



**Regulatory developments
in November and December 2017**
Key regulatory developments
during the November and December 2017

EU **EBA** **Standardised data templates
as a step to reduce NPLs**

The European Banking Authority (EBA) [published](#) on December, 14 data templates that will create the foundation for non-performing loans (NPL) transactions across the EU. The templates will provide a common EU data set for the screening, financial due diligence and valuation during NPL transactions. The EBA NPL transaction templates provide data loan by loan. an extended use of the templates is expected to widen the investor base, lower entry barriers to potential investors, improve data quality and availability, support price discovery and facilitate the development of the NPL secondary market.

EU **EBA** **Publications related to the Revised
Payment Services Directive (PSD2)**

First, it [published](#) the final draft regulatory technical standards (RTS) and implementing technical standards (ITS) on the future EBA electronic central register. The standards specify the procedures the national competent authorities should follow when providing information to the EBA, and specify the latter's requirements for the provision and publishing of such information. The ITS clarify which type of information should be provided and published in the register. The EBA also [published](#) the final draft RTS on central contact points, which specify the criteria for determining when the appointment of a central contact point in a host member State is appropriate and the functions that these contact points should fulfil. Finally, the EBA [released](#) its final guidelines on security measures for operational and security risks of payments to be implemented by payment service providers.

EU **ECB** **Guide on the assessment
methodology (EGAM) for
the internal model method
and the advanced CVA capital
charge for counterparty credit risk**

The European Central Bank (ECB) [published](#) on December, 15 the draft guide on the assessment methodology (EGAM) for the internal model method and the advanced CVA capital charge for counterparty credit risk. The draft guide indicates how ECB Banking Supervision intends to assess internal models for counterparty credit risk at directly supervised banks. The ECB asks for industry feedback by 31 March 2018

EU **ECB** **[Statement of supervisory priorities
for 2018 and an accompanying
presentation with details of the
2017 SREP exercise and the
approach for the 2018 stress test.](#)**

Priorities for the ECB in 2018 will include business models and profitability drivers, credit risk, risk management, and activities comprising multiple risk dimensions. 2018 stress tests will follow the same approach as in 2016, and results of the 2018 stress test will inform the 2018 SREP, to be applied in 2019.

EU **EK** **[Speech](#) on “Greening finance for sustainable business”**

Vice-President for the Euro and Social Dialogue, Valdis Dombrovskis said the European Commission (EC) established a High-Level Expert Group on Sustainable Finance, which will present its final recommendations in January 2018. The group is expected to propose to integrate sustainability factors into investment mandates. He also said that investors need a common language and classification system for what is considered green and sustainable. To continue this discussion, the EC will be organising a high level conference on 22 March next year focused on the role of financial services in the transition to a sustainable economy, where the EC will present its Action Plan on Sustainable Finance.

EU **EIOPA** **The results of the 2017 Occupational Pensions Stress test have been published**

EIOPA [published](#) the results of the 2017 Occupational Pensions Stress tests, finding that European Institutions for Occupational Retirement Provision (IORPs) providing defined benefits and hybrid pension schemes have, in aggregate, insufficient assets to cover their liabilities, that the Sponsors of over a quarter of IORPs might face challenges meeting their obligations, and that these vulnerabilities could spill-over to the real economy either through the adverse impact on sponsors and/or on beneficiaries through benefit reductions

EU **EIOPA** **Recommendations to improve consumer protection in the unit-linked market**

EIOPA [issued](#) recommendations to improve consumer protection in the unit-linked market, stating that national competent authorities (NCAs) will have to issue clarifications to insurers on how to apply the legal principles set out in the Insurance Distribution Directive (IDD) and the Solvency II directive that apply to conflicts of interest resulting from monetary incentives received from asset managers and to the management of unit-linked products.*

EU **ESMA** **Risk Dashboard No. 4 2017 published**

ESMA issued the [Risk Dashboard No.4 2017](#), covering risks in the EU's securities markets for Q3 2017. The EU financial markets remained relatively calm, although reactive to global geopolitical events. This was reflected in increased market expectations of the near-term volatility following global political tensions. While market and credit risks remain very high, ESMA's outlook for credit risk has declined reflecting improvements in risk indicators.

