will meet their MREL simply by meeting their existing capital requirements.
- » For firms considered to be too large for a modified insolvency process, MREL will be set at a level that permits the transfer of critical parts of the business.
- » The largest and most complex firms will be required to maintain sufficient MREL to absorb losses. In the event of their failure, they will be recapitalized to enable them to continue to meet the PRA's conditions for authorization.

The MREL will be set in two phases, with the first phase covering the interim requirements to be completed by 2020 (with a 2019 requirement for G-SIBs). The second phase will cover the end-state requirements by 2022 (subject to review by the end of 2020).

Links: Press Release, Statement of Policy and Consultation Responses, PS 30/16, SS 16/16
Keywords: MREL, RRP

Unveiling of Successful Sandbox Firms on the Second Anniversary of Project Innovate

- FCA

November 07, 2016

Type of Information: Statement

The FCA announced firms that were successful in their applications to begin testing in the first cohort of the regulatory sandbox. The current cohort consists of firms that are expected to begin testing shortly. Tests will be conducted on a short-term and small-scale basis.

The first cohort of the regulatory sandbox closed to applications on July 08, 2016. The FCA received applications from 69 firms from a diverse range of sectors, geographies, and sizes. Twenty-four applications were deemed to meet the sandbox eligibility criteria and were accepted to develop toward testing, including early stage startups, challengers, and incumbent firms. Firms can apply to be part of the second sandbox cohort from November 21, 2016. The application period will close on January 19, 2017. The test design period for cohort two will take approximately 10 weeks and all accepted firms are expected to be ready to begin testing in May 2017.

The regulatory sandbox is part of Project Innovate, an initiative that kicked-off in 2014 to provide innovators with support to navigate the regulatory system and to promote competition in the interest of consumers. The regulatory sandbox aims to create a safe space in which businesses can test innovative products, services, business models, and delivery mechanisms in a live environment while ensuring that consumers are appropriately protected.

Link: Press Release
Keyword: FinTech

Middle East & Africa

Kuwait

Key Developments

Concluding Statement in the Context of 2016 Article IV Consultation

- IMF

November 15, 2016

Type of Information: Report

The IMF published a concluding statement in the context of the 2016 Article IV consultation with Kuwait.

The statement highlighted that the CBK has been proactive in strengthening regulatory oversight and mitigating financial stability risks. Banks are under Basel III regulations for capital, liquidity, and leverage. Macro-prudential measures—to prevent excessive debt build-up by households and limit banks' exposure to real estate and equities—are being enforced to minimize systemic risks. A new corporate governance framework has also been introduced recently. In light of the potential risks from a sustained further decline in oil prices and, given high loan concentrations, common exposures, and interconnectedness of the financial system, the CBK's enhanced surveillance bodes well for early identification of financial stability risks. The Article IV mission welcomes the ongoing initiatives to strengthen stress testing techniques, develop early warning indicators, step up efforts to monitor deposit trends, and identify emerging pressures in corporate and household balance sheets.

A number of steps would help further strengthen financial sector resilience, including a formal framework for operationalizing macro-prudential measures. Such a framework would, over time, help maintain appropriate risk coverage; this would also help in maintaining balance between preempting the buildup of excessive risks and alleviating possible liquidity shocks and pro-cyclicality in credit and asset markets. Progress on reforms to strengthen the insolvency regime, combined with judicial reforms to introduce commercial courts and expedite enforcement, would help minimize LGD. While the CBK is well-equipped to deal with possible liquidity shortages, developing a liquidity forecasting framework would also help anticipate potential system-wide pressures. Moreover, sustaining efforts to streamline noncore bank activities, where corporate structures are complex, would facilitate risk identification and effective supervision.

The concluding statement also emphasized that strengthening the crisis management framework would promote market discipline and safeguard fiscal resources. A special resolution regime for banks has not yet been put in place. A blanket guarantee covers all banking system deposits. Consideration should be given to establishing frameworks that allow for least cost and effective resolution in the event of stress in the banking system. Formalizing arrangements between key regulatory institutions would also help improve crisis preparedness.

Link: Concluding Statement
Keywords: Article IV Consultation, Basel III, Stress Testing

Morocco

Key Developments

Technical Notes as Part of the Financial Sector Assessment Program

- IMF

November 07, 2016

Type of Information: Report

The IMF published several technical notes as part of the FSAP of Morocco:

- ***Banking Supervision.*** The note highlights that Morocco applies international best practices in the area of banking supervision. It is important that the country's banking supervision system adapt to both the new international standards implemented following the global financial crisis and the structural changes in its banking system. In response to these challenges, the Bank Al-Maghrib has adopted a new banking law, which includes principles on the supervision of systemically important banks, the strengthening of governance mechanisms, a framework for the orderly resolution of credit institutions, and expansion of the cooperation between regulators. The key recommendations encompass several areas, including supervision of cross-border activities; prevention of difficulties, crisis management and resolution; supervisory approach and techniques; risk classification and provisioning; management of concentration risk, liquidity risk, and introduction of LCR; and banking supervision conditions.

- ***Crisis Management, Bank Resolution, and Financial Sector Safety Net.*** This note elaborates on the findings and recommendations made in the FSAP for Morocco in the areas of crisis management, bank resolution, and financial sector safety nets. A macro-prudential committee comprising Bank Al-Maghrib, Autorité de contrôle des assurances et de la prévoyance socialeME, Autorité des marchés financiers, and Ministry of the Economy and Finance, has been established to coordinate supervisory actions and manage crisis. Each supervisory agency has various early interventions tools. Sound banking resolution mechanisms have recently been established in the banking law. A financial stability mandate is about to be entrusted to Bank Al-Maghrib, which shall be formally authorized to take exceptional measures (including the extension of emergency liquidity assistance). The deposit guarantee scheme has also been reshuffled, with the creation of two separate compartments: one for participative banks and another one for conventional banks.

- ***Institutional Arrangements and Instruments.*** This note highlights that macro-prudential policies can play an important role in mitigating financial stability risks in Morocco. The macro-prudential policies aim to increase the overall resilience of the financial system, contain the buildup of systemic risks over time, and address vulnerabilities stemming from structural relationships between financial intermediaries. For Morocco, limited fiscal and external policy buffers, high vulnerability to external shocks due to dependencies on oil imports and trade with Europe, and the expanding size and complexity of a bank dominated financial sector underscore the importance of an effective macro-prudential policies framework.

- ***Stress Testing the Banking System.*** This note highlights that the FSAP stress testing exercise took place at a time of deep structural changes for the Moroccan financial system, creating opportunities but also bringing about potential risks. First, Moroccan banks have expanded both domestically and regionally since the global financial crisis, taking advantage of the opportunities afforded by retreating European banks, and with proactive support from Bank Al-Maghrib. Second, Morocco's insurance sector has expanded strongly in recent years, with close links with the banking sector. Some features of the banking system increase its vulnerability to shocks. These include rapid expansion abroad and high concentration risks. Moreover, several shocks experienced during the recent years as a result of external and domestic macroeconomic conditions brought about liquidity pressures and a rising rate of NPLs. This note also presents different components of the solvency stress tests based on macroeconomic scenarios and sensitivity analysis.

