

## 7 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA



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In 2014 the Banco de España continued to play a very active role in the work of the various international committees in the areas of supervision, prudential regulation and financial stability.

As in 2013, these committees worked on the design of international financial regulation, while continuing to focus their attention on monitoring implementation of the regulatory reforms in the various jurisdictions, in order to ensure consistent application of the agreed measures and avoid regulatory inequalities which could reduce their effectiveness.

In the global arena, the Financial Stability Board (FSB) set the global financial regulatory agenda, leading numerous regulatory initiatives in coordination with other international committees. Notable in 2014 was the project known as “Ending Too-Big-To-Fail”, with the publication in November of a consultative proposal to introduce an international standard on total loss-absorbing capacity (TLAC). Work also continued on the monitoring of so-called “shadow banking”, with analyses of possible regulatory policy options, and on the monitoring of implementation of the agreed reforms, which this year focussed on the supervision of systemically important financial institutions (SIFIs).

The work of the Basel Committee on Banking Supervision (BCBS) continued to focus on strengthening the regulatory framework and on ensuring consistent implementation of Basel III in the various jurisdictions. The Committee’s priority in 2014 was to finalise the Basel III framework, and work was completed on the final design of the net stable funding ratio (NSFR). In addition, the treatment of certain risks was modified and progress was made on revising standardised methods for the calculation of capital requirements for coverage of credit, operational, market and counterparty risk.

In the European Union, the European Banking Authority (EBA) continued its intense regulatory activity of previous years, centred on drafting both technical standards and guidelines. Its activity in the area of resolution increased notably, following publication in June 2014 of Directive 2014/59/EU of the European Parliament and of the Council (BRRD), which establishes a framework for the restructuring and resolution of credit institutions and investment firms, and confers on the EBA a number of tasks relating to resolution and has led to the creation of a new resolution committee. In the supervisory arena, the EBA continued to monitor very closely the activity of the various colleges of supervisors, some of which were affected by the launch of the SSM (Single Supervisory Mechanism) on 4 November. Notable progress was also made in the areas of risk and vulnerability monitoring, regular supervisory reporting requirements, and consumer protection and monitoring risks resulting from financial innovation.

### 7.1 Global fora

#### 7.1.1 WORK OF THE FINANCIAL STABILITY BOARD (FSB)

The FSB continued in its role of leading the global financial regulatory agenda and reporting to G20 leaders on progress made in its implementation and on future risks affecting global financial stability. In November 2008, the G20 agreed on an ambitious “action plan” and asked the FSB to overhaul international financial regulation, a reform which was to go to the root of the crisis and pave the way for a sounder and safer financial system allowing for the sustainable financing of economic growth. It is worth noting that in 2014 a substantial portion of the reforms needed to fulfil the mandate from the G20 had already been

Number

	Meetings (a)	Groups as of 31.12.2014 (b)
European Systemic Risk Board (ESRB)		
European Banking Authority (EBA)	180	49
General Board	12	1
Management Board (c)	6	1
Standing Committee on Accounting, Reporting and Auditing (SCARA)	17	7
Standing Committee on Consumer Protection and Financial Innovation (SCConFin)	16	4
Standing Committee on Oversight and Practices (SCOP)	29	7
Standing Committee on Regulation and Policy (SCRePol)	89	17
Other	11	12
Groups of the Joint Committee of the European Supervisory Authorities (d)	11	6
Financial Stability Committee (FSC)	9	4
Financial Stability Board (FSB)	45	15
Basel Committee on Banking Supervision (BCBS)	90	38
BCBS	4	1
Accounting Expert Group (AEG) (e)	6	3
Policy Development Group (PDG)	45	18
Supervision and Implementation Group (SIG) (f)	19	11
Macroprudential Policy Group	4	1
Other	12	4
Joint Forum	7	3
Association of Supervisors of Banks of the Americas (ASBA)	4	1
Senior Supervisors Group (SSG)	3	1
<b>TOTAL</b>	<b>349</b>	<b>117</b>

SOURCE: Banco de España.

a The number of meetings includes conference calls by the committees and the permanent groups reporting to them ("level 2 groups").

b Sum of the committee itself and the groups that reports to it, and in which BdE participates.

c Fernando Vargas has been one of the members of the EBA Management Board since June 2012.

d Joint groups of the three Supervisory Authorities (Banking, Insurance and Occupational Pensions, Securities and Markets).

e Before August 2013: Accounting Task Force (ATF).

f Before April 2013: Standards Implementation Group.

agreed, particularly with regard to Basel III and the general framework for the treatment of systemic institutions.

