

Risk and Regulation Monthly Cover Note

July 2016

On Brexit, Michel Barnier, former Vice-President of the European Commission, was appointed as the European Commission's **Chief Negotiator for Brexit**. Andrew Bailey, the FCA's CEO, said that Brexit "is **not going to be a bonfire of regulation**", while Andrew Tyrie MP, Chair of the UK Treasury Committee, identified Brexit as an opportunity for regulators to **rethink capital requirements** for small and challenger banks.

The EBA published the results of the 2016 **EU-wide stress test**, which showed average bank CET1 ratios declining from 13.2% at the end of 2015 to 9.4% at the end of 2018 under the scenario set for the exercise.

On **ring-fencing**, the PRA published its final ring-fencing consultation on reporting; finalised its policy statement on prudential requirements, intragroup arrangements and the use of financial market infrastructures for ring-fenced banks; and set out how it intends to implement the Systemic Risk Buffer, which will be applied to ring-fenced banks and large building societies from 2019. HM Treasury also consulted on technical amendments to ring-fencing secondary legislation.

The Bank of England, FCA and HM Treasury published an implementation progress report on the **Fair and Effective Markets Review**, stating that responsibility will now fall increasingly to market participants to see through the necessary changes. On **MiFID II**, the EU Commission continued to adopt a number of RTS and the FCA published its second major consultation, covering a wide range of issues. The European Commission said that it intends to endorse the RTS on **margin requirements for non-cleared OTC derivatives**, but subject to some important amendments, in particular on the implementation timetable.

Finally, Andrew Bailey and Sam Woods assumed their respective roles as **FCA CEO** and **PRA CEO**.

What's in the pipeline?

The remaining **MiFID II** RTS will continue to be adopted and the level two implementing measures will start to be published in the OJEU over the coming months, followed by a further FCA consultation on MiFID II implementation.

Further work is expected in the months ahead on a European Commission legislative proposal **amending CRD IV/CRR** to complete the Basel III agenda, to incorporate aspects of "Basel IV", and to implement Total Loss Absorbing Capacity (TLAC) in the EU. Meanwhile, the Basel Committee continues to work through a variety of proposals to amend the **calculation of risk-weighted assets** and ultimately to reach a decision on the overall calibration of the capital framework, including risk-weighted asset floors.



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