



Annual Regulation Outlook 2017

Design and Layout:

Marketing and Communication Department
Management Solutions

Photographs:

Management Solutions' picture library,
Fotolia

© Management Solutions 2018

All rights reserved. This publication may not be reproduced, distributed, publicly released or transformed, wholly or in part, freely or onerously, using any means or methods, without the prior written consent of Management Solutions. The contents of this publication are provided for information purposes only. Management Solutions does not accept any liability for the use that might be made of this information by third parties. The use of this material by anyone without the express authorization of Management Solutions is forbidden.

Annual Regulation Outlook 2017

The Annual Regulation Outlook 2017 highlights the most relevant standards and rules issued by those financial regulatory bodies monitored by the R&D Area at global, European and local level during the last year.

The objective of this Outlook is to provide an overview of the last and most relevant regulatory developments. Therefore, this document does not include all standards and rules published during 2017, but only those that are considered most relevant by interest in the financial sector.

Table of contents



Main publications – Global level

4



Main publications – European level

6



Main publications – Local level

8

Main publications

Global publications

*The BCBS published **Basel III: finalising post-crisis reforms, final standards on the regulatory treatment of provisions, and Final Guidelines on NPE and forbearance**. Furthermore, the FSB updated the list of G-SIBs and published **Principles on the internal TLAC of G-SIBs***

Outstanding publications



Finalising the Basel III framework

- The BCBS published **Basel III: finalising post-crisis reforms**, which reviews to the standardised approach (SA) and the internal ratings-based approach (IRB) for credit risk, the credit valuation adjustment (CVA) risk framework, the operational risk framework, the leverage ratio (LR) framework and introduces output floors.
- Further, the BCBS released the results of its latest **Basel III monitoring report**. In parallel with this report, the EBA conducted its twelfth **report of the CRD IV-CRR / Basel III** monitoring exercise on the European banking system.
- The BCBS published a **consultative document on a simplified alternative to the standardised approach for market risk capital requirements**, proposing to simplify for certain banks the sensitivities-based method (SbM), which is the primary component of the SA under the FRTB.



Regulatory treatment of provisions

- The BCBS published **final standards retaining the current regulatory treatment of accounting provisions** for an interim period, and setting out requirements for those transitional arrangements that jurisdictions may choose to implement for mitigating the impact of expected credit losses (ECL) approaches on regulatory capital.



NPE and forbearance

- The BCBS published **Final Guidelines on the definitions of non-performing exposures (NPE) and forbearance**, which are aimed to harmonise both terms. These concepts have not been designed to replace those used for accounting purposes or under the IRB approach or the SA for credit risk, but to be used for other purposes (e.g. supervisory asset quality monitoring, Pillar 3 disclosure on asset quality).



G-SIBs

- The FSB updated the **2017 list of G-SIBs**. The 30 institutions identified as G-SIBs in 2017 remain the same as those on the 2016 list. Nonetheless, there are changes in the allocation across buckets of the institutions.
- In addition, the FSB published **Principles on the internal TLAC of G-SIBs**, which aim to assist home and host authorities in the implementation of internal TLAC mechanisms consistent with the TLAC standard.
- Furthermore, the BCBS published a **consultative document on a revised assessment methodology for the identification of G-SIBs**.



Step-in risk

- The BCBS published **Guidelines on the identification and management of step-in risk** which is defined as the risk that a bank decides to provide financial support to an unconsolidated entity that is facing stress, in the absence of, or in excess of, any contractual obligations to provide such support.



Main publications

European publications

The EBA published a document on the impact assessment of the Basel III reform package and an Opinion on transitional arrangements and credit risk adjustments due to the introduction of IFRS 9, among others. Furthermore, the ECB published Guides on the TRIM, ICAAP, ILAAP or NPL, among others

Outstanding publications



Reform package of Basel III

- The EBA published a document on the **cumulative impact assessment of the Basel III reform package** which provides a summary of the results of an analysis carried out by the EBA to assess the impact of the December 2017 package of revisions on credit and operational risk approaches, as well as, on the LR estimation processes.