A basic pillar of the regulatory reform undertaken by the FSB is the treatment of so-called "systemic institutions" and the need to end the problem posed by institutions which are too big and complex to fail, meaning that the authorities have to recapitalise them with public funds (this is known as Ending Too-Big-To-Fail).<sup>1</sup> In this sphere, the new framework for the resolution of systemic financial institutions issued by the FSB<sup>2</sup> (*Key Attributes of Effective Resolution Regimes for Financial Institutions*, commonly known as the "Key Attributes") includes: (i) legislative reforms within various jurisdictions; (ii) the requirement

<sup>1</sup> In November 2014, as it does each year, the FSB published an updated list of global systemically important banks (G-SIBs) indicating the capital surcharge corresponding to each on the basis of its systemicity, using the Basel Committee's methodology.

<sup>2</sup> Key Attributes of Effective Resolution Regimes for Financial Institutions (October 2011) ([http://www.financialstabilityboard.org/wp-content/uploads/r\\_111104cc.pdf?page\\_moved=1](http://www.financialstabilityboard.org/wp-content/uploads/r_111104cc.pdf?page_moved=1)).

that institutions and authorities have in place recovery and resolution plans; (iii) resolvability assessment by the authorities of the various crisis management groups (colleges which include supervisory authorities, central banks, resolution authorities, finance ministry representatives and public authorities responsible for deposit guarantee schemes, as defined in the Key Attributes), and (iv) the need for the institution to have sufficient loss-absorbing capacity to ensure that, in a situation of resolution, it can be carried out “from within” without the need for public capital injections and without destabilising the financial system as a whole.

In line with the latter objective, the FSB published a consultative proposal on 10 November 2014 for a new international standard on total loss-absorbing capacity (TLAC) which global systemically important banks must have in the event of resolution. The proposal stipulates a Pillar 1 requirement set within the range of 16%-20% of risk-weighted assets or twice the minimum leverage ratio (3%) plus capital buffers. The final minimum TLAC requirement shall be determined following an in-depth impact analysis and market survey which will conclude at the end of 2015. The new requirement, in parallel with the Basel requirement, includes subordinated debt and senior debt instruments in addition to all the regulatory instruments within the Basel capital framework.

Another noteworthy development in the area of resolution was the report published by the FSB on the implementation of the Key Attributes.<sup>3</sup> In particular, it underscores the need to eliminate obstacles to the legal recognition of resolution measures with a cross-border impact. Since a policy solution would require major legislative reform in many jurisdictions, the FSB is promoting, in the short-term, contract-type measures which institutions themselves would apply by including certain clauses in their contracts to ensure cross-border recognition of resolution measures in two specific instances: (i) suspension of early cancellation rights on derivatives, specifically including adoption of the ISDA protocol (International Swaps and Derivatives Association), and (ii) internal recapitalisation (bail-in) of debt issues subject to foreign legislation.

The FSB recognised in 2014 the progress made to fill the data gaps detected during the crisis, particularly as regards information relating to global systemically important institutions, their financial interconnections and exposures to various sectors and national markets. In this regard, the entry into force of the “legal entity identifier” (LEI), a universal system for identifying parties to financial contracts or transactions, was a major step forward in measuring the interconnections between the main global banks. The LEI project aims to make financial markets more transparent, with the ultimate goal of contributing to improve systemic risk assessment and management, also facilitating institution resolution processes.<sup>4</sup>

The substantial increase in prudential requirements for banks could lead to a portion of credit intermediation activity shifting towards other financial sectors (this is known as “shadow banking”). The FSB is working to ensure that such operations are transformed

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3 Towards full implementation of the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions (November 2014). (<http://www.financialstabilityboard.org/wp-content/uploads/Resolution-Progress-Report-to-G20.pdf>).