Links: Banking Supervision, Crisis Management, Bank Resolution, and Financial Sector Safety Nets, Institutional Arrangements and Instruments, Stress Testing the Banking System

Keywords: FSAP, Stress Testing

Americas

United States of America

Key Developments

New Rules and Amendments for Investment Company Reporting Modernization

- SEC

November 18, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The Security and Exchange Commission (SEC) adopted new rules and forms as well as amendments to its rules and forms to modernize the reporting and disclosure of information by registered investment companies.

The SEC adopted new Form N-PORT, which will require certain registered investment companies to report information about their monthly portfolio holdings to the SEC in a structured data format. In addition, the SEC adopted amendments to Regulation S-X, which will require standardized, enhanced disclosure about derivatives in investment company financial statements, in addition to other amendments. The SEC also adopted new Form N-CEN, which will require registered investment companies, other than face-amount certificate companies, to annually report certain census-type information to the SEC in a structured data format.

The SEC also adopted amendments to Forms N-1A, N-3, and N-CSR to require certain disclosures regarding securities lending activities. The SEC rescinded the current Forms N-Q and N-SAR and amended certain other rules and forms. These amendments will improve the information that the SEC receives from investment companies and will assist the SEC in its role as primary regulator of investment companies, to better fulfill its mission of protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation. Investors and other potential users can also utilize this information to help investors make more informed investment decisions.

The rule is effective from January 17, 2017, except for the:

» Amendments to 17 CFR 200.800, 232.105, 232.301, 240.10A-1, 240.12b-25, 240.13a-10, 240.13a-11, 240.13a-13, 240.13a-16, 240.15d-10, 240.15d-11, 240.15d-13, 240.15d-16, 249.322, 249.330, 270.8b-16, 270.10f-3, 270.30a-1, 270.30a-4, 270.30b1-1, 270.30b1-2, 270.30b1-3, 274.101, and 274.218, and in Instruction 55 amending § 270.30d-1 are effective June 01, 2018.

» Amendments to 17 CFR 232.401, 249.332, 270.8b-33, 270.30a-2, 270.30a-3, 270.30b1-5, and 274.130, and in Instruction 54 amending § 270.30d-1, Instruction 57 amending Form N-1A (referenced in §§ 239.15A and 274.11A), Instruction 59 amending Form N-2 (referenced in §§ 239.14 and 274.11a-1), and Instruction 61 amending Form N-3 (referenced in §§ 239.17a and 274.11b) are effective August 01, 2019.

Comments Due Date: N/A
Effective Date: January 17, 2017
First Reporting Date: N/A

Link: Final Rule
Keywords: Investment Companies, Reporting

Revisions to Reporting Forms for Dodd-Frank Act Stress Testing Report

- OCC

November 17, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The Office of the Comptroller of the Currency, Treasury (OCC) launched a public consultation revising regulatory reporting requirements for national banks and federal savings associations on company-run annual stress test reporting template and documentation. This applies to covered institutions with consolidated assets of USD 50 billion or more, under the Dodd-Frank Act. The proposed revisions to the Dodd-Frank Act Stress Tests (DFAST) -14A reporting templates include:

- Adding line items to the Regulatory Capital Instruments schedule
- Updating the Summary schedule to collect items related to the supplementary leverage ratio
- Removing and adding sub-schedules to the Operational Risk schedule
- Creating a new supplemental schedule to collect certain items not included in the Board's FR Y-14A
- Requiring covered institutions to submit bank-specific baseline and stress scenarios for the 2017 annual stress testing submission
- Requiring the largest trading covered institutions (that also submit the Global Market Shock scenario) to assume the default of their largest counterparty in the supervisory severely adverse and adverse scenarios

The other proposed revisions to the DFAST-14A consist of clarifying instructions, adding and removing schedules, adding, deleting, and modifying existing data items, and altering the as of dates. These proposed changes would increase consistency between the DFAST-14A and the FR Y-14A and Call Report. These reporting templates collect quantitative projections of balance sheet, capital, losses, and income across three or more macroeconomic scenarios, along with qualitative information on methodologies. The estimated number of respondents for these reporting templates is 23. Covered institutions are required to complete reporting templates using financial information as of the end of December each year.

Comments Due Date: January 17, 2017
Effective Date: N/A
First Reporting Date: N/A

Links: Proposed Rule, Proposed Changes to Templates, Proposed Changes to Instructions
Keywords: Dodd-Frank Act, DFAST-14A, Reporting, Stress Testing

Speech of Thomas M. Hoenig on the Long-Run Imperatives of Monetary Policy and Macro-Prudential Supervision

- FDIC

November 17, 2016

Type of Information: Speech

The Federal Deposit Insurance Corporation (FDIC) Vice Chairman Thomas M. Hoenig spoke at the Cato Institute's 34th Annual Monetary Conference on Central Banks and Financial Turmoil. His remarks were focused on monetary policy and macro-prudential supervision, the two areas in which the performance of a central bank is judged.

The Vice Chairman stated that, after nearly a decade of highly accommodative monetary policy and uneven supervision, the U.S. economy is growing more slowly than policymakers had hoped for or expected when this policy cycle began. To normalize monetary policy, interest rates must increase, thus temporarily putting downward pressure on the financial industry asset values and earnings. If capital levels of the world's largest banks remain at current levels, these firms will continue to be vulnerable to losses that flow from higher rates and macroeconomic adjustments. Such consequences could weaken bank balance sheets significantly and undermine their ability to support the economy through the adjustment period.

He believes that the challenge is to find a path that enables central banks to rebalance monetary policy without shock overwhelming the financial system and undermining the long-run economic growth. One such path to consider is for interest rates to be increased in a clear, deliberate manner toward an announced long-run target rate or range. The timeline, adjustment path, and target range would be influenced by a host of factors, including, fiscal policy, demographics, and international events. However, once chosen and announced, the policy must not be abandoned at the first sign of stress as it will take time to return to normal. Capital should be set to the levels that ensure the industry can absorb future losses and reduce concerns about its resilience. This requires building tangible equity capital beyond the current levels.

Mr. Hoenig added that capital can be strengthened through retained earnings. For example, since 2009, the eight largest U.S. banks have paid out USD 243 billion of the USD 431 billion earned. Therefore, the industry has the capacity to systematically strengthen capital and build resiliency through retained earnings. Retained earnings are working capital that facilitates bank lending, enhances bank earnings, promotes financial stability, and supports long-term economic growth. There are concerns that requiring increased equity would lower returns to investors and raise the cost of capital; however, the evidence indicates that well-capitalized banks trade at higher premiums compared to the less well-capitalized banks and have a lower cost of capital over time. History also shows that without the government safety net, the market would insist on banks having tangible capital levels (owner equity)—higher than currently maintained. Mr. Hoenig believes that the benefits of the government safety net, which are meant to protect the public, should not be allowed to flow as a subsidy to private investors.