Endorsement of IFRS 9

- Following the proposal by the European Commission (EC) regarding the introduction of a transitional arrangement to mitigate the effect of IFRS 9 on CET 1 capital, the EBA published an **Opinion on transitional arrangements and credit risk adjustments due to the introduction of IFRS 9**, proposing several recommendations on how it should be set out.
- The EBA launched a **consultation on Guidelines on disclosure under transitional mechanisms** for mitigating the impact of IFRS 9 on own funds, which specifies a uniform disclosure format to be applied by institutions in order to increase consistency and comparability of information disclosed.



SSM

- The ECB published several guides addressed to SSM significant institutions. In particular, the ECB issued a **Guide on the Targeted Review of Internal Models (TRIM)**, and **Guides on ICAAP and ILAAP**.
- Further, the ECB published two final guides addressed to SSM significant institutions. In particular, a **Guide to fit and proper assessments of members of the management bodies** and **Guidance on leveraged transactions**.



Credit risk

- The EBA published **Final Guidelines on PD and LGD estimation and the treatment of defaulted exposures**, focusing on the definitions and modelling techniques used in the estimation of risk parameters for both non-defaulted (PD and LGD) and defaulted exposures (ELBE and LGD-in defaulted) in order to align its terminology and definitions.
- The EBA published **Final Guidelines on credit risk management practices and accounting for ECL**, with the objective of harmonizing the criteria established by the BCBS in relation to the application of ECL accounting models.
- Regarding counterparty credit risk, the ECB published a **Guide on materiality assessment of extensions and changes of internal models under the internal model method (IMM) and the advanced method for credit valuation adjustment risk (A-CVA)**.



NPL

- The ECB published **Final Guidance to banks on NPLs** with the objective of developing a consistent supervisory approach regarding the identification, measurement, management and write-off of NPLs.
- Further, the ECB launched a **consultation on the draft addendum to its guidance to banks on NPLs**, specifying quantitative supervisory expectations concerning the minimum levels of prudential provisions expected for NPEs.

Main publications

European publications

Further, the EBA published the 2018 Stress Test Final Methodology, the roadmap to update the SREP and the Final Guidelines on internal governance, among others. The EC published a Delegated Regulation supplementing PSD2 and a Proposal for a Regulation amending EMIR

Outstanding publications



Stress test

- The EBA published the **2018 Stress Test Final Methodology**, describing how banks should calculate the stress impact of the common scenarios and also setting restrictions for bottom-up calculations.
- The ECB published the **final results of the supervisory stress test consisting on a sensitivity analysis of the banking book (IRRBB)**, with a focus on interest rate changes. Findings show that, on average, banks are equipped to cope with changes in the interest rate environment.



SREP

- With regard to the SREP framework, the EBA published a **roadmap** outlining its plans to update the SREP framework in 2017-2018; and **Final Guidelines on the assessment of the information and communication (ICT) risk** under the SREP.



MREL

- The Single Resolution Board (SRB) issued its **MREL approach in 2016**, which consists of informative targets that will enable banks to prepare for their future MREL requirements.



Governance

- The EBA published **Final Guidelines on internal governance** that update GL 44. These Guidelines address, among others, the role and composition of the management body and its committees, the governance framework, the risk culture and business conduct, etc.
- Further, the EBA and the ESMA published **Final Guidelines on the assessment of the suitability of members of the management body and key function holders**.



Reporting and disclosure

- The ECB published a **consultative document on amendments to the ECB Regulation on FINREP to adapt the reporting framework to IFRS 9**.
- The EBA published a **Consultation Paper on ITS amending the EC Implementing Regulation 650/2014 on supervisory disclosure** in order to introduce certain recent changes to the EU legal framework.
- The EBA published **Final ITS amending Regulation on supervisory reporting** with regard to sovereign exposures, operational risk, and additional liquidity monitoring metrics..
- The EBA also published **Final Guidelines on the liquidity coverage ratio (LCR) disclosures**.