4 It should be noted that Regulation (EU) No. 648/2012 of the European Parliament and of the Council, known as EMIR, requires the counterparties of derivatives contracts to provide the trade repositories with specific sets of data. This obligation has applied in the EU since 12 February 2014. Among other things, the related implementing regulations stipulate that those participating in the aforementioned financial transactions shall be identified by means of the LEI. Moreover, the EBA recommended in 2014 that this identifier be used for reporting purposes in the area of banking supervision.

into a stable source of funding for the real economy, and, to this end, performs annual monitoring and analysis and studies possible regulatory policy options based on five work streams: i) interaction between banks and shadow banking entities - “indirect” regulation); ii) regulation of money market funds; iii) regulation of other shadow banking entities such as large portfolio managers, finance companies of large industrial groups and investment banks; iv) regulation of securitisation and v) regulation of alternative financing by means of securities lending and repo markets. The latter includes the application of haircuts on securities lending and asset re-mortgaging requirements. This area will foreseeably see further developments in the future.

In 2014, the FSB published its yearly progress report on OTC derivatives market reforms, in which it concluded, inter alia, that global implementation of these reforms is suffering a two-year delay and is uneven across jurisdictions.

Furthermore, in order to avoid future scandals involving the deliberate rigging of benchmarks, in 2014 the FSB worked on developing recommendations to reform the benchmark indices for interest and exchange rates. The FSB’s recommendations (targeted at central banks, authorities and administrators) to improve interest rate benchmarks focus on: (i) strengthening some of the existing indices (IBOR-LIBOR, EURORIBOR and TIBOR), by linking them, as far as possible, to actual transactions; and (ii) developing alternative benchmark indices for credit risk-free interest rates which might be more appropriate for certain financial transactions such as derivatives, at the same time allowing for more options. As regards benchmark indices for exchange rates, the recommendations focus chiefly on reviewing the calculation methodology, market infrastructure, agents’ market behaviour, publication procedures followed by central banks and application of the recommendations by the International Organisation of Securities Commissions, IOSCO.

The FSB also worked on other areas in 2014 which are particularly noteworthy in view of their contribution to building up confidence in the financial system: (i) the Framework for Assessing Risk Culture, which provides supervisors with guidance to assess the soundness and effectiveness of the risk culture at financial institutions, and (ii) the publication of its third report on the implementation of principles for prudent remuneration practices.

Lastly, through its Standards Implementation Committee, the FSB continued to promote monitoring of implementation of the agreed reforms. Also noteworthy were the thematic reviews on the supervision frameworks of systemic institutions and the peer reviews issued on the Netherlands, Germany and Indonesia.

#### 7.1.2 WORK OF THE BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

In 2014, the Basel Committee continued to prepare its response to the weaknesses in prudential banking regulation highlighted during the crisis. This response focuses on reinforcing the regulatory framework and promoting its consistent implementation across all member jurisdictions, always striving to balance simplicity, comparability and risk sensitivity within the prudential regulatory framework.<sup>5</sup> In addition, the Committee is enhancing the transparency of its functioning and work programmes.<sup>6</sup>

<sup>5</sup> See: The regulatory framework: balancing risk sensitivity, simplicity and comparability (July 2013) (<http://www.bis.org/publ/bcbs258.pdf>).

<sup>6</sup> The work to enhance transparency started in 2013 with the publication of its Charter and has continued in 2014 with the publication of the Basel Committee’s work programme.

