



**Regulatory developments  
in October 2017**

Key regulatory developments during  
the October 2017

**EU**      **ECB**      **The ECB published a [Report](#) on financial structures, showing ongoing consolidation in the banking sector**

The ECB published a [Report](#) on financial structures that shows ongoing consolidation in the banking sector. the report found that the number of credit institutions declined further in 2016, bringing the cumulative decline since 2008 to 25%. Euro area banks' median CET1 ratio rose from 14.4% in 2015 to 15.4% in 2016, the financial sector expanded in 2016, reflecting growth in both banks' and non-banks' assets, while assets in the investment fund sector grew by 7% in 2016.

**EU**      **EBA**      **The EBA [announced](#) the final timeline for the 2018 EU-wide stress test, due to take place at the beginning of 2018**

The EBA [announced](#) the final timeline for the 2018 EU-wide stress test, due to take place at the beginning of 2018, with results to be published by 2 November 2018. the exercise will be launched in January, with first submissions due early-June, second submissions mid-July, and final submissions in October. the final methodology is to be published in November 2017.

**Int'l**   **BIS**      **The Basel Committee on Banking Supervision released the final [guidelines](#) on identification and management of step-in risk**

The Basel Committee on Banking Supervision released final [Guidelines on identification and management of step-in risk](#) with the aim of mitigating the risks that financial distress in shadow banking entities will spill over to banks. the guidelines introduce a tailored approach and do not prescribe an automatic Pillar 1 capital or liquidity charge additional to the existing Basel standards. the BCBS expects the guidelines to be implemented in member jurisdictions by 2020.

**EU**      **ECB**      **The ECB [published](#) its Results of the September 2017 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD)**

The ECB [published](#) its results of the September 2017 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD). the results found little change reported in market liquidity and functioning, little overall change in credit terms for secured funding and OTC derivatives and less favourable non-price credit terms in new or renegotiated OTC derivatives master agreements.

**Int'l**      **ECON**      **The ECON Committee had a [meeting](#) on Regulatory Technical Standards on valuation for the purposes of resolution and on valuation to determine difference in treatment following resolution under Articles 36 and 74 BRRD**

The ECON Committee had a [meeting](#) on draft Regulatory Technical Standards (RTS) on valuation for the purposes of resolution and on valuation to determine difference in treatment following resolution under Articles 36 and 74 of the Bank Recovery and Resolution Directive (BRRD). the draft RTS are intended to promote consistent application of methodologies for valuations in relation to the principles upon which an independent 'valuer' must apply their own judgement and expertise to valuations. Once the commission has adopted the drafts and submitted them to the European Parliament, the scrutiny period starts.

**EU**      **ETIOPA**      **A report is to be issued in 2018 that will cover insurance-based investment products (IBIPs) and personal pension products.**

EIOPA [received](#) a request by the Commission on costs and past performance of IBIPs, personal pension products and Defined Contribution pension schemes. the first Report to be issued in 2018 by will cover insurance-based investment products (IBIPs) and personal pension products. At a later stage, EIOPA will also report on the costs and performance of Defined Contribution occupational pension schemes.

**Int'l**      **BIS**      **The fifth high-level meeting on supervisory priorities in Europe took place at the BIS in Basel on 18-19 October 2017**

The fifth high-level meeting on supervisory priorities in Europe [took place](#) at the BIS in Basel on 18-19 October 2017, where views on prospects for financial stability in Europe and worldwide, a European deposit insurance scheme, harmonisation of the rulebook for banks, and the completion of the post-crisis regulatory reform were discussed.

**Int'l**      **ESMA**      **ESMA [launches](#) key MiFID II and MAR financial instrument reference database**

The European Securities and Markets Authority (ESMA) has today launched the second phase of its Financial Instrument Reference Database (FIRDS). the launch involves providing access to the [database](#) containing the currently available reference data that will eventually enable market participants to identify instruments subject to MAR and MiFID II/MiFIR reference data reporting requirements. This will allow market participants to prepare their reporting systems ahead of the go-live date on 3 January 2018.

**Int'l**      **ESMA**      **Steven Maijoor, Chair of the European Securities and Markets Authority (ESMA), delivered a [speech](#) at ESMA 2017 about the challenges facing European financial markets**

Steven Maijoor, Chair of the European Securities and Markets Authority (ESMA), [spoke](#) on the state of the European financial markets. Particularly in light of strengthening economic recovery, financial innovation, Brexit and Europe's continued heavy reliance on bank financing, Maijoor focussed on developing the Capital Markets Union, especially to protect retail investors, building a strong convergent European supervisory culture and improving ESMA's understanding of trends, risks and vulnerabilities in the financial markets.

**Int'l**      **ESMA**      **ESMA [produces](#) the first overview of EU derivative markets size**

ESMA [produced](#) the first overview of EU derivative markets size. Interest rate derivatives constitute the largest market (EUR 282tn), followed by foreign exchange derivatives (EUR 112tn). Equity, credit and commodity derivatives markets are much smaller (EUR 36tn, EUR 13.8tn and EUR 9.1tn respectively). OTC transactions are predominant on FX, credit and interest rate derivatives markets, whereas there is a slight majority of ETD transactions on equity and commodity derivatives markets.