EU **ESMA** **MiFID/MAR Transitional
Transparency Calculations**

ESMA [published](#) the MiFID II/MiFIR transitional transparency calculations (TTC) for equity and bond instruments. The TTC for all asset classes, applicable from 3 January 2018, are now available to market participants, infrastructures and authorities as required under the new regulatory framework. Beginning in January 2018, ESMA will publish reference data, transparency calculations and double volume cap information on a regular basis.

EU **EK** **Roadmap for deepening Europe's
Economic and Monetary Union**

The European Commission [published](#) a roadmap for deepening Europe's Economic and Monetary Union. In 2018, the Commission plans to adopt all of the remaining proposals on the Banking Union and to propose an enabling framework for European Sovereign Bond-backed securities for the euro area. By mid-2019, it expects to have a fully functional backstop to the SRF, to implement EDIS, and to finalise all pending legislative initiatives for the Capital Markets Union.

EU **ECB** **Approval of major projects in
the field of large-value payments
and collateral management**

The Governing Council of the European Central Bank (ECB) on December 6, approved the [consolidation](#) of the Eurosystem's real-time gross settlement system TARGET2 and the securities settlement platform TARGET2-Securities (T2S), and the development of a Eurosystem Collateral Management System. Both projects will modernise existing systems and increase overall efficiency. The consolidated system is expected to be launched in November 2021.

EU **ESA** **Draft technical standards on
money laundering and terrorist
financing risks**

The European Supervisory Authorities (the EBA, ESMA and EIOPA) [published](#) draft regulatory technical standards (RTS) to strengthen group-wide management of money laundering and terrorist financing (ML/TF) risks, with a focus on groups that have branches, or majority-owned subsidiaries, based in third countries whose laws do not permit the application of group-wide policies and procedures on anti-money laundering and countering the financing of terrorism (AML/CTF).

EU **EBA** **Slavka Eley, Head of the Supervisory Convergence Unit, spoke at the EBF Cloud Banking Conference in Brussels**

Slavka Eley, Head of Supervisory Convergence Unit at the EBA, gave a keynote [speech](#) at the first Cloud Banking Conference organised by the European Banking Federation. She highlighted how the rise of FinTech has changed the banking landscape, in particular with regards to customer interaction, internal processes and relationships between incumbents and new entrants. On cloud computing more specifically, although the technology can bring significant benefits to the industry, it also presents challenges in terms of data protection, management and location, third-party dependencies and supervision.

EU **SRB** **Multi-Annual Programming document, including its Work Programme 2018**

The SRB [published](#) its first Multi-Annual Programming document, including its Work Programme 2018. In 2018, the SRB plans to set binding MREL targets, to develop a policy on removing impediments to resolvability, and to alter the timeline for drafting annual resolution plans. By 2020, the SRB expects to develop complete resolution plans for all banking groups in its remit.

EU **EBA** **Impact assessment of finalised Basel III agreement**

The EBA [published](#) a cumulative impact assessment of the finalised Basel III framework. It found a 12.9% increase in total Tier 1 minimum required capital (MRC) in weighted average terms for the EU sample under the revised framework. It further found that the aggregate output floor is the main driver of the MRC increase. The impact assessment relies upon data from December 2015.

Mezinár. **IAIS** **IAIS published Interim Public Consultation on an Activities Based Approach**

IAIS [published](#) Interim Public Consultation on an Activities Based Approach (ABA), setting out prior work done on the subject as well as well as the approach the IAIS intends to adopt to derive ABA policy measures, including the identification of potential systemic activities, existing measures within the IAIS's policy framework, and the identification of residual risks that would demand additional policy measures. The IAIS intends to publish findings at the end of 2018.

EU **ECB** **The ECB [published](#) a [summary](#) of the Banking Industry Dialogue held on 8 November 2017 in Frankfurt**

The ECB [published](#) a summary of the Banking Industry Dialogue held on 8 November 2017 in Frankfurt, which gathered senior ECB officials and representatives of 17 European banks. FinTech was seen as an opportunity, mainly for larger banks, to benefit from technological improvements, although the entry of big technology companies could present competition challenges. Banks also discussed the need for cost cutting and business model adjustments, and the need to invest in IT to remain competitive in a context of digitalisation of financial services. IT and cybersecurity risks were considered by some participants as the largest threat to financial stability at the moment. Banks also raised regulatory concerns, including on calibration of Basel III, the reform of benchmark overnight interest rates, data sharing in PSD2, and more generally the need to ensure a level playing field between banks and other financial services providers.