Mr. Hoenig concluded his speech by suggesting that both monetary and macro-prudential policies need to focus independently on the long run. Policy cannot stay on its current path of low-for-long rates and return-to-lower capital without undermining the resilience of the financial system and without inviting harsher future adjustments. If the policymakers shift their views from short-run effect to long-term sustainability, an opportunity exists to strengthen banks, the financial system, and the economy to achieve real long-run growth goals.

Link: Speech
Keywords: Capital, Macro-Prudential Policy, Monetary Policy

Recommendation of Actions to Ensure Achievement of Stress Test Goals

- GAO

November 15, 2016

Type of Information: Report

The U.S. Government Accountability Office (GAO) published a report that examines the FED's stress test programs, identifying limitations of these programs and recommending actions to achieve the stress test goals. The report compares the Dodd-Frank Act Stress Tests (DFAST) and Comprehensive Capital Analysis and Review (CCAR), in addition to evaluating the CCAR qualitative assessment and the design of the stress test scenarios and models. The report also highlights the following limitations in these programs:

» ***Qualitative assessment disclosure and communication***: The FED uses a framework with multiple levels of review to assess qualitative CCAR submissions that helps ensure consistency; however, it has not disclosed information needed to fully understand its assessment approach or the reasons for decisions to object to a company's capital plan. Transparency is a key feature of accountability and such incomplete disclosure may limit understanding of the CCAR assessments and hinder public and market confidence in the. The FED has not regularly updated guidance to firms about supervisory expectations and peer practices related to the qualitative assessment. For example, it has not published observations of leading capital planning practices used in CCAR since 2014. The limited communication can pose challenges to companies that must meet these expectations annually and could hinder the achievement of CCAR goals.

» ***Scenario design***: The FED has a framework for designing stress test scenarios but its analysis of some key design decisions has been limited. For example, the FED has not conducted analyses to determine whether the single severe scenario it uses for the supervisory stress test is sufficient to accomplish DFAST and CCAR goals. While there are advantages to using one scenario (including simplicity and transparency), many different types of financial crises are possible and the single selected scenario does not reflect a fuller range of possible outcomes. The FED also has not explicitly analyzed how to balance the choice of severity (and its influence on the resiliency of the banking system) with any impact on the cost and availability of credit, which could limit its ability to avoid undesired economic effects from scenario design choices.

» ***Model risk management***: The FED supervisory guidance for banking institutions states that risk from individual models and from the aggregate system of models should be managed. The FED makes supervisory decisions based on the results of its own stress test models, but its management of model risk has not focused on its system of models that produce stress test results. To estimate the effect of stress test scenarios on companies' ability to maintain capital, the FED has developed individual component models that predict a company's financial performance in the scenarios. The results of these component models are combined with assumed or planned capital actions of companies and form the system of models used by the FED. Also, the FED has an oversight structure for developing and using models in the supervisory stress tests but its own risk management efforts have not targeted the system of models. For example, it has not conducted sensitivity and uncertainty analyses of how its modeling decisions affected overall results. Without such a focus, the FED's ability to effectively evaluate and manage model risk and uncertainty from the entire system of stress test models will be limited. Understanding and communicating this uncertainty is critical because the outcome of the CCAR assessment can have significant implications for a company, including limiting its capital actions (such as dividend payments and share repurchases).

On the basis of the identified limitations, the report offered 15 recommendations for improving the effectiveness of the FED's stress test programs, with the FED generally agreeing with these recommendations. The FED had asked the GAO to review the effectiveness of its two stress test programs, as concerns had been raised about the burden imposed and effectiveness of these programs. While preparing this report, GAO analyzed FED's documents including rules, guidance, and internal policies and procedures on DFAST and CCAR implementation and assessed practices against FED's internal control standards and other criteria. GAO also interviewed FED staff and officials of 19 banking institutions selected based on characteristics such as their size, prior stress test participation, and history of CCAR results.

DFAST applies to the FED supervised banking institutions with over USD 10 billion in consolidated assets. DFAST projects how banking institutions' capital levels would fare in hypothetical stressful economic and financial scenarios. CCAR uses DFAST information to assess the capital adequacy (a quantitative assessment) and capital planning processes (a qualitative assessment) for bank holding companies (BHCs) with consolidated assets of USD 50 billion or more. CCAR generally does not require additional stress tests and uses the same data, models, and projections used for DFAST. While the primary purpose of DFAST is to produce and disclose comparable information on the financial condition of banking institutions, the FED uses CCAR to make supervisory assessments and decisions about the capital adequacy plans of large BHCs.

Links: Public Release, Report
Keywords: CCAR, Dodd-Frank Act, DFAST, Stress Testing

Impact of Basel Leverage Ratio on the Triparty Repo Market in the United States

- OFR

November 10, 2016

Type of Information: Research

The Office of Financial Research (OFR) published a working paper examining the activity of broker-dealers in the repurchase agreement (repo) market. Data on the triparty repo market in the U.S. has been used to test whether the Basel leverage ratio encourages bank risk-taking. The paper covers the activity of both broker-dealers affiliated with BHCs and broker-dealers that are not affiliated with BHCs. They key findings of the paper are as follows:

» Following the 2012 introduction of the supplementary leverage ratio (SLR), broker-dealer affiliates of BHCs decreased their repo borrowing but increased their use of repo backed by more price-volatile collateral.

» Regardless of whether a U.S. BHC-affiliated broker-dealer parent is above or below the SLR requirement, the announcement of the SLR rule has disincentivised the dealers affiliated with BHCs from borrowing in triparty repo.

» There has been an increase in the number of active nonbank-affiliated dealers in certain asset classes of triparty repo since the 2012 introduction of the SLR. This suggests risks may be shifting outside the banking sector.

Link: Working Paper
Keywords: Basel III, Leverage Ratio, Repo

Speech of FDIC Vice Chairman on Capitalizing the Opportunity to Strengthen Global Capital Requirements

- FDIC

November 09, 2016

Type of Information: Speech

The FDIC Vice Chairman Thomas M. Hoenig spoke at the 22nd Annual Risk USA Conference, New York, about the key factors at the core of the ongoing debate over what defines adequate capital.

Mr. Hoenig highlighted that Basel III is scheduled to be finalized by year-end; it will be presented to top regulators and central bankers for approval in early 2017. He noted that the original goals of the six-year effort were to reduce the complexity of the regulatory framework and improve comparability while addressing excessive variability in the capital requirements for credit risk. "Unfortunately, as memory of the 2008 financial crisis has waned, the exercise has added a third objective: ensuring that the final calibration of the Basel III framework not significantly increase overall capital requirements," said Mr. Hoenig. "Should this occur, it would truly represent an opportunity lost." Instead of strengthening the foundation of the global financial system, Basel III would legitimize the inadequate status quo and undermine the long-run objective of real financial stability. He also discussed the following:

» Controversy over alternative measurements for judging adequate capital (for example, measures often vary among jurisdictions)

» Changes that the Basel Committee appears to be considering that will weaken the current standards and why these changes are ill-advised

» Concerns about TLAC and its use as a means to justify lower levels of capital and require firms to issue more debt

Link: Speech
Keywords: Basel III, Regulatory Capital, TLAC

Announcement of Meeting at the Treasury Department

- FSOC

November 09, 2016

Type of Information: Statement

The Financial Stability Oversight Council (FSOC) announced its meeting is scheduled at the Treasury Department on November 16, 2016. The meeting will include open and executive sessions.

