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Risk and Regulation Monthly Cover Note

December 2016

December wrap-up

The last month saw several major regulatory developments, at the UK, EU, and international levels.

Market participants spent much of December preparing for the anticipated publication of the Basel Committee on Banking Supervision's (BCBS) final package of standards for the measurement of risk for regulatory capital purposes, which was expected in early January. In the event, however, 2017 began with an announcement from the BCBS that its January Governors and Heads of Supervision (GHOS) meeting had been postponed as regulators continue to try to find a suitable agreement on bank capital. This leaves the industry with a delay in the finalisation of the Basel rules, which may last several months. Meanwhile, work continues on implementing the existing Basel 3 package, with EU legislators beginning their deliberations on the European Commission's recently published review of the Capital Requirements Directive and Regulation (CRD 5/CRR 2).

Also at the international level, the Financial Stability Board (FSB) added further to its framework of rules for the resolvability of banks by publishing consultations on how resolution authorities should set levels of internal Total Loss-Absorbing Capacity (TLAC) in Global Systemically-Important Banks (G-SIBs) and what those banks should do to ensure that they can maintain their access to Financial Market Infrastructures (FMIs) during resolution.

At the European level, both the European Parliament and the Council of the European Union adopted into law a proposal by the European Commission to delay the application of rules on packaged retail and insurance-based investment products (PRIIPs) until 1 January 2018. This followed an objection by the European Parliament to some of PRRIPs' technical standards earlier in 2016.

The European Insurance and Occupational Pensions Authority (EIOPA) published the results of its 2016 insurance stress tests. Its overall conclusion was that insurance undertakings in the pre-stress situation were adequately capitalised in aggregate, but that the impact of the stress scenarios demonstrated that the sector remained vulnerable to the low interest rate environment and to any pronounced weakening of risk premia.

In the UK, the financial sector continued to assess the potential practical implications of Brexit, including the role that a transitional exit arrangement could play in that process. The House of Commons' Treasury Select Committee (TSC) issued a call for submissions on how such a transitional arrangement would function and how it might offer firms some protection against what the TSC characterised as a "sudden change in their operating environment".

What's in the pipeline?

- The delay in the BCBS' finalisation of its bank capital package will be top of mind for most of the banking industry. Significant attention will be paid to signals from regulators on when these negotiations are likely to reach their conclusion and when a meeting of the GHOS can be scheduled.

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