**Int'l**      **BIS**      **The Basel Committee on Banking Supervision published assessment reports on the implementation of the Liquidity Coverage Ratio**

The Basel Committee on Banking Supervision (BCBS) [published](#) assessment reports on the implementation of the Liquidity Coverage Ratio (LCR) in Australia, Brazil, Canada and Switzerland. The assessments indicated that the LCR regulations in each of these jurisdictions were found to be "Compliant" with the global Basel standards, the highest of the four possible grades.

**EU**      **EBA**      **The EBA [consulted](#) on reporting for resolution plans - to amend the Implementing Technical Standards (ITS) on the information which institutions must provide to resolution authorities for the purpose of drawing up and implementing resolution plans.**

The European Banking Authority launched a consultation to amend the Implementing Technical Standards (ITS) on the information which institutions must provide to resolution authorities for the purpose of drawing up and implementing resolution plans. the amendments have been proposed in light of evolving policy and practices applied by authorities and they aim to deliver efficient and harmonised practices. the consultation runs until 11 December 2017.

**EU**      **EBA**      **ESAs Chairs gave speeches at the Economic and Monetary Affairs Committee (ECON) of the European Parliament.**

The Committee on Economic and Monetary Affairs (ECON) of the European Parliament, held an exchange with the Chairs of the three ESAs, Andrea Enria (EBA), Gabriel Bernardino (EIOPA), and Steven Maijoor (ESMA). the Chairs commented on many issues in their respective sectors (please see statements from the [EBA](#), [ESMA](#) and [EIOPA](#)). Notably, Enria highlighted the progress made in repairing banks' balance sheets and strengthening of their capital positions; Bernardino remarked on EIOPA's work in enhancing supervisory convergence and consumer protection for insurers; and Maijoor focussed on the implementation of MiFID II and Brexit preparations for capital market participants.

**EU**      **EIOPA**      **EIOPA [published](#) guidelines on "execution-only" sales**

EIOPA [published](#) guidelines on "execution-only" sales applying to the sales of insurance-based investment products (IBIPs), defining the products that can be sold under this method. IBIPs with features that are difficult for the customer to understand, or those which don't allow the customer to surrender the product before maturity, will not be eligible for "execution-only" sales.

**EU**      **ESMA**      **ESMA [highlighted](#) importance of LEI for MIFID II/MIFIR compliance**

ESMA [published](#) a briefing on the importance of the Legal Entity Identifier (LEI) for MIFID II/MIFIR compliance. the LEI provides a unique identifier for all entities participating in financial transactions that is crucial to identifying exposure for risk management, creating transparency and conducting market surveillance.

**EU**            **ESMA**        **ESMA [issued](#) Q&As on MiFID II implementation for post-trading issues regarding the implementation of the Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR).**

ESMA [issued](#) Q&As on MiFID II implementation for post-trading issues. the document clarified that a trading venue's rules should provide that, in order to enter into trades on behalf of clients on the venue, a venue member or participant must be satisfied that such clients have direct or indirect clearing arrangements to become counterparty to the cleared transaction resulting from that trade.

**Int'l**            **FSB**            **FSB [published](#) a progress report on implementation of IBOR reforms**

The FSB published a [progress report](#) on implementation of the FSB's 2014 recommendations to reform major interest rate benchmarks such as key interbank offered rates (IBORs). the report concluded that IBOR administrators have continued to take important steps to implement the FSB's recommendations, including those to adjust methodologies used to calculate the benchmark rates. However, in the case of some IBORs, such as LIBOR and EURIBOR, underlying reference transactions in some currencies-tenor combinations are scarce and therefore submissions remain based, necessarily, on a mixture of factors including transactions and judgement by submitters.

**EU**            **ECB**            **The European Commission [adopted](#) an Opinion in support of the recommendation of the European Central Bank for a Decision to amend Article 22 the Statute of the European System of Central Banks (ESCB) and of the European Central Bank.**

The European Commission [adopted](#) an Opinion in support of the recommendation of the European Central Bank for a Decision to amend Article 22 the Statute of the European System of Central Banks (ESCB) and of the European Central Bank. the Commission is in favour to allow the ECB to regulate central counterparties (CCPs) for monetary policy purposes, and, with reference to the review of the European Market Infrastructure Regulation, views that this decision would enable the ECB to "perform fully the responsibilities being granted to the central banks of issue under the aforementioned Commission proposal as concerns clearing systems for financial instruments denominated in euro".

**EU**                      **ECB**                      **ECB [consults](#) on supervisory expectations for NPL provisions**

The ECB [consulted](#) on supplementary guidance on the treatment of non-performing loans, to apply to all exposures newly classified as non-performing in line with the EBA's definition as of 1 January 2018. The new guidance would require banks to provide full coverage for the unsecured portion of new NPLs after two years at the latest, and after seven years for secured portions of loans. The ECB also said that "many banks" had made "notable progress" with their NPL reduction strategies, but that "some banks still need to improve."