The preliminary agenda for the open session includes an update on the work of the Alternative Reference Rates Committee; an update on the Council's review of asset management products and activities; and revisions to the FSOC regulations, in accordance with the Freedom of Information Act (FOIA)'s Improvement Act of 2016. The preliminary agenda for the executive session includes a presentation on stress tests of CCPs conducted by the Commodity Futures Trading Commission (CFTC); a discussion of confidential data related to the FSOC's review of asset management products and activities; and an update on the annual re-evaluation of the designation of a nonbank financial company (NBFC).

Open session council meetings are made available to the public via live webcast and can be viewed at the treasury webcast center after they occur. Upcoming meeting dates and times are posted following the official notification to council members of an upcoming meeting. Meeting minutes for the most recent FSOC meeting are generally approved at the next meeting. Meeting minutes and Readouts for past meetings are also available on the FSOC website.

Links: Meeting Announcement, Treasury Webcast Center, Meeting Minutes, Readouts
Keywords: Financial Stability, Meeting Agenda

Economic Analysis on the Proposed Rule on the Use of Derivatives by Registered Funds and Business Development Companies

- SEC

November 01, 2016

Type of Information: Statement

The Securities and Exchange Commission (SEC) staff published additional economic analysis on the December 2015 Proposed Rule on the use of derivatives by registered funds and business development companies. The Proposed Rule was designed to enhance the regulation of the use of derivatives by registered investment companies and would limit funds' use of derivatives and require them to put risk management measures in place.

The staff believes that this analysis will be informative in evaluating comments on the proposed rule. The Proposed Rule suggests that the portfolio limitations should be based on risk-adjusted gross notional exposure and that the asset segregation requirement should permit certain liquid assets other than cash or cash equivalents to be segregated against a fund's derivatives exposures (subject to appropriate haircuts). Commenters suggested using risk-adjustment and haircut schedules that were originally developed for other regulatory purposes. The analysis evaluates the internal consistency of these schedules across asset classes and categories for the purpose of risk-adjustment and risk-weighting with respect to the rule. The SEC staff is making the analysis available to allow the public to consider this supplemental information.

Links: Press Release, Economic and Risk Analysis, Proposed Rule
Keywords: Asset Management, Derivatives, Funds

Argentina

Key Developments

Staff Report and Selected Issues Report for the 2016 Article IV Consultation

- IMF

November 10, 2016

Type of Information: Report

The IMF published its staff report (CR16/346) and selected issues report (CR16/347) in the context of the 2016 Article IV consultation with Argentina.

The report highlighted that the Directors commended the ambitious reforms by the new administration to ensure a more stable and sustainable economic policy framework. They cautioned that reversing the legacy of severe macroeconomic imbalances, pervasive microeconomic distortions, and a weakened institutional framework will take time, but noted that important progress has been achieved by the authorities. While the measures taken have had a negative short-term impact on economic activity, the country's economy is expected to rebound in 2017.

The report notes that Argentina's financial system appears resilient to the ongoing macroeconomic transition. Argentina's financial system is mostly transactional and has generally low exposure to credit or exchange rate risk. Banks are well-capitalized (total and tier 1 capital ratios are well above the regulatory minimums at 16.2% and 15.3%, respectively, as of June 2016), have low NPLs (under 2%), and relatively large provisions (above 140% of NPLs). The liquidity position of banks appears comfortable, with the LCR in 2016 well exceeding the minimum set by the Basel Committee. Currency mismatches are low and banks have an aggregate net long foreign exchange position, which limits risks from a sudden currency depreciation.

Argentina has a relatively smaller financial system. Restoring macroeconomic stability is the best contribution that policymakers can offer to the developing of local financial markets. Low inflation and positive real rates are needed to increase the base of long-term domestic currency savings that will allow banks to increase lending to the private sector. The authorities took the following steps to encourage greater domestic intermediation:

- ***Banking sector.*** The Central Bank of Argentina (BCRA) has eliminated minimum interest rates for time deposits and maximum interest rates for consumer loans, increased information on bank fees, simplified procedures for opening bank accounts, eliminated bank transfer fees and fees to maintain saving accounts. In addition, the central bank has introduced a new inflation-indexed account unit, to create a market for inflation-indexed fixed income instruments.
- ***Capital markets.*** The authorities are working at a reform of the 2012 Capital Markets Law; this law aims to develop closed-end mutual funds by equalizing tax treatment with open-end funds; introduce legislation that provides for the enforceability of derivative netting; increase capital requirements for broker dealers; and improve many aspects of corporate. Progress has been made in improving capital market infrastructure via the creation of a unified stock exchange (B&MA), the CCP clearing house, and the custodian agency. The new CCP clearing house is expected to facilitate the development of an interest rate swap market, currently quite limited in Argentina.
- ***Insurance sector.*** Restrictions on insurance companies were removed. These restrictions limited foreign investment and compelled the companies to invest in infrastructure projects approved by a political committee. Consideration is given to introducing tax incentives for investment in long-term assets, such as life insurance and annuity products, by updating the income tax deduction limits that have been frozen since the early 1990s.
- ***Public pension reserve fund.*** The new administration at Administración Nacional de Seguridad Social (ANSES) has begun reforming the governance and investment strategy of the public pension fund. The objective is to preserve the fund's capital, invest in projects (mainly infrastructure projects and financial instruments that promote growth and support the development of local capital markets), and use the returns to pay for the increase in pension payments following the 2016 reforms. The authorities are considering utilizing part of the endowment to set up a trust, which would securitize mortgages originated in banks (while asking them to maintain a significant credit exposure) to help develop a local mortgage market.

The selected issues report investigates how large is Argentina's capital accumulation gap and the ways to reduce this gap, along with lessons from past episodes of significant investment surges.

Links: Staff Report, Selected Issues Report
Keywords: Article IV Consultation, Financial System

Brazil

Key Developments

Consultation on Segmentation of Financial Institutions for the Purpose of Prudential Regulation

- BCB

November 23, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The Central Bank of Brazil issued a public consultation on establishing the segmentation of all financial institutions and other institutions authorized to operate by the Central Bank, for proportionate enforcement purposes of prudential regulation. The consultation establishes the criteria for institutions falling into one of the following four segments:

» Segment S1 will include multiple banks, commercial, investment, foreign exchange, and large savings banks or internationally active banks.

» Segment S2 includes banks and medium-size non-banks, along with the large institutions not included in S1 segment.

» Segment S3 comprises banks and non-small banks.

» Segment S4 covers institutions with a simplified risk profile.

The aim is that the prudential regulation applicable to the S1 segment fully observe the set of standards known as Basel III and other standards, guidelines, and good practices established by the makers of international standards. The application of all or proportional of these international standards for other institutions in the country is discretionary decision of the local governor, although the standards of Basel III are set to internationally active institutions. In this sense, the standard states that the standards of Basel III, for example, be applied to the member institutions of the S2 and S3 segments in proportion, considering the segment to which they belong and the risk profile of each institution. In the case of S4, the prudential regime will be simplified. The segmentation is the first stage of proportional application process of prudential regulation. “The second step,” according to Rodrigo Lara, head of the Department of Regulation Prudential and Exchange of the Central Bank, “would be to treat proportionality. The prudential standards should be gradually adapted, providing specific application according to the segment and the risk profile of financial institutions,” he said.