EU **ECB** **The ECB [published](#) the systemic risk indicators for the Euro area**

The ECB announced that systemic stress indicators for the Euro area have remained low over the past six months due to economic growth and lower fiscal and external imbalances, according to its latest Financial Stability Review. However, the review also found that the risk of a repricing of global risk premia remains significant, and that Euro area banks still face profitability challenges. In addition, it found that high private and public debt could give rise to debt sustainability concerns in some countries given renewed political uncertainty.

EU **EC** **The European Commission (EC) [announced](#) a public consultation on fitness check on supervisory reporting**

The EC announced a public consultation on a fitness check on supervisory reporting to gather evidence on the cost of compliance with existing EU-level supervisory reporting requirements. It aims to collect concrete quantitative evidence of any investments required to meet supervisory reporting requirements, and to gather specific examples of inconsistent, redundant or duplicative supervisory reporting requirements. The consultation seeks feedback on ways in which supervisory reporting could be simplified and streamlined.

EU **FSB** **The FSB [consulted](#) on proposed guidance to support resolution planning and promote resolvability**

The FSB consulted on principles on bail-in execution, as a follow-up to its report on Key Attributes of Effective Resolution Regimes for Financial Institutions. The document sets out the principles for operational actions and processes to execute a bail-in, covering valuation, exchange mechanics, securities law and securities exchange requirements, governance and communications. *

EU **EBA** **EBA published final Guidelines on the estimation of risk parameters under the IRB Approach**

The European Banking Authority (EBA) [published](#) its final Guidelines on the estimation of risk parameters for non-defaulted exposures, and on the treatment of defaulted exposures under the advanced internal ratings-based (IRB) approach. These Guidelines aim to restore market participants' trust in internal models by reducing the unjustified variability in their outcomes, ensuring comparability of risk estimates while at the same time preserving risk sensitivity of capital requirements.

EU **EBA** **EBA published its third annual Report on the convergence of supervisory practices in the EU**

The EBA [published](#) its third annual Report on the convergence of supervisory practices across the EU. The Report reviews consistency in the application of the Supervisory Review and Evaluation Process (SREP). The report highlights a number of remaining challenges in converging capital adequacy assessments and determining institution-specific additional own funds requirements (P2R). In particular, it observes the different approaches in the use of the outcomes for banks' own internal capital adequacy assessment process, disparity of risk taxonomies, and differences in the clarity of the risk-by-risk determination of P2R, as well as the use of P2R for macroprudential purposes. Further progress on convergence will be supported by ongoing policy work such as adjustments to the SREP framework as well as upcoming revisions to the Pillar 2 framework in the CRR/CRD.

EU **ECB** **Sabine Lautenschläger, Member of the Executive Board of the ECB, spoke on the big challenges to the European banking sector at the IIF European Chief Risk Officer Forum**

Sabine Lautenschläger [spoke](#) about the different risks to the European banking sector. She covered three main areas: tackling non-performing loans (NPLs), Brexit and internal models. She outlined the ECB's assessment of banks' strategy to reduce non-performing loans. In relation to Brexit, she noted that the provision for the continuity of contracts to existing customers must be factored in firms' contingency plans. As part of the targeted review of internal models (TRIM), the ECB will also begin to assess internal models that cover low-default portfolios from mid-2018 to 2019.

EU **ECB** **Danièle Nouy, Chair of the Supervisory Board of the ECB spoke on the Progress and developments in European banking supervision**

Danièle Nouy, Chair of the Supervisory Board of the ECB, [spoke](#) on the Progress and developments in European banking supervision. In particular, she emphasized the important challenge banks face in resolving NPL problems, and reiterated the ECB's firm supervisory expectations for banks to have adequate provisions in place.

EU **SRB** **The Single Resolution Board (SRB) organised the sixth Industry Dialogue in Brussels on 21 November 2017**

The Single Resolution Board (SRB) [organised](#) the sixth Industry Dialogue in Brussels, where banking federations, members of national resolution authorities, the European Commission, the European Parliament and the European Central Bank covered the topics of resolution planning, Minimum Requirements for own funds and Eligible Liabilities (MREL), and critical functions and administrative contributions.