**EU**                      **EBA**                      **The EBA [published](#) its work programme for 2018**

The EBA [published](#) its work programme for activities in 2018 as well as a multiannual work programme highlighting key strategic areas of work from 2018 to 2021. The focus of the EBA in 2018 will include CRR/CRD and BRRD developments and a review of the consequences of the BCBS's revision of the trading book; enhancing the EBA's role as a data hub for banks in the EU through the expansion of its data infrastructure and analytical capabilities; monitoring and evaluating the impact of Brexit; evaluating and contributing to the Fintech regulatory perimeter; fostering proportionality in relation to policy developments; and contributing to tackling NPLs in Europe.

**EU**                      **EBA**                      **The EBA [published](#) its latest Risk Dashboard**

The EBA [published](#) its latest Risk Dashboard summarising the main risks and vulnerabilities in the EU banking sector in Q2 2017. It stated that "progress is positive", highlighting in particular improving quality in banks' loan portfolios and an increase in average RoE. However, the EBA raised concerns regarding heightened risk on asset quality and sustainable profitability, noting that several improvements, such as a reduction in the non-performing loans ratio and a peak in the CET1 ratio could be due to one-off causes.

**Int'l**                      **FSB**                      **The FSB had a [plenary meeting](#), where it discussed its 2018 work plan**

The FSB had a [plenary meeting](#), where it discussed its 2018 work plan, stating it will evaluate the effects of reforms on financial intermediation and infrastructure investment financing, and continue to address misconduct risks. The FSB will also publish the results of its cyber-security regulation stocktake this week. At the same time, the FSB confirmed Mark Carney would remain as chairman for another year.

**Int'l**                      **FSB**                      **The FSB [published](#) a consultation on Unique Product Identifier governance**

The FSB consulted on proposed [Governance arrangements for the unique product identifier \(UPI\)](#). the consultation set out proposals for the governance arrangements for a global UPI, as a key harmonized identifier designed to facilitate effective aggregation of transaction reports about over-the-counter (OTC) derivatives markets. the consultation document identified key criteria and functions for the UPI governance arrangements for consultation and asked for specific feedback on certain issues relating to UPI service provider(s), cost recovery and fee models, and the reference data library that will underlie the UPI system.

**Int'l**                      **FSB**                      **IOSCO [launched](#) its World Investor Week 2017**

IOSCO [launched](#) its first World Investor Week, a week-long campaign to promote greater investor education and protection worldwide that will run from 2 October through 8 October. Throughout the week, securities regulators and other stakeholders from more than 70 countries across the globe are providing a variety of activities to increase the awareness of investor education and protection in their own jurisdictions. Activities vary from publications of investor-focused communications, to the organization of workshops and conferences, to local/national investor education campaigns and contests.

**Int'l**                      **BCBS**                      **The Basel Committee for Banking Supervision (BCBS) [discussed](#) the net stable funding ratio (NSFR) standard and agreed to allow national discretion for the NSFR's treatment of derivative liabilities**

The BCBS announced that it had decided to allow national authorities the discretion under the Net Stable Funding Ratio (NSFR) framework to reduce the Required Stable Funding (RSF) for gross derivative liabilities to 5%. Under the NSFR framework, the RSF for gross derivative liabilities is set at 20%, but feedback from the industry indicated that this would potentially be too punitive for many banks. the EU's implementation of the NSFR in the CRD5/CRR2 banking package, which is still under negotiation, had set a three-year initial and extendable period where the RSF for gross derivative liabilities would be 10%.



## This quarter

### List of regulatory publications and events expected this quarter

Bank prudential framework				Due Date
	EU	ECB	Official Opinion on CRD V/CRR II	H2 2017
	EU	EBA	EU27 to vote on EBA relocation	20 Nov
[New]	EU	EBA	The EBA's stress testing final methodology to be published	Nov 2017
	EU	EBA	Consultation on revisions to the SREP framework	Dec 2017
[New]	EU	European Commission	Revised framework for investment firms	Q1 2018
[New]	EU	European Commission	Framework for covered bonds	Q1 2018
Insurance prudential framework				
	EU	EIOPA	Final advice to the EC on certain aspects of the Solvency Capital Requirement	28 Feb 2018
	Int'l	IAIS	Second consultation on the first International Capital Standards for insurers	Mid-2018
Conduct and competition				
Payments, technology and innovation				
	EU	EU Commission	RTS on Strong Customer Authentication and Common and Secure Communication under PSD2	November 2017
	EU	EU Commission	FinTech Action Plan	Q1 2018
[New]	EU	European Commission	Action Plan on sustainable finance with regulatory measures	Q1 2018
[New]	EU	European Commission	Proposal for EU framework on crowd and peer to peer finance	Q1 2018
Economic and Monetary Union				
[New]	EU	European Commission	Proposal on secondary markets for non-performing loans	Q1 2018
[New]	EU	European Commission	Protection of secured creditors from business borrowers' default	Q1 2018
[New]	EU	European Commission	Enabling framework for Sovereign Bond-backed Securities	Q1 2018
Capital market structures				
[New]	EU	European Commission	Proposal on cross-border distribution of AIFMD – UCITS	Q1 2018

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