The notice also proposes that the Central Bank may change the framework of the authorized institutions in certain situations, such as in cases of change of corporate purpose; creation or cancellation of operating license; and demerger, merger or change of control.

Comments Due Date: December 16, 2016
Effective Date: N/A
First Reporting Date: N/A

Links (to original language material): Press Release, Consultation Notice
Keywords: Basel III, Proportionality

Staff Report and Selected Issues Report for the 2016 Article IV Consultation

- IMF

November 15, 2016

Type of Information: Report

The IMF published its staff report (CR16/348) and selected issues report (CR16/349) in the context of the 2016 Article IV consultation with Brazil. The staff report highlighted that health of the banking sector has improved in the first half of 2016, as shocks to funding dissipated, particularly, in the following areas:

» ***Solvency.*** The system-wide capital ratios fell in 2015, but have since increased and are well above the regulatory minima. However, capital ratios of public banks, which are much lower than those of private banks, continued to drop mainly due to higher Basel III deductions from capital. To bolster capital ratios, the two largest public banks have cut dividends and are planning to sell assets, including by issuing initial public offerings. The decrease in capital in 2015 largely reflects higher unrealized losses on fixed income securities, an expansion of balance sheets from exchange rate depreciation, and a significant increase in deferred tax assets, following an increase in the tax rate. The increase in capital ratios of private banks in 2016 was mainly driven by reduction of balance sheets (also due to exchange rate appreciation) and higher unrealized gains on fixed income securities, as government yields plunged.

» ***Liquidity.*** Liquidity risk increased in 2015 due to withdrawals of funding, especially saving deposits. This partly reflects a search for yield through the purchase of mutual funds shares and banks' deposit-like instruments. However, the overall funding profile of the system remains strong and it improved in the first half of 2016, as banks increased holdings of liquid assets in an environment of low credit supply. External funding exposures were low (at about 12% of total funding) and foreign exchange risks are largely hedged.

» ***Profitability.*** Banks' net income after taxes increased in 2015, reflecting higher tax credits and higher deferred tax assets, following the tax change; however, net income before taxes dropped significantly in 2015, owing to a spike in provisions for loan losses and higher funding costs, following the sovereign downgrade. Moreover, net income after taxes fell in the first half of 2016, pushing profitability indicators below 2015 levels. However, profit before taxes surged significantly during the first half of 2016, primarily due to higher spreads as a result of higher credit risk. The poor performance of the stocks, especially Petrobras shares, has impacted National Bank for Economic and Social Development's (BNDES') equity portfolio, with the damage being recognized in its mid-2016 income statement.

» ***Asset quality.*** Banks' NPLs gradually increased over 2015 and reached 3.6% of total loans in July 2016 (4.1%, if restructured loans are added to the stock of NPLs). To further limit increases in NPLs, banks have been renegotiating the terms of some loans and writing-off delinquent loans. Banks have remained well-provisioned, with loan loss reserves covering 150% of NPLs.

The report noted that the health of the banking system remains largely sound, although the recession has affected profitability and asset quality. The report added that the Article IV mission has welcomed the moderation in the growth rate of credit by public banks, the plans to reduce direct financing of large corporations with market access, reducing credit market distortions, and the intention of the two largest public banks to strengthen their capital position. The report emphasized the need to improve financial safety nets by strengthening the procedures for use of the deposit insurance, enhancing the central bank's emergency liquidity assistance, and modernizing the resolution regime. To strengthen transparency and accountability and reinforce the authorities' ability to identify and respond to future risks, an explicit mandate with clear responsibilities should be given to a committee comprising all financial regulators, the deposit guarantee fund, and the Ministry of finance, for macro-prudential oversight. Also, a mandate should be given to a separate entity that should set up a coordination framework to support timely and effective decision-making in a crisis situation, along with periodic testing of the capacity of the authorities to respond to crisis scenarios. The authorities are also urged to follow through on their plans to strengthen private insolvency frameworks. Risks arising from high private sector leverage underscore the need for continued vigilance and close monitoring of the health of the corporate sector and its links to the banking sector.

The selected issues report assesses the health of the banking sector under different scenarios. It use a balance sheet approach and publicly available data to assess the solvency risk of the largest six banks in Brazil. The results of the analysis suggest that these banks will cope well in the baseline scenario from the July 2016 IMF World Economic Outlook. However, some banks may temporarily fall below the regulatory threshold in the stress scenario characterized by a longer and deeper recession, along with a large increase in funding costs.

Links: Staff Report, Selected Issues Report
Keywords: Article IV Consultation, Basel III, Stress Testing

Chile

Key Developments

Concluding Statement of the 2016 Article IV Consultation

- IMF

November 02, 2016

Type of Information: Report

The IMF published the concluding statement of the 2016 Article IV consultation with Chile. A concluding statement describes the preliminary findings of IMF staff at the end of an official staff visit, in most cases to a member country.

The concluding statement highlights that the financial sector balance sheets of Chile are healthy, but risks to financial stability bear close monitoring. Banks' earnings slowed in 2016 as a result of low economic activity. NPLs remain low while capital buffers are well above the current legal requirements. Life insurance companies and pension funds continue to be pressured by the low-yield environment and have kept on shifting their portfolios toward higher-yield but potentially riskier or less liquid assets. Weaker than expected growth could strain the solvency of highly leveraged firms and less-resilient SMEs, with potential for amplification via strong inter-sectoral balance sheet linkages. This risk calls for continued strengthening of the financial sector regulation and supervision.

Another risk is that of the regulatory framework falling further behind the international standards. Thus, the adoption of key regulations on bank solvency and insurance supervision should not be further delayed. The revision of the General Banking Law, which would implement Basel III capital requirements for Chilean banks, during the term of the current administration is at risk. In addition, the law that would implement risk-based supervision for Chile's insurance sector has been with Congress since 2011. The adoption of both reforms are expected to contribute significantly to more efficient supervision, to enhance the credibility of Chile's financial sector, and to strengthen its resilience against domestic or external shocks. An FSI survey, which was published in July 2015, highlights the implementation status of various elements of the Basel framework.

Furthermore, the proposed creation of the Financial Markets Commission is an important step, as it may allow a more effective oversight of financial conglomerates. However, its implementation should not delay the adoption of other important reforms (that is, Basel III and risk-based supervision of insurers) and should be used as an opportunity to broaden the scope of supervision to shadow banking activities.

Another important area highlighted in this statement is the lack of scope to improve corporate governance and investor protection. Chilean companies are, on average, relatively opaque and levels of compliance with best practices in corporate governance are low. Given their important role in Chile's financial system, institutional investors, such as pension fund administrators, can encourage Chilean businesses to improve corporate governance. For instance, institutional investors could give preference to investments in companies with high governance standards and protection of minority shareholder interests. These standards could be enshrined in a new governance code (Stewardship Codes), which firms could subscribe to on a voluntary basis. Such codes have been successfully introduced in the UK and Japan. Enhanced governance practices could also be incentivized through a targeted new stock market index for companies with high governance standards—similar to a recently created sustainability index at the Chilean stock market.