With regard to reinforcing the regulatory framework, the Committee gave priority to completing the Basel III framework,<sup>7</sup> and concluded the review of the design of the NSFR in October. The purpose of the new design was to reduce variations in ratio levels as a result of sharp changes in long-term financing, achieve better alignment with the short-term liquidity ratio and revise its calibration in order to lessen dependence on short-term sources of financing, which are potentially more volatile (see Box 7.1). The Committee also issued a proposal for consultation which included the NSFR elements which institutions are required to disclose to the market, under the so-called Pillar 3. In this respect, it should be mentioned that the Committee aims to improve the transparency of banks, in line with the enhanced disclosure requirements already established for the short-term liquidity ratio and the leverage ratio (documents published in January 2014).

The Committee also worked in other areas to strengthen prudential regulation, as described below:

Firstly, it published three definitive standards substantially modifying the treatment given to certain exposures:

- Large exposures limits. In April 2014, the Committee published a set of standards which establish: (i) the definition of a large exposure (when it exceeds 5% of the bank's Tier 1 capital); (ii) an overall limit, whereby no exposure to the same counterparty or a group of connected counterparties may exceed 25% of the bank's Tier 1 capital, and (iii) a stricter limit of 15% for interbank exposures between institutions considered to be systemic. The treatment of interbank exposures and exposures of banks to central counterparty clearing houses is currently under observation and will foreseeably be reviewed in 2016.
- Securitisations. In December 2014, standards were published on: (i) changing the order of application of the methods used to calculate capital requirements (using three methods with staggered implementation depending on the characteristics of the securitisations and the information the bank has on them); (ii) revising the calibration, and (iii) setting a single lower limit (or floor) of 15%. Also under review is whether special treatment should be used (and how) for securitisations which qualify as simple, transparent and comparable, according to the criteria defined by a joint Committee/IOSCO group which were also the subject of consultation in 2014.
- Bank exposures to central counterparties (CCPs). The standards, which were jointly drafted by the IOSCO and the Basel Committee on Payments and Market Infrastructures and were published in April 2014, establish capital requirements for such exposures. The objectives of the review are: (i) to ensure that there is sufficient capital to cover these exposures; (ii) to promote the clearing of derivatives through clearing houses, (iii) to take into account all sources of risk in such transactions; (iv) to promote sound management of such transactions, and (v) to ensure that regulation is not overly complex. These requirements will come into force on 1 January 2017.

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<sup>7</sup> Basel III substantially changes the definition of regulatory capital. It incorporates capital buffers which take into account macro-prudential aspects and introduces a leverage ratio and two liquidity ratios.

The priority of the Basel Committee in recent years has been to review the regulatory framework in response to the problems detected during the recent crisis. This review gave rise to the new Basel III framework which introduced, together with the capital ratio, two new measures: a leverage ratio and two liquidity ratios – a short-term ratio, the liquidity coverage ratio (LCR), and a long-term ratio, the net stable funding ratio (NSFR).

Given the innovative nature of the leverage ratio and the two liquidity ratios, their “provisional” design was published in 2010 and it was considered appropriate to subject them to an observation period to analyse their effects on institutions and markets before giving them their definitive form. The design of the leverage ratio and the LCR ratio was completed in 2013 and that of the NSFR in 2014. Consequently, it can be said that the post-crisis framework has already been defined.

The NSFR is a structural liquidity standard which contributes to banks maintaining stable funding profiles that are commensurate with their assets and activities. It is designed to reduce ex-ante exposure to liquidity and funding risks, by encouraging institutions to maintain suitable funding profiles for the maturity structure of their assets and by penalising excessive maturity transformation. The objective pursued is the matching by institutions of their assets and liabilities by maturity so that they are not overly reliant on short-term funding markets to finance long-term assets.

#### Design of the ratio

The ratio is designed as follows: stable sources of funding (liabilities) relative to required stable funding (investments). This ratio should be equal to or greater than 100%. In other words, the bank should always have stable suitable liabilities to finance its assets.

*Numerator.* The numerator includes the bank’s stable sources of funding. This degree of stability is determined by considering two criteria: (i) permanence, considering long-term liabilities to be more stable (institutions are required to gradually seek a lengthening of funding terms), and (ii) source, since the nature of the funding may determine the degree of stability (for example, retail deposits are usually more stable than wholesale deposits).