EU **EIOPA** **Gabriel Bernardino spoke on the subject of "Insurance and Pensions Reloaded: a Game Changer" and a common supervisory culture at EIOPA's 7th annual conference**

Gabriel Bernardino [spoke](#) at EIOPA's annual conference about maintaining sound regulation in an evolving landscape, supervisory convergence and the establishing of a common European supervisory culture that reinforces consumer protection in a digital age and preserves stability in an uncertain world. He also announced that a discussion paper on the need for a harmonised insurance compensation scheme across the EU would be released in the near future.

Mezinár. **FSB** **FSB [released](#) a statement on identification of global systemically important insurers and published the 2017 list of Global systemically important banks (G-SIBs)**

The Financial Stability Board (FSB) [released](#) a statement on the identification of global systemically important insurers (G-SIIs). The FSB and the International Association of Insurance Supervisors (IAIS) decided not to publish a new list of G-SIIs, although it said the policy measures set out in 2016 will continue to apply to insurers named on the 2016 list. In November 2018, the FSB will review the progress made by the IAIS in developing an Activities-Based Approach to systemic risk in the insurance sector, and the IAIS will continue to collect data for the G-SII identification process in the meantime. The FSB also [published](#) the 2017 list of Global systemically important banks (G-SIBs). The updated G-SIB list sees one bank added (Royal Bank of Canada), one removed (BPCE), as well as others moving between categories, affecting their G-SIB capital buffers.

EU **EBA** **EBA released its annual assessment of the consistency of internal model outcomes**

The EBA published the results of its latest annual benchmarking exercise on the consistency of internal models used by banks to calculate their capital requirements, looking at credit and market risks. While the majority of credit risk-weighted asset variations were found to be the result of differences in risk fundamentals (consistent with previous exercises), the EBA said that the exercise confirmed that the definition of default and the treatment of defaulted assets are “key areas of supervisory attention”, and that it expects to finalise new Guidelines on these risk parameters by the end of November. With respect to market risk, the EBA said modelling choices played an important role in the variability of model outputs, and “further investigations” were needed.

EU **EBA** **EBA [published](#) its methodology for the 2018 EU-wide stress test**

The EBA published its final methodology for the 2018 EU-wide stress test, which will be launched in January 2018. The exercise will incorporate IFRS 9 accounting standards and will be primarily focused on the assessment of risk drivers on the solvency of banks, taking into account credit risk, including securitisations, market risk, counterparty credit risk, and operational risk. The stress test will be conducted on the assumption of a static balance sheet with adjustments to incorporate IFRS 9 implementation.

EU **EBA** **EBA [published](#) final guidance on connected clients**

The European Banking Authority published its final Guidelines on the treatment of connected clients (as defined in the Capital Requirements Regulation). These guidelines clarify the requirements to support institutions in identifying all possible interconnections among their clients, in particular when relationships of control or economic dependency lead to a group of clients to be regarded as a single risk. They consider the development in shadow banking and large exposures in the EU and internationally, and replace the 2009 Committee of European Banking Supervisors’ “Guidelines on the implementation of the revised large exposures regime”.

EU **ECB** **Daniele Nouy [spoke](#) of "Forging a European banking market" at the Frankfurt 120 Roundtable**

Daniele Nouy, Chair of the Supervisory Board of the ECB, spoke on the banking union. Her speech highlighted the benefits of supervision and resolution under the banking union, though a third pillar, the European Deposit Insurance Scheme, is still in need of finalisation. She also commented on the importance of further integrating the European banking market to address issues including "overbanking" in the market, which she said could be addressed through mergers, given that "there is a need for consolidation". She concluded on the subject of Brexit, which she said has prompted ECB supervisors "to think further about the structure of cross-border banking groups, and how this affects their resolvability." Because banks might intend to set up investment firms to access the European market from the UK, Nouy also voiced support for European banking supervision of large and systemic investment firms.