Links: Concluding Statement, FSI Survey: Basel II, 2.5, and III Implementation
Keywords: Article IV Consultation, Basel III, RBC

Mexico

Key Developments

Release of Staff Report and Financial System Stability Assessment

- IMF

November 22, 2016

Type of Information: Report

The IMF published its staff report (CR16/359) and Financial System Stability Assessment (FSSA) report (CR16/361) in the context of the 2016 Article IV consultation with Mexico.

The staff report reveals that Mexico continues to grow at a moderate pace, despite a challenging external environment. However, the country remains exposed to external shocks, including risks of growing protectionism, given its strong financial and trade linkages with the rest of the world. Directors expressed confidence that Mexico's strong fundamentals and policy frameworks will continue to underpin the economy's resilience, but urged vigilance to potential shocks. They noted that the Flexible Credit Line arrangement with the IMF provides additional insurance against tail risks. Continued implementation of the structural reform agenda and further progress in improving security and the rule of law should help lift potential growth in the medium term. The 2016 Financial Sector Assessment Program (FSAP) concluded that the balance sheets of financial and non-financial corporations are resilient to adverse shocks. Enhancing some elements of the crisis-preparedness and deposit insurance frameworks are expected to ensure an agile and well-coordinated response in times of stress. Strengthening the independence of the supervisory agencies would also be important. It is also clarified that decisions of the Financial Stability Council have not been hampered by political considerations and the authorities are encouraged to maintain their efforts in this area.

The FSSA report highlights that the country's economic fundamentals are strong. The medium-term outlook foresees steady growth underpinned by strong macroeconomic policies, broad reform initiatives, and relatively strong balance sheets. Key risks are external and include a slowdown of growth in the U.S., lower oil prices, and volatility in global financial markets. Related shocks could adversely impact the financial system through the deterioration of corporate and public balance sheets and reversal of capital flows leading to tightening financial conditions. The report's key recommendations are in the areas of institutional arrangements and governance; financial stability policy framework; SME finance; and crisis management and resolution, among others.

Links: Staff Report, Financial System Stability Assessment Report
Keywords: Article IV Consultation, FSAP, FSSA

Panama

Key Developments

Staff Report and Selected Issues Report for the 2016 Article IV Consultation

- IMF

November 02, 2016

Type of Information: Report

The IMF published its staff report (CR16/337) and selected issues report (CR 16/338) in the context of the 2016 Article IV consultation with Panama.

The staff report revealed that Panama has had the highest average growth in the region over the past decade and is expected to continue to have one of the strongest growth rates in Latin America; this is set against a backdrop of low inflation, a stable financial system, and a declining current account deficit. The country's GDP grew by 5.8% in 2015, while the growth, in 2016 (and over the medium term) is projected at nearly 6% in 2016.

The Financial Action Task Force (FATF) removed Panama from the list of countries with strategic deficiencies in the area of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) in February 2016. Panama was included in this list in June 2014 and since then the authorities have implemented an action plan agreed with the FATF. Going forward, Panama is scheduled to undergo an assessment against the prevailing 2012 FATF standard in mid-2017; under this assessment, the focus will be on the effective implementation of the AML/CFT regime. In addition, after the leak of the documents from the law firm Mossack Fonseca in April 2016, the government has announced the creation of an independent commission of international experts to evaluate the practices of the Panamanian financial center and propose measures to strengthen transparency of the financial and legal systems.

The need to develop contingency plans to address systemic shocks and to ensure larger liquidity buffers was emphasized; the larger liquidity buffers could be ensured through an alignment of the liquidity regulation with the Basel III framework and the establishment of a temporary liquidity facility for banks. The authorities were encouraged to fully implement the FSAP recommendations, enhance cross-border supervision and systemic risk monitoring, and strengthen supervision of nonbank financial institutions. The staff report noted that various steps remain from the 2011 FSAP recommendations. The authorities need to enhance cross-border supervision and monitoring of systemic risk. Since risks deriving from nonbank financial institutions can potentially spill over to the banking sector and threaten financial stability, the supervision of the nonbank financial institutions needs to be significantly strengthened.

The authorities agreed on the need to modernize financial supervision according to international standards and to strengthen the financial safety net. They pointed to recent efforts to adopt parts of Basel II/III banking regulations, including a pilot project exploring the implementation of the liquidity coverage ratio (LCR). In addition, they agreed on the need to establish a liquidity facility for banks and to develop a plan to coordinate the response to a large unexpected adverse shock to the financial system. The report revealed that efforts are underway to improve banking regulations to comply with Basel II. Additionally, the report suggested that authorities should aim to align financial regulation with the Basel III liquidity framework to ensure banks maintain sufficient high-quality liquid assets against liquidity shocks.

The report also emphasized that further improvements in timeliness and consistency of data reporting will help macroeconomic surveillance and assessment of risks. The publication of the full 2007-base national accounts was a notable improvement in data reporting. However, weaknesses still remain in the availability, timeliness, and consistency of statistics relevant for macroeconomic monitoring. The authorities are receiving technical assistance to improve capacity in a number of areas. Gaps in the financial sector data (such as housing prices and corporate leverage) limit the ability to properly assess risks. The authorities pointed out that they are preparing an index of real estate prices and aim to continue improving data reporting standards. Improvement in the timeliness, coverage, and consistency of socio-economic indicators will help the design of public policy.

The IMF's selected issues report assesses liquidity buffers in the banking sector and highlights economic effects of the offshore banking sector in Panama.

Links: Staff Report, Selected Issues Report
Keywords: Article IV Consultation, Basel III, FSAP

Asia Pacific

Australia

Key Developments

Issuance of Final Revised Standard on Securitisation *- APRA* *November 10, 2016* *Type of Information: Statement*	The Australian Prudential Regulation Authority (APRA) released the final revised Prudential Standard APS 120 Securitisation (APS 120), which is accompanied by the response to submissions paper titled "Revisions to the prudential framework for securitisation November 2016." The final revised APS 120 reflects APRA's implementation of the Basel III securitization framework and will take effect from January 01, 2018. APRA also released a draft revised Prudential Practice Guide APG 120 Securitisation (APG 120). Written submissions on the draft revised APG 120 can be sent by December 20, 2016. In the coming months, APRA will separately consult on revised reporting requirements for securitization, which would take effect at the same time as the revised prudential standard. Through the securitization framework, APRA intends to facilitate a more robust securitization market via: » Greater flexibility for authorized deposit-taking institutions in their funding programs » Simpler set of operational requirements for the use of securitization » Simpler and more transparent approaches to calculating regulatory capital requirements that appropriately reflect risk *Links: Media Release, APS 120, Response to Submissions, APG 120* *Keywords: Basel III, Securitisation, Securitization*

