



Prudential Regulation Review August 2017

As expected, August was a quiet month as many took time off over the summer period. Even so, there were pockets of noteworthy activity in the regulatory arena. The European Commission set out the process for deciding which country will be the next host of the European Banking Authority (EBA). The EBA and BCBS published documents on FinTech developments and the BIS published a paper on regulatory approaches to enhancing banks' cyber-security networks.

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Capital (including macro-economic issues and stress testing)

Mario Draghi, President of the ECB, spoke [about sustaining openness in a dynamic global economy](#). He stressed the importance of maintaining openness to drive potential output growth, essential in enabling advanced economies to raise their productivity levels. He stated openness had to be fair, and that regulatory convergence, especially in the financial services sector, could protect people from the unintended consequences of openness.

The EBA updated [the list of public sector entities \(PSEs\) that may be treated as regional governments](#), local authorities or central governments for the calculation of capital requirements, in accordance with the EU Capital Requirements Regulation (CRR). The updated list contains three additional Hungarian PSEs.

The EBA updated the data used for the [identification of global systemically important institutions](#). Denmark based Nykredit was removed from the sample, while German Nordlb and Spanish Banco Sabadell were added to the sample of 35 largest institutions in the EU.

The ECB published [consolidated banking data for end-March 2017](#), including an extensive range of indicators on profitability and efficiency, balance sheets, liquidity and funding, asset quality, asset encumbrance, capital adequacy and solvency. The data shows a slight decrease in the number of credit institutions headquartered in the EU, but an increase in their total assets.

The ECB published a [Regulation amending the reporting of supervisory financial information relating to the prudential supervision of credit institutions](#), to take into account the provisions of IFRS 9. The amendments include changes to the templates and instructions regarding reporting of financial information. The scope covers all significant and less significant banks in participating countries, and will cover financial reporting by banks on an individual basis and consolidated financial reporting by banking groups.

The EC adopted an amending [Regulation on the waiver on own funds requirements for certain covered bonds](#). The Regulation makes the waiver permanent by eliminating its review date so that certain covered bond structures can continue to get preferential capital treatment. The qualifying structures are covered bonds collateralised by senior units issued by the French Fonds Communs de Titrisation (mutual securitisation funds) or equivalent securitisation entities.

Conduct of Business (including MiFID)

Margrethe Vestager, EU Commissioner for Competition, spoke on [why global markets need rules](#). Talking about data protection, with new rules coming into play in 2018, she stressed the need for a balance between incentives for innovation by companies and ensuring a fair outcome for customers that need to trust these companies to “use big data to make their lives better”.

ESMA published its first three opinions on [position limits regarding commodity derivatives under MiFID II](#). The opinions agreed with the proposed position limits by the Autorité des Marchés Financiers regarding rapeseed, corn and milling wheat

The EC adopted the RTS under MiFID II establishing a methodology for determining those [package orders for which there is a liquid market](#). The RTS specifies the conditions which determine that there is a liquid market for a package order as a whole, as well as asset-class specific criteria.

The EC consulted on [further reducing barriers to post-trade services under the Capital Markets Union \(CMU\)](#), following the submission of a [report from the European Post-Trade Forum expert group](#). The consultation focuses on two areas of EU and global trends: new technologies and competition in post-trade; and remaining post-trade barriers and solutions to remove them.

Regulatory perimeter

[The EBA published a discussion paper on its approach to FinTech](#). The EBA has conducted a significant amount of work in relation to certain types of financial innovations, such as crowdfunding and virtual currencies, but is stepping up its FinTech-related work to investigate the impact of FinTech on the financial system and its regulation and supervision.

BCBS consulted on the [implications of FinTech developments for banks and bank supervisors](#). The report highlights that banks will find it increasingly difficult to maintain their current operating models, given technological change and customer expectations.

Information security and data privacy

The Financial Stability Institution of the BIS published a [paper on regulatory approaches to enhance banks' cyber-security networks](#). The paper offers some high-level policy considerations, such as promoting cyber-security awareness among staff, integrating the cyber-security framework into Banks' overall enterprise-wide risk management strategy and developing an effective control and response frameworks for cyber-risk, which may be helpful for banking supervisory authorities planning to introduce or enhance their cyber-security banking regulations.

Central Bank of Ireland

The Central Bank of Ireland has carried out a [themed review to examine the suitability processes of investment firms](#). The review focused on the information gathering phase of the suitability process and firms were assessed for compliance with the European Securities and Markets Authority (ESMA) Suitability guidelines.

Other

The European Economic and Social Committee published a paper on [Europe's cooperative banking models](#), reviewing their role in the future diversified financial sector, and setting out a route-map to achieving cost-reductions and consolidations.

The EC issued a press release on [10 years since the start of the crisis: back to recovery thanks to decisive EU action](#). It stressed the importance of completing the financial union and promoting continued convergence between economies.

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