EU **ECB** **The ECB [released](#) its Autumn newsletter, covering Brexit, FinTech, and more**

The ECB published its autumn 2017 supervision newsletter, covering a wide range of issues, including non-performing loans (NPLs), low profitability in the banking sector, Brexit, FinTech bank licencing applications, and recovery and resolution planning. On Brexit, the ECB said some aspects of banks' Brexit plans "do not fully meet" its expectations, and that some plans "seem to lean" towards empty shell structures that would be "overly reliant" on group entities in third countries. The ECB also said that dual-hatting arrangements needed to be "thoroughly assessed". For FinTechs, the ECB highlighted its new "guide to the assessment of FinTech bank licence applications", and said it is implementing a Single Supervisory Mechanism-wide FinTech hub to act as a central point of contact for information and questions about FinTech.

EU **ESMA** **ESMA [highlighted](#) ICO risks for investors and firms**

ESMA issued two statements on Initial Coin Offerings (ICOs), one on risks of ICOs for [investors](#) and one on the rules applicable to [firms](#) involved in ICOs. ESMA has observed a rapid growth in ICOs and is concerned that investors may be unaware of the high risks when investing in ICOs, while firms involved in ICOs may conduct their activities without complying with relevant applicable EU legislation.

EU **ESMA** **ESMA [consulted](#) on calculation of derivative positions**

ESMA consulted on future guidelines on the calculation of derivative positions by trade repositories (TRs) authorised in the European Union under the European Market Infrastructure Regulation (EMIR). Divergent and inconsistent approaches to position calculations by TRs hinders the successful aggregation of data, which is required for monitoring systemic risks to financial stability. ESMA proposes to introduce guidelines in order to ensure consistency of position calculations across TRs.

EU **ESMA** **Steven Maijoor [spoke](#) at EFAMA's Investment Management Forum**

Steven Maijoor gave a speech on ESMA's priorities for 2018 focusing on costs and charges, stress testing for funds and supervisory convergence around Brexit. He highlighted that ESMA's opinions on outsourcing – published earlier in the year – do not call into question the delegation model that investment management firms are using, but aim to provide clarity on such elements. Regarding costs and charges, ESMA will deepen its analysis on UCITS funds and, in the longer run, ESMA will extend the analysis to EU alternative investment funds (AIFs) and structured products, such as structured deposits and structured notes.

EU **ESMA** **ESMA [clarified](#) trading obligation for shares under MiFID II**

ESMA clarified the application of the trading obligation for shares under MiFID II via its Q&As. The trading obligation for shares requires investment firms to ensure that transactions in any shares admitted to trading on a regulated market, or traded on a trading venue, take place on one of a variety of specific types of trading venues. ESMA clarified that where investment firms transact in shares as part of a "chain of transmission", they should ensure that the ultimate execution of the trade complies with the overall share trading obligation, including where they have passed the trade on to a non-EEA firm.

EU **Evropská komise** **The Commission [published](#) the RTS on the trading obligation for derivatives under MiFIR specifying the implementation timeline**

The Commission published the RTS on the trading obligation for derivatives under MiFIR specifying the implementation timeline. The trading obligation for interest rate derivatives and CDS will be implemented from the 3 January 2018 for those counterparties who are already subject to the clearing obligation. For counterparties subject to the clearing obligation at a later date, the trading obligation timeline will follow the implementation of the clearing obligation. The RTS is subject to one-month scrutiny period by the European Parliament and Council.

EU **ESMA** **ESMA [published](#) final report on Money Market Funds rules**

ESMA published a final report on the Money Market Funds Regulation (MMFR). The report contains final versions of the technical advice, draft implementing technical standards, and guidelines on stress test scenarios carried out by MMF managers under the MMFR. The key requirements relate to asset liquidity and credit quality, the establishment of a reporting template and stress test scenarios carried out by MMF managers.

EU **EIOPA** **EIOPA [identified](#) a search-for-yield trend in the investment behaviour of investors**

EIOPA identified a search-for-yield trend in the investment behaviour of investors, finding increased exposures towards lower credit rating quality fixed income securities, more illiquid investments, and an increase of the average maturity of the bond portfolios, and stated that as these trends could affect the risk profile of undertakings and the sector as a whole, EIOPA encourages close monitoring of the situation by national authorities.*

EU **ECB** **The ECB [released](#) an occasional paper on European structured finance counterparty networks**

The ECB released an occasional paper on European structured finance counterparty networks. It explores the network between issuers and service providers for asset-backed securities (ABSs) and covered bonds (CBs). Findings point to the importance of the Eurosystem's risk management framework for ABSs and CBs, and support the orientation of recent regulatory efforts at the European level.