China

Key Developments

Consultation on Derivative Counterparty Default Risk *- CBRC* *November 28, 2016* *Type of Information: Regulation* *Regulatory Status: Proposed Rule*	The China Banking Regulatory Commission (CBRC) launched a public consultation on the derivative counterparty default risk measurement rules. The CBRC proposed that banks must calculate the value of the assets exposed to counterparty default risks on the basis of counterparties' risk weight. In addition, lenders must classify derivative tools into different asset classes in a consistent and prudent manner. *Comments Due Date: December 28, 2016* *Effective Date: N/A* *First Reporting Date: N/A* *Links (to original language material): Notice, Consultation Document* *Keywords: Basel III, CCR, Derivatives*

Hong Kong

Key Developments

Revisions to the Supervisory Policy Module on Sound Systems and Controls for Liquidity Risk Management

- HKMA

November 25, 2016

Type of Information: Guideline

The Hong Kong Monetary Authority (HKMA) released the revised version of the Supervisory Policy Manual (SPM) module LM-2 titled "Sound Systems and Controls for Liquidity Risk Management". The key revisions are as follows:

» Greater degree of flexibility has been provided for authorized institutions to determine their liquidity risk governance and management systems and select appropriate risk monitoring tools and forewarning indicators that are commensurate with their individual circumstances.

» Provisions on the requirement of maintaining a liquidity cushion have been modified to reflect the guidance provided in the SPM module LM-1 for an authorized institution to set internal targets for LCR or liquidity maintenance ratio. The modifications seek to clarify the concept of the "liquidity cushion" required in the SPM module LM-2, compared to HQLA defined for LCR purposes and "liquefiable assets" defined for liquidity maintenance ratio purposes.

» Provisions such as the guidance on disclosure of liquidity information have been removed from the revised module, as they are now provided in the SPM module LM-1.

» Some similar or related provisions in the module have been combined and made more concise.

The revisions to this module are consequential to the implementation of the LCR and liquidity maintenance ratio from 2015 and the revision of the related SPM module LM-1 "Regulatory Framework for Supervision of Liquidity Risk" in July 2016. Authorized institutions should align their internal processes more closely with any of the revised provisions in the module (LM-2) within two months of the issuance of the module.

Link: Circular on Revised SPM Module LM-2 (hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20161125e1. pdf)
Keywords: Basel III, LCR, LM-2

Updates to Liquidity Reporting Templates and Completion Instructions

- HKMA

November 08, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The HKMA revised the reporting templates and the completion instructions for liquidity returns for position (MA(BS)1E), liquidity stress testing (MA(BS)18), and liquidity monitoring tools (MA(BS)23).

The revisions to Return MA(BS)1E are primarily to allow category 1 institutions to use a lower outflow rate of 3%, when calculating the expected cash outflows arising from stable retail deposits and other similar outflow items for the purpose of the LCR. Additionally, the revisions of Returns MA(BS)18 and MA(BS)23 mainly reflect changes in the frequency of required reporting, to reduce authorized institutions' reporting burden.

The updated electronic files containing the returns will be available from HKMA's supervisory communication website. The files will be available after completion of the reporting of the December 2016 position under the respective returns.

Comments Due Date: N/A
Effective Date: January 01, 2017
First Reporting Date: N/A

Links: Circular (hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20161108e1.pdf), Framework for Supervision of Liquidity Risk (hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/LM-1.pdf
Keywords: Basel III, LCR, Reporting, Stress Testing

Consultation on Net Stable Funding Ratio

- HKMA

November 04, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The HKMA published proposals for implementing the Basel Committee's NSFR standard in Hong Kong. The paper proposes the scope of application of NSFR and discusses the:

- Structure and requirements for NSFR
- Timeline for implementing the NSFR and modified NSFR requirements
- Major work undertaken to prepare for the implementation of new NSFR

In December 2010, the Basel Committee introduced, as part of the Basel III reform package, two liquidity standards, namely LCR and NSFR. The NSFR seeks to reduce banks' funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding. The Basel Committee published the finalized standard and a set of FAQ on the NSFR in October 2014 and in July 2016, respectively.

Comments Due Date: December 23, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: Consultation Paper (hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/CP_16_02_NSFR_4Nov2016 .pdf), NSFR Standard (http://www.bis.org/bcbs/publ/d295.pdf), FAQs (http://www.bis.org/bcbs/publ/d375.pdf)
Keywords: Basel III, NSFR

Consultation on the Banking Disclosure Amendment Rules 2016

- HKMA

October 31, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The HKMA published and endorsed the draft Banking Disclosure Amendment Rules 2016 (BDAR 2016). In December 2015, HKMA had published a consultation on the implementation of revised Pillar 3 disclosure requirements, which were released by the Basel Committee. BDAR 2016 reflects the proposals amended in response to the comments received from the industry.

Pursuant to section 60A of the Banking Ordinance, HKMA is required to consult a number of specified parties (including the Hong Kong Association of Banks) before the BDAR 2016 is formally issued. The HKMA expects to finalize and publish the BDAR 2016 in the Gazette and table them with the Legislative Council of Hong Kong (LegCo) within this year. This will mean that the revised disclosure requirements under the BDAR 2016 will first apply to any disclosure (quarterly, semi-annual or annual) relating to an authorized institution's financial year starting on or after January 01, 2017.

Comments Due Date: November 25, 2016
Effective Date: January 01, 2017
First Reporting Date: N/A

Links: Notification (hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_draft_banking (disclosure)(amendment)_rules_20161026/HKAB_20161026.pdf), BDAR 2016 (hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/ consultation _on_draft_banking(disclosure)(amendment) _rules_20161026/ Annex_Draft_Banking_ (Disclosure)(Amendment)_Rules_2016.pdf, Consultation on Revised Pillar 3 Requirements (hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_implementation_of_revised_pillar3_disclosure_requirements.pdf)
Keywords: Basel III, Disclosures, Pillar 3

India

Key Developments

Circulars on Revisions to Bank Regulations

- RBI

November 10, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The Reserve Bank of India (RBI) published the following circulars revising certain bank regulations:

Revisions to schemes for stress assets. RBI revised measures such as Framework for Revitalizing Distressed Assets, Flexible Structuring of Project Loans, Strategic Debt Restructuring Scheme, and Scheme for Sustainable Structuring of Stressed Assets, to strengthen the lenders' ability to deal with stressed assets. The changes were implemented to harmonize the stand-still clause (as applicable in case of Strategic Debt Restructuring Scheme) with other guidelines and clarify the deemed date of commencement of commercial operations. The aim was to partially modify certain guidelines based on the experience of using these tools in resolving the stressed assets, the stakeholder feedback, and the requirements of the construction sector.

Guidelines on standardized approach for computing exposure for counterparty credit risk arising from derivative transactions. These guidelines describe the revised method for replacing the Current Exposure Method (CEM), which is being used by banks, for measuring exposure to the counterparty credit risk (CCR) arising from derivative transactions.

Guidelines on capital requirements for bank exposures to central counterparties. The final guidelines have been released and will be implemented from April 01, 2018.

