



## Prudential Regulation Review August 2018

August is usually a quiet month, and this year was no exception. Nonetheless, there were some important developments.

The BCBS, CPMI, FSB and IOSCO released a report on central clearing interdependencies that will inform supervisory stress test designs and work on CCP resilience, recovery and resolvability.

The EBA updated data used for the identification of global systemically important institutions (G-SIIs) and have been working on the new EU Simple Transparent and Standardised (STS) securitisation framework. The EBA have also launched three consultations amending the ITS on version 2.9 of the EBA's evolving supervisory framework covering COREP, FINREP and COREP-LCR.

## Capital (including stress testing and macro prudential)

The EBA updated data used for the identification of [global systemically important institutions \(G-SIIs\)](#). It published 12 indicators and updated the underlying data from the 35 largest institutions in the EU, whose leverage ratio exposure measure exceeds EUR 200 billion individually. This end-2017 data contributes to the internationally agreed process through which a smaller subset of banks will be identified as G-SIIs.

Piers Haben, Director of Banking Markets at the EBA, spoke on the EBA's work on the new [EU Simple Transparent and Standardised \(STS\) securitisation framework](#). The EBA expects to publish its Guidelines on interpretation of the STS criteria as a whole by the end of the year; the RTS on calculation of capital requirements for securitised exposures (known as KIRB) by spring of next year; and the Guidelines on the calculation of the weighted average life maturity of securitisation tranches before the end of 2019.

Ignazio Angeloni, member of the Supervisory Board of the ECB, was interviewed on bank mergers. He noted that banks cannot expect to exploit all the potential benefits of [cross-border mergers](#) due to ring-fencing of capital and liquidity arising from host countries' concerns about financial stability risks in their markets. Angeloni suggested that a single European deposit insurance scheme could help give host countries more security.

The ECB released its working paper on [bank lending under negative monetary policy rates](#). The paper concludes that imposing negative policy rates leads to decreased lending and increased risk taking for syndicated loans by high-deposit banks as compared to low-deposit banks. Additionally, the paper suggests that negative policy rates have the potential to change the role of high-deposit banks who have traditionally been perceived as intermediaries providing the majority of available lending services.

## Liquidity

Steven Maijoor, Chair of the European Securities and Markets Authority (ESMA), spoke at the ECON scrutiny session on Level 2 measures under the [Securitisation Regulation](#). Following submission of technical standards on the STS criteria, ESMA has a number of remaining deliverables in the upcoming months, including technical standards relating to the operations of securitisation repositories.

The Basel Committee on Banking Supervision (BCBS), Financial Stability Board (FSB), Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO) published a [report on central clearing interdependencies](#) and consulted

on their findings. The authorities found that prefunded financial resources are concentrated at a small number of [central counterparties \(CCPs\)](#), and that exposures to CCPs are concentrated among a small number of entities. The standard-setting bodies will use the results to inform supervisory stress test designs and their joint work on CCP resilience, recovery and resolvability.

## Conduct of Business (including MiFID)

ESMA issued clarification on the [clearing obligation and trading obligation for Pension Scheme Arrangements \(PSAs\)](#). The regulator requested national competent authorities not to "prioritise their supervisory actions" towards PSAs that are expected to be exempted from the obligations again once the EMIR Refit comes into force. The temporary exemption expired on 17 August 2018.

ESMA published [Systematic Internaliser \(SI\) calculations for equity, equity-like instruments and bonds](#). If the investment firm exceeded the relative thresholds for any equity, equity-like instruments and bonds, it would have to fulfil the SI-specific obligations for that instrument by 1 September 2018. ESMA has separately made [new data under MiFID II available for bonds](#) subject to the pre- and post-trade requirements.

ESMA renewed its prohibition of the marketing, [distribution and sale of binary options to retail clients](#) for a further three-month period from 2 October. ESMA also agreed to exclude a limited number of products from the scope of the measure, where the characteristics of the product mitigate the risk of investor detriment for retail clients.

## Crisis management (including special resolution, systemically important firms, and business continuity)

The Single Resolution Board (SRB) published a non-confidential version of the [Banco Popular Español \(BPE\) Valuation 3' report](#), which found that no recoveries would have been expected for affected shareholders and subordinated creditors of the bank in a normal insolvency proceeding. There was no difference in treatment for creditors and shareholders under the resolution action taken in June 2017. Recoveries for other classes of creditors unaffected by the resolution would have been lower in an insolvency proceeding.

## Disclosure, valuation and accounting

The EBA launched three consultations amending the ITS on version 2.9 of the [EBA's evolving supervisory framework](#). The proposed revisions cover three areas: (i) on [COREP](#), they include a major revision of securitisation templates; (ii) on [FINREP](#), they include an amendment of non-performing and forbore exposures reporting; and (iii) on [COREP-LCR](#), they include a review based on the forthcoming LCR delegated act.

The ECB sought feedback on a draft ECB Regulation on [money market statistics](#). The draft amendments proposed including within its scope transactions with all financial counterparties, and taking advantage of extended mandatory use of the Legal Entity Identifier (LEI) in EU reporting. It also stipulated that the data collected may be used for the development and administration of an unsecured overnight interest rate.

The BCBS released a technical amendment on additional [Pillar 3 disclosure requirements](#) for those jurisdictions implementing an expected credit loss (ECL) accounting model and those adopting transitional arrangements for the regulatory treatment of accounting provisions. The amendment will provide users with disclosures that fully reflect any transitional effects from the impact of ECL accounting on regulatory capital.

The FSB launched a thematic peer review on the [implementation of the LEI](#). The review sought to evaluate the progress made by FSB members. Specifically, it intended to take stock of the approaches and implementation strategies, assess whether current levels and rates of LEI adoption are sufficient, and identify the challenges FSB members face. The findings will be published in the first half of 2019.

## Central Bank of Ireland

A financial Stability note issued by the Central Bank of Ireland, examines [developments in cross-border banking since the global financial crisis](#). It considers whether the post-crisis business models of any banks have implications for international risk sharing.

Ed Sibley, Deputy Governor of the Central Bank of Ireland (CBI) and Member of the Supervisory Board of the ECB, gave an [interview](#) on "Diversity is the best bulwark against groupthink". He pointed out [key findings from research published by the CBI](#), such as there being a lack of diversity at senior levels in Irish banks, and highlighted that the CBI expects banks to have diversity and inclusion policies, and identify actions that would enhance diversity of thought at the Board, executive, and key committee levels.

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