

Risk and Regulation Monthly Cover Note

April 2016

So what happened in April?

The BCBS finalised its **standard for interest rate risk in the banking book (IRRBB)**, opting for a Pillar 2 framework although supervisors can require their banks to follow a more stringent standardised approach if they deem it necessary. The BCBS also consulted on the **leverage ratio framework** (systemic banks may face a more stringent requirement than the 3% minimum) and on **harmonised definitions for non-performing exposures and forbearance**.

The decision by US regulators to reject **resolution plans** of several major banks has sent a strong message. The “weaknesses”, “shortcomings” and “deficiencies” will have to be addressed by the banks by October. In the eurozone, the **Single Resolution Board** held its first public conference.

Over the last few weeks, updates on the **MiFID II timeline** (now likely to be delayed a year) and **level 2 measures** have been continuous. The results of the **first EU-wide stress test of CCPs** have been published, as has the **first status report on the Capital Markets Union (CMU)**.

In the UK the **FCA’s 2016-17 business plan** largely reflected pre-existing workstreams, though with two new areas of focus - wholesale markets and the provision of advice. Meanwhile the interim results of the **FCA’s study into corporate and investment banking** proposed steps to address “artificial incumbency advantages”, such as restrictions on clients’ choices over future suppliers of services. **FCA guidance on conflicts of interest and inducements** also attracted headlines, with its emphasis that any hospitality should enhance the quality of service provided to the client.

Finally, the Bank of England announced that **Sam Woods would succeed Andrew Bailey as Chief Executive of the PRA** from 1 July 2016.

What’s in the pipeline

We expect the legislative proposal to delay **MiFID II implementation** to be finalised in June, with knock-on effects on other legislation. In the next few months, we will see a report from the global peer review on the oversight of shadow banking entities, the FCA’s second consultation on MiFID II implementation and the Commission’s consultation on barriers to the cross-border distribution of investment funds (part of the CMU agenda).

On the **bank capital and resolution** side, several pieces of regulatory work are overdue, relating to the Minimum Requirement for own funds and Eligible Liabilities (MREL), the internal ratings-based approach, and guidelines on stress testing for deposit guarantee schemes. In the UK, the Treasury Select Committee is set to launch an inquiry into the optimal level of bank capital, following criticisms made by Sir John Vickers, and by the end of May we should also see publication of the FPC’s systemic risk buffer framework.