EU **EBA** **Introductory statements of Andrea Enria, Chairperson of the EBA and the Joint Committee of the European Supervisory Authorities at the Committee on Economic and Monetary Affairs (ECON) of the European Parliament**

Andrea Enria, chairperson of the EBA and the Joint Committee of the European Supervisory Authorities at the Committee on Economic and Monetary Affairs of the European Parliament made an introductory [statement](#) on October 9. Observations regarding capital positions point to their strengthening, driven by a decrease in risk weighted assets, with the CET1 ratio reaching 14.3% in June 2017. The quality of loan portfolios continued improving: the non-performing loans (NPLs) ratio decreased by 90 basis points since June 2016, to 4.5%.

EU **ESMA** **ESMA [updated](#) benchmarks Q&As on third country issues**

ESMA published updated Questions and Answers on the implementation of the Benchmarks Regulation (BMR). The document particularly clarified that ESMA does not consider that the BMR applies to the provision of benchmarks that are exclusively used outside the EU.

EU **ESMA** **MiFID II: ESMA [consulted](#) on systematic internalisers' quote rules**

ESMA consulted on a proposed amendment to RTS 1 under MiFID II/MiFIR to clarify that systematic internalisers' (SI) quote rules. For equity instruments subject to the minimum tick size regime, ESMA proposes that SI quotes would only be considered to reflect the prevailing market conditions where those quotes reflect the price increments applicable to EU trading venues trading the same instruments.

EU **EBA** **EBA [published](#) an opinion and report on regulatory perimeter issues relating to CRDIV/CRR**

The EBA published an opinion on regulatory perimeter issues relating to CRDIV/CRR, highlighting that the terms 'financial institution' and 'ancillary services undertaking' are prone to inconsistent interpretation across the EU leading to potential divergences in the application of regulatory consolidation rules, and that there is significant variation in the prudential treatment of Other Financial Intermediaries at the national level.

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

EIOPA published guidelines on "execution-only" sales to minimise the risk of consumer detriment and mis-selling, and defining the underlying characteristics of products that may be sold "execution only". Products that have features that are difficult for the customer to understand will not be eligible for sale via "execution only".

EU **ECB** **European Central Bank [published](#) its economic and monetary bulletin**

The ECB published issue 7/2017 of its Economic Bulletin, finding continued expansion in the Euro area, with consumer credit growth gaining momentum and private consumption continuing to increase, remaining a key driver of ongoing economic expansion. However, it noted the Governing Council's conclusion that monetary stimulus remains necessary to support headline inflation, with the asset purchase programme continuing at the monthly pace of €60 billion until the end of December 2017.

EU **IOSCO** **IOSCO [reported](#) on implementation of G20/FSB recommendations to strengthen securities markets**

IOSCO published a report on the implementation of the G20/FSB post-crisis recommendations aimed at strengthening securities markets. The report points to the fact that most responding jurisdictions have taken steps to implement the G20/FSB recommendations and IOSCO guidance in each of the designated areas. Implementation is most advanced with regards to hedge funds, structured products and securitisation, and the oversight of credit rating agencies. Jurisdictions have reported that they have undertaken some work to harmonise and strengthen their rules related to safeguarding the integrity and efficiency of markets.

EU **IAIS** **The IAIS [launched](#) a public consultation on draft revisions to ICPs 8, 15 and 16 and proposed terms related to enterprise risk management for Solvency purposes**

The IAIS launched a consultation on Insurance Core Principles (ICPs) 8 (risk management and internal controls), 15 (investment requirements for solvency purposes) and 16 (enterprise risk management for solvency purposes), the ComFrame material integrated with these ICPs, and the proposed definitions of terms related to Enterprise Risk Management for Solvency Purposes.*

EU **EBA** **The EBA [published](#) final guidance on supervision of significant branches**

The EBA has published final Guidelines on the prudential supervision of significant branches within the EU, to facilitate cooperation and coordination between competent authorities in home and host countries in regards to the supervision of the largest and most systemically important branches. The guidelines re-design the intensification test, introduce branch risk assessments and assessments of recovery plans, and set out to promote additional coordination between home and host authorities. These will apply from 1 January 2018.