Setting Up of International Financial Services Centre Banking Units (IBU) – Permissible activities. The RBI circular—dated April 01, 2015—sets out directions related to IBUs. The RBI has received a few suggestions and queries reflecting practical issues faced by banks in implementing these regulations. These issues have been examined and amendments have been made to the following paragraphs of Annexes I and II as follows:

» The existing paragraph 2.5 shall be amended as: "2.5.1 The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and overseas branches of Indian banks. 2.5.2 The deployment of funds can be with both persons resident in India as well as persons not resident in India. However, deployment of funds with persons resident in India shall be subject to the provisions of the Foreign Exchange Management Act (FEMA), 1999."

» The existing paragraph 2.6 (i) shall be amended as "IBUs can undertake transactions with resident (for deployment of funds) and non-resident (for both raising of resources and deployment of funds) entities other than individuals including HNIs / retail customers as indicated in paragraph 2.5.1 and 2.5.2 above."

» The existing paragraph 2.6 (vii) shall be amended as "With the prior approval of their board of directors, the IBUs may undertake derivative transactions including structured products that the banks operating in India have been allowed to undertake as per the extant RBI directions. However, IBUs shall obtain RBI's prior approval for offering other derivatives or structured products. Before seeking RBI's approval, banks shall ensure that the IBUs have necessary expertise to price, value and compute the capital charge and manage the risks associated with the products/transactions intended to be offered and should also obtain their Board's approval for undertaking such transactions."

» A new paragraph No.2.6 (viii) shall be added: "IBUs are allowed to open foreign currency escrow account of Indian resident entities to temporally hold subscriptions to the GDR/ADR issues until issuance of the Receipts. After GDRs/ADRs are issued, the funds should immediately be transferred to the client's account outside the IBU and cannot be retained by the bank in any form including in long term deposits."

» A new paragraph No.2.6 (ix) shall be added: "IBUs are allowed to act as underwriter/arranger of Indian Rupee (INR) denominated overseas bonds issued by Indian entities in overseas market in terms of extant RBI instructions contained in FED CO AP Dir Circular No 17 dated September 29, 2015. However, in cases where part of the issuance underwritten by an IBU devolves on it, efforts must be made to sell the underwritten holdings and after 6 months of the issue date these holdings must not exceed 5% of the issue size."

Comments Due Date: N/A
Effective Date: April 01, 2018
First Reporting Date: N/A

Links: Revisions to Schemes for Stress Assets (rbi.org.in/scripts/FS_Notification.aspx?Id=10695&fn=2&Mode=0), CCR Exposure Guidelines (rbi.org.in/scripts/FS_Notification.aspx?Id=10692&fn=2&Mode=0), Capital Requirements for Bank Exposures to CCP (rbi.org.in/scripts/FS_Notification.aspx?Id=10693&fn=2&Mode=0), Statement on Developmental and Regulatory Policies (rbi.org.in/Scripts/ BS_PressReleaseDisplay.aspx?prid=38225), Revisions to Guidelines on Setting up of IBUs (rbi.org.in/scripts/ FS_Notification.aspx?Id=10691&fn=2&Mode=0), Circular on Setting Up of IBUs (rbi.org.in/Scripts/ NotificationUser.aspx?Id=9636&Mode=0)
Keywords: Basel III, CCR, CCP

Singapore

Key Developments

Proposal on Implementation of Net Stable Funding Ratio Standard and Disclosure Requirements

- MAS

November 16, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The Monetary Authority of Singapore (MAS) published a consultation package on the implementation of NSFR standard and its disclosure requirements in Singapore. The standard applies to banks that have been designated by MAS as domestic systemically important banks (D-SIBs).

The Basel Committee published its final Net Stable Funding Ratio (NSFR) standard on October 31, 2014 and its NSFR disclosure requirements on June 22, 2015. The effective implementation date is January 01, 2018 for the NSFR standard and the first reporting period after January 01, 2018 for the disclosure requirements. MAS is adopting the Basel Committee's recommended implementation timeline for both the NSFR and the NSFR disclosure requirements. The draft rules are also appended in Annexes B and C of this consultation paper.

The NSFR standard requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities. The disclosure requirements, on the other hand, aim to improve the transparency of the NSFR requirements, reinforce the Principles for Sound Liquidity Risk Management and Supervision, strengthen market discipline, and reduce uncertainty in the markets as the NSFR is implemented.

Comments Due Date: December 15, 2016
Effective Date: N/A
First Reporting Date: N/A

Link: Consultation and Related Documents (mas.gov.sg/News-and-Publications/Consultation-Paper/2016/Consultation-Paper-on-NSFR-and-NSFR-Disclosure.aspx)
Keywords: Basel III, Disclosures, NSFR

Glossary

APRA	Australian Prudential Regulation Authority
BCB	Central Bank of Brazil
BIRD	Banks' Integrated Reporting Dictionary
BIS	Bank for International Settlements
BOE	Bank of England
CBK	Central Bank of Kuwait
CBRC	China Banking Regulatory Commission
CCAR	Comprehensive Capital Analysis and Review
CCR	Counterparty Credit Risk
CCP	Central Counterparty
CFTC	Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CIP	Covered Interest Parity
CPMI	Committee on Payments and Market Infrastructures
CRA	Credit Rating Agency
CRD	EU Capital Requirements Directive
CRR	Capital Requirements Regulation EU
CSD	Central Securities Depository
DFAST	Dodd-Frank Act Stress Test
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECL	Expected Credit Loss
ECON	Economic and Monetary Affairs
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Agencies
ESMA	European Securities and Monetary Authority
ESRB	European Systemic Risk Board
EU	European Union
FAQ	Frequently Asked Questions
FCA	Financial Conduct Authority
FDIC	Federal Deposit Insurance Corporation
FED	Board of Governors of the Federal Reserve System
FINMA	Swiss Financial Market Supervisory Authority
FPC	Financial Policy Committee
FRTB	Fundamental Review of the Trading Book
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSI	Financial Stability Institute
FSOC	Financial Stability Oversight Council
FSR	Financial Stability Report
FSSA	Financial System Stability Assessment
GAO	Government Accountability Office
G-SIB	Global Systemically Important Bank
G-SII	Global Systemically Important Insurer
HKMA	Hong Kong Monetary Authority
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICIS	Islamic Collective Investment Schemes
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IHC	Insurance Holding Company
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPS	Institutional Protection Scheme
IRB	Internal Ratings-Based
KIID	Key Investor Information Document
KYC	Know-Your-Customer
LCR	Liquidity Coverage Ratio
LM-2	Sound Systems and Controls for Liquidity Risk Management
LTI	Loan to Income Ratio
MAS	Monetary Authority of Singapore
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
O&D	Options and Discretion
OFR	Office of Financial Research
PRA	Prudential Regulation Authority
PRIIP	Packaged Retail And Insurance-Based Investment Product
PSD2	Payment Service Directive
Q&A	Questions and Answers
RBC	Risk-Based Capital
RBI	Reserve Bank of India
RRP	Recovery and Resolution Plan
SA-CCR	Standardized Approach For Counterparty Credit Risk
SEC	U.S. Securities and Exchange Commission
SNB	Swiss National Bank
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
TFFT	Task Force on Financial Technology
TLAC	Total Loss-Absorbing Capacity
VIX	Volatility Index