Based on these two criteria, a stability factor is assigned to each liability with the result that only the portion of that liability which is considered stable is included in the numerator.

The stability factors assigned can be summarised as follows:

- A factor of 100% is assigned to capital and liabilities maturing at over one year. It is considered that these liabilities will remain in the institution during the year for which the ratio is calculated.

- 95% or 90% is assigned to retail deposits maturing at less than one year, according to whether they are classified as more or less stable. As with the LCR,<sup>1</sup> it is generally considered that retail customers keep their deposits at the institution during the year, although for reasons of prudence it is estimated that a small portion of the deposits may be withdrawn.
- 50% for funding with a maturity of less than one year obtained from wholesalers, the public sector and central banks. In this case, the criterion of permanence for more than one year does not hold because it is considered that, similarly to the LCR, a portion of these liabilities are automatically rolled over (this consideration is based on experience).
- 0% for all other liabilities which would not be recognised at all for the purposes of this ratio.

*Denominator.* The required stable funding is calculated by taking three criteria into account: (i) preservation of the institution’s lending capacity, so that some of the loans extended are funded with stable funds (with the aim of keeping credit flowing to the real economy); (ii) permanence, assuming that part of the short-term lending will not need to be rolled over and therefore requires lower coverage; and (iii) asset quality, since the bank has high-quality assets which it may use as collateral and which are therefore a direct source of funding for the institution.

The stable funding requirements for assets are defined on the basis of these criteria. In other words, the “illiquid” portion of the asset is determined, that is, the portion that would not be recovered on the market if it was sold and which is therefore covered by stable liabilities:

- 0% for coins and banknotes, central bank reserves and claims on central banks with maturities of less than six months. These are considered to be fully liquid assets which can be recovered on the market.
- A minimum requirement is established for high-liquidity assets –as defined under the LCR– which varies according to the quality of the asset: 5% for Level 1 assets (mainly government debt securities); 15% for Level 2A assets (other lower quality government debt securities, covered bonds) and 50% for Level 2B assets. If these assets have been pledged for a period of six to twelve months, 50% coverage is required in all cases.

<sup>1</sup> Note that one of the objectives of the review of the NSFR has been to modify the terminology and treatment of “high quality” assets and of deposits and, consequently, the frameworks of the LCR and the NSFR have been aligned in this respect.

- Loans to financial institutions maturing in less than six months are assigned a requirement of 15% (10% if they are secured against high-liquidity assets), and of 50% if they mature in six to twelve months.
- Assets that qualify for a 35% risk weighting under the standardised approach for credit risk (chiefly residential mortgages) are assigned a reduced requirement of 65%, and loans with maturities of more than one year require 85% coverage.
- Other assets not pledged as collateral are also assigned a stable funding requirement of 85%.
- All other assets (pledged for more than one year or not included in the above categories) are deemed to require 100% stable funding.
- As regards derivatives, asset and liability positions may be offset. If the resulting position is an asset one, this must be fully covered with stable funding, and if it is a liability, it

does not qualify as a source of funding for NSFR purposes. In any case, stable funding of 20% of derivative liabilities would be required. The initial margins obtained require stable funding of 85% (although it has been agreed that a review clause will be included for the treatment of certain counterparties<sup>2</sup>).

Although the Basel proposal stipulates that this ratio shall come into force in Europe in 2018, the reporting obligations set out in the Capital Requirements Regulation (CRR) are minimal. However, the Regulation does require the European Banking Authority to prepare a report on the potential impact of setting the liquidity requirement and to submit it in 2015 to the European Commission, which shall, in turn, prepare a legislative proposal on the ratio.

2 The counterparties which are exempt from the margin requirements for derivatives transactions that are not cleared centrally are: sovereigns, central banks, multilateral development banks and the BIS, as established in the BCBS-IOSCO document titled Margin requirements for non-centrally cleared derivatives, of September 2013.