EU **EBA** **EBA [announced](#) its final timeline for the 2018 EU-wide stress test**

The EBA [announced](#) the final timeline for the 2018 EU-wide bank stress test. The exercise will be launched in January with three submission dates in early June, mid-July, and late October. Results will be published by 2 November 2018. The final methodology was published in November 2017, and the macroeconomic scenario will be published with the launch of the exercise in January 2018.

EU **EBA** **The EBA [recommended](#) a proportionate approach in coverage of entities in banking group recovery plans**

The EBA [published](#) its final recommendation on the coverage of entities in banking group recovery plans. The recommendation defines common criteria to identify entities that need to be covered in group recovery plans and specifies that the coverage of entities in a group recovery plan be proportional to the relevance of the entities.

EU **EBA** **The EBA launched [consultations](#) to strengthen the Pillar 2 framework**

The EBA [launched](#) consultations to strengthen the Pillar 2 framework. In particular, to review three guidelines aimed at enhancing institutions' risk management and supervisory convergence in the supervisory review and examination process (SREP). The revisions focus on stress testing, particularly its use in setting Pillar 2 Capital guidance (P2G), as well as interest rate risk in the banking book (IRRBB).

EU **EIOPA** **EIOPA published its first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation**

EIOPA [published](#) its first set of advice to the European Commission on the Solvency II Delegated Regulation, proposing simplified calculations in the Solvency Capital Requirement (SCR) standard formula. Specifically, it proposed simplifying calculations by changing lapse and mortality risks, nominating a single credit rating agency, creating a new asset class for non-listed guarantees issued by regional governments, and extending the look-through approach to related undertakings that invest on behalf of the insurer.

Int'l **FSB** **The FSB [looked at](#) financial stability implications of artificial intelligence and machine learning**

The Financial Stability Board (FSB) [published](#) a report on the financial stability implications of the growing use of artificial intelligence (AI) and machine learning in financial services. The report presents the potential risks and opportunities of these technologies for financial markets and institutions, customers and investors, and the overall financial system. Key areas of concern for the FSB include the lack of auditability and interpretability of AI and machine learning, their potential network effects and scalability, and the risks they present in terms of conduct and cybersecurity.

Int'l **IAIS** **The IAIS set out its plans for the Insurance Capital Standard**

The IAIS [published](#) a press release on the ICS, setting out the 2 implementation phases of ICS Version 2.0, a five-year monitoring phase followed by an implementation phase. The ICS will also have mandatory confidential reporting by all Internationally Active Insurance Groups (IAIGs) of a reference ICS, and additional reporting at the option of the group-wide supervisor.*

Int'l **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.

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.

EU **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 **EIOPA** **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 Supervisory Authorities [received](#) a mandate from the European Commission to issue recurrent reports on the cost and performance of retail investment, insurance and pension products. In particular, ESMA will launch a large-scale study assessing the reporting and costs and past performance of retail investment products in consideration of the implementation of MiFID II and PRIIPs, which aim to increase transparency on costs and charges.

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.

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 MIFIDII/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.

This quarter

List of regulatory publications and events expected this quarter

Bank prudential framework				Due Date
EU	EBA	Consultation on revisions to the SREP framework		Dec 2017
EU	European Commission	Revised framework for investment firms		Q1 2018
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				
Int'l	FSB	Final report on strengthening the governance framework to mitigate misconduct risk		Q1 2018
Payments, technology and innovation				
[New]	EU	EU Commission	FinTech Action Plan	Mar 2018
[New]	EU	European Commission	Action Plan on sustainable finance with regulatory measures	Mar 2018
	EU	European Commission	Proposal for EU framework on crowd and peer to peer finance	Q1 2018
Economic and Monetary Union				
	EU	European Commission	Proposal on secondary markets for non-performing loans	Q1 2018
	EU	European Commission	Protection of secured creditors from business borrowers' default	Q1 2018
	EU	European Commission	Enabling framework for Sovereign Bond-backed Securities	Q1 2018
Capital market structures				
	EU	European Commission	Proposal on cross-border distribution of AIFMD – UCITS	Q1 2018

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