PSD2

- The EC published a **Delegated Regulation supplementing PSD2 with regard to RTS for strong customer authentication (SCA) and common and secure open standards of communication** aiming at spelling out how the SCA should be applied.
- In addition, the EBA published **Final RTS on central contact points and Final Guidelines on the security measures for operational and security risks of payment services**, which are addressed to payment services providers (PSPs).



MiFID II

- The ESMA published **Final Guidelines on product governance under MiFID II**, addressing the target market assessment by manufacturers and distributors of investment products.



EMIR

- The EC approved a **Proposal for a Regulation amending EMIR**. The proposed amendments are related to the clearing obligation, central counterparties transparency, the reporting obligation, quality of data, etc.

Main publications

Local publications

In Spain, the publication of the Circular 4/2017 on rules for public and supervisory financial reporting and models of financial statements by the BdE stands out; in USA the Fed issued a rule on amendments to the capital plan and stress testing; and in UK the BoE published the results of the 2017 stress test

Outstanding publications



Spain

- The BdE published the **Circular 4/2017 on rules for public and supervisory financial reporting and models of financial statements** aimed to adapt the accounting framework of credit institutions to IFRS 9 and IFRS 15.
- The Spanish Government published the **Proyecto de Ley Orgánica de Protección de Datos**, which will adapt the Spanish legal system to the General Data Protection Regulation (GDPR).
- The BdE published the **Circular 1/2017 amending Circular 1/2013 on the Risk Information Centre (CIR)**, which aims to adapt the CIR to the information requirements established by AnaCredit. This Circular introduces certain amendments regarding reporting agents and the reported entities, and also in relation to the information to be reported to the BdE.



USA

- The Fed published a **Final Rule on amendments to the capital plan and stress testing framework**. Moreover, the Fed issued the **2017 CCAR and DFAST scenarios and instructions**.
- The US Treasury published a **Report recommending regulatory changes** to the US Congress and the agencies that could reduce regulatory costs. Further, the Fed published the 2017 **CCAR and DFAST** results.
- The Office of the Comptroller of the Currency (OCC) published the **Bulletin 2017- 43 on new, modified, or expanded bank products and services** in order to adapt bank's risk management framework to new technology.



UK

- The Bank of England (BoE) published the **results of the 2017 stress test of the UK banking system** that have been assessed against a biennial exploratory scenario (BES) and an annual cyclical scenario (ACS).
- The BoE published an **update to its approach to resolution and a Consultation Paper on MREL within groups**; and the Prudential Regulation Authority (PRA) published a **Supervisory Statement (SS) on MREL**.
- The PRA published a **Consultation Paper setting out proposed adjustments to the Pillar 2A capital framework**.
- The Financial Policy Committee (FPC) published a **Consultation Paper on changes to the UK LR framework**.
- The PRA published a **Consultation Paper on Pillar 2A capital requirements and disclosure**, which aims at setting Pillar 2A capital as a requirement, rather than as guidance, and introducing the term Total Capital Requirement (TCR), among other aspects.
- The PRA published a **Consultation Paper that proposes to update the Supervisory Statement 16/16**, setting out the PRA's proposed expectations with regard to the relationship between MREL and buffer requirements, as well as the consequences of not meeting these requirements.

Privacy policy

© GMS Management Solutions, S.L., 2018. All rights reserved. The use, reproduction, distribution, public communication and modification of this publication, in full or in part, remains prohibited without the prior written consent of GMS Management Solutions, S.L.

The information contained on this publication is of a general nature and does not constitute a professional opinion or an advisory service. The data used in this publication come from public sources. GMS Management Solutions, SL assumes no liability for the veracity or accuracy of such data.

Design and Layout
Marketing and Communication Department
Management Solutions – Spain

© Management Solutions. 2018
All rights reserved

www.managementolutions.com