Secondly, the Committee largely focussed its efforts on reviewing the standardised methods banks can use to calculate capital requirements for credit, operational, market and counterparty risk. These reviews will, in turn, be used to establish a new capital floor. In 2014, this work resulted in:

- The revision and replacement of standardised methods used to calculate capital requirements for counterparty risk by a new method known as SA-CCR (standardised approach for measuring counterparty credit risk exposures). The purpose of this revision was to minimise national discretionality, improving risk sensitivity.
- A proposal to revise the standardised method for operational risk, replacing the two current methods by a single method and using an improved risk indicator. Instead of gross income, it proposes the use of a business indicator and calculation by tranche (depending on the amount of the risk indicator, a risk weight is allocated) instead of calculating by business line. This method involves applying amply proportionate requirements to the largest banks, taking into account past experience of losses.
- An initial proposal to review the standardised method used for credit risk which does not establish a specific design or calibration. The proposal focusses on reviewing the method for classifying assets, and increasing their

granularity, and on revising the way in which exposures are allocated to risk tranches, which determines their weighting. Among other things, this proposal aims to align the classification of assets used both in this standardised method, and in internal models, as well as to reduce reliance on external credit ratings.

- A review of capital floors, presenting a number of options to replace the current Basel floor with a more granular floor, better adapted to the new framework. The final design and calibration will be determined by the standardised methods finally adopted, and will take into account that the Committee's aim here is for the standardised methods to provide the floors used to calculate regulatory capital by internal methods.
- As regards the review of market risk, it covers both the standardised approach and the calculation of capital requirements applying internal models. In 2014, a new consultative document was published outlining (i) the treatment of internal risk transfers of price and interest rate risk between the trading book and the remaining balance sheet (banking book); (ii) a revised standardised approach which presents a sensitivity-based methodology to capture interest-rate risk instead of using cash-flow-based methodology (an initial proposal which the sector deemed difficult to implement) and including simplified methodology for institutions with marginal trading portfolios, and (iii) reviewing the incorporation of the risk of market illiquidity into the internal models approach.

Thirdly, the Committee also revised Pillar 3 (market transparency), reinforcing its significance and publishing a consultative document in June which was formally adopted at the beginning of 2015. This work will be carried out in several stages and will be reviewed as the Committee completes its proposals. Most notably, this review aims to harmonise definitions and introduce common minimum disclosure templates, with the goal of improving consistency of disclosures on risks, and how those risks are measured and managed. It also aims to remedy the current lack of transparency of the internal model-based approaches used to calculate capital requirements, and to enable investors to compare banks' disclosures.

To conclude with the regulatory aspect, and moving on to supervision, the Committee published guides on supervisory colleges, money laundering, capital planning and external audits. In addition, consultative documents were issued on dealing with weak banks and a review of corporate governance principles for banks was published.

Lastly, with regard to the implementation of the regulatory framework, the Committee continued stressing the importance of consistent implementation of the agreed measures. In this respect, it has continued assessing the effective and consistent application of Basel III in the various jurisdictions by means of the Regulatory Consistency Assessment Programmes (RCAP). In 2014, as well as overall monitoring of progress in the application of elements of the new regulatory framework after the financial crisis, four jurisdictions were analysed: Australia, Canada, United States and the European Union. The European Union was deemed to be "materially non-compliant" according to the methodology used, which assessed the materiality of deviations. The main departures related to the adoption of legislative decisions in Europe aimed at promoting the flow of credit to the real economy.

## 7.2 European fora

### 7.2.1 WORK OF THE EUROPEAN BANKING AUTHORITY (EBA)

In its fourth year of operations the EBA continued to make significant contributions to the Single Rulebook for all European Union countries (see Box 3.3 of the 2012 Report on Banking Supervision in Spain). In 2014, the Board of Supervisors of the EBA, which is the main decision-making body of the Authority, approved a large number of regulatory products, specifically: 22 binding technical standards (9 implementing technical standards and 13 regulatory technical standards), 14 guidelines and 1 recommendation, relating to Regulation (EU) No. 575/2013 of 26 June 2013 and Directive 2013/36/EU of 26 June 2013, on the prudential treatment of credit institutions and investment firms. Notable among the technical standards were those relating to own funds, identification of systemically-important institutions, credit risk, market risk and home-host relationships.

The guidelines issued by EBA covered a variety of aspects, from remuneration requirements to the disclosure of information. Worthy of note are the guidelines which establish common procedures and methodologies for the supervisory review and evaluation process. The recommendation related to the use of the Legal Entity Identifier (LEI) for supervisory reporting purposes.

Deserving a separate mention is the review of the recommendation on the preservation of capital published in July 2013 (which sought to ensure that the institutions affected maintained at all times a fixed amount of capital), which resulted in its withdrawal in December 2014.

As already mentioned in the introduction to this chapter, on 12 June the Official Journal of the European Union published Directive 2014/59/EU of the European Parliament and of the Council, establishing a framework for the restructuring and resolution of credit institutions and investment firms (BRRD), which has subsequently been included in the Single Rulebook and has led to the creation of a new Resolution Committee within the EBA. This directive entrusted the EBA with drafting various technical standards. For this purpose, in 2014 the EBA stepped up its activity in this area, approving 5 regulatory technical standards (3 relating to resolution plans and 2 to recovery plans) and 3 guidelines on restructuring and resolution issues (most notably a guideline on measures to reduce or remove impediments to resolvability), together with several consultative documents. In 2015, the EBA will substantially step up its activity in this area.

In the field of home-host cooperation and supervision of cross-border banking groups, the EBA finalised and submitted to the Commission three technical standards contributing to the Single Rulebook for supervisory cooperation. Of these, two relate to the functioning of colleges of supervisors and another to joint decisions for approval of internal models. In addition, in 2014 the EBA began to draft technical standards on resolution colleges and their relationship with supervisory colleges.

The EBA continued working jointly with the Commission on a question and answer system (Single Rulebook Q&A process) with a view to ensuring that the new regulatory framework is consistently and effectively applied in the Single Market and to contributing to the creation of the Single Rulebook in banking. Given the growing importance of resolution issues, this tool has widened its scope in order to enable national supervisory authorities, institutions and their associations, and other stakeholders to send their questions about the practical implementation of the Capital Requirements Regulation and Directive (CRR, CRD IV), the related technical standards, the EBA guidelines and the Bank Recovery and Resolution Directive (BRRD).

Also noteworthy, within the framework of the obligations included in the Single Rulebook in banking, is the fact that work started on the notification requirements of national authorities to the EBA on a wide range of issues, including large exposures, information about remuneration, liquidity risk, sanctions or macro-prudential measures. To this end, the EBA has designed templates to be used by national authorities, when deemed necessary, for submitting information in a standardised manner.

In the supervisory area, the EBA remained very active in fostering convergence and cooperation. Colleges of supervisors continue to be essential for the supervision of cross-border banking groups and the EBA has been closely involved in monitoring their activities, while working to ensure that they function effectively, efficiently and consistently. It has played a very active role in the 44 colleges of supervisors, participating both in meetings and in other activities organised by 25 of the colleges, and monitoring different areas of work at the remaining 19. This was a year of transition for colleges of institutions with a presence in the euro area, owing to the launch of the SSM on 4 November 2014. However, overall, the number of colleges did not fall as significantly as expected with the arrival of the euro area supervisor. The EBA will continue to participate in these colleges to foster cooperation between the SSM, other European supervisors which have retained their own currencies and authorities of third countries.

On another front, the EBA also contributed in 2014 to the comprehensive assessment exercise for the European banking sector, developing the methodology applied to stress testing.

As regards risk and vulnerability monitoring, work proceeded on the development of the infrastructure needed to accommodate regulatory reporting data submitted regularly, as well as other data needed to prepare the numerous regular reports made by the EBA and the ad hoc analyses requested by the Board of Supervisors, the European Systemic Risk Board (ESRB), the Commission, the Council and Parliament. From the data provided quarterly by 55 European Economic Area banking groups, the EBA prepares a Risk Dashboard summarising conditions in the European banking sector by looking at the evolution of 18 key risk indicators. Although these data were used only internally in 2012 and 2013, the EBA started publishing a quarterly report in the last quarter of 2013 which includes the risk dashboard with aggregate data. The EBA also drafts and publishes a half-yearly report on risks and vulnerabilities in the European banking sector.

In respect of regular supervisory reporting requirements, 2014 saw the entry into force of Implementing Technical Standard 680/2014 issued by the EBA. This standard regulates the supervisory prudential reporting requirements of institutions, and presents as its main new feature the setting of uniform requirements for areas covered in all European Economic Area countries. Consequently, European credit institutions must submit, inter alia, prudential accounting statements (known as FINREP, FINancial REPorting) and solvency statements (known as COREP, COMmon REPorting) using the same format and to be completed using the same definitions. FINREP is confined to consolidated statements prepared according to International Financial Reporting Standards, but COREP is applicable both to consolidated and individual statements, regardless of which accounting framework is applied by the institution. This standardisation effort has led to an increase in the exchange of periodic information among national supervisors and, in particular, with European bodies with supervisory competence, such as the ECB and the EBA, always within the confidentiality regime established in CRD IV.

Lastly, the EBA also worked on a number of increasingly important tasks aimed at protecting consumers and monitoring the risks resulting from financial innovation. The work carried out by the EBA in this area is governed by various directives and regulations, such as Directive 2014/92/EU of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, or Directive 2014/65/EU and Regulation (EU) No 600/2014 on markets and financial instruments. In other instances, the EBA directly detects the need for harmonised treatment.

In this respect, a technical standard was approved in 2014 on the minimum monetary amount of the professional indemnity insurance for mortgage credit intermediaries, together with guidelines on the security of internet payments. In addition, technical advice was provided to the European Commission on how to monitor structured deposits sold in the EU, temporarily prohibiting or restricting their sale in the event that they seriously jeopardise the depositor or pose a threat to the functioning of financial markets or financial stability. Lastly, the EBA issued an Opinion on virtual currencies.

The EBA also worked on guidelines to establish criteria for NCAs to compile national (provisional) lists of the most representative services linked to a payment account and subject to a fee, as well as guidelines on creditworthiness assessment and on arrears and foreclosure. Furthermore, in line with other authorities which form part of the European System of Financial Supervision (ESMA and EIOPA), the EBA worked on identifying and assessing practices which could be detrimental to consumers, such as cross-selling (joint selling of banking, securities and insurance products), incentive-based remuneration practices for sales staff, or practices relating to product monitoring and governance arrangements for retail banking products. The EBA also analysed the risks involved in crowdfunding.

#### 7.2.2 WORK OF THE EUROPEAN SYSTEMIC RISK BOARD (ESRB)

The ESRB is responsible for macro-prudential oversight within the European Union. In December 2014, the General Board of the ESRB elected Mr. Luis M. Linde, Governor of the Banco de España a member of its Steering Committee for a three-year term. This Committee guides the work of the General Board and ensures its efficient functioning. The Governor of the Banco de España replaces the Governor of the Banca d'Italia, Ignazio Visco, whose term of office had expired.

In 2014, the ESRB continued its work in the macro-prudential area. This work included, inter alia, monitoring the main risks that may threaten financial stability in the EU, and developing an analytical policy framework for macro-prudential supervision in the EU.

As regards risk monitoring, the ESRB continued with the quarterly publication of the Risk Dashboard, which compiles quantitative indicators of different areas of financial stability. Also, the ESRB regularly publishes on its website notifications concerning macro-prudential measures from different EU countries.

As regards progress made regarding the operationalisation of the EU's macro-prudential policies in the EU, the ESRB published two major reports, the Flagship Report on Macro-prudential Policy in the Banking Sector, and the ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector. Both reports aim to assist national authorities in the EU to operationalise a set of macro-prudential instruments for the bank-

ing sector. The Flagship report provides an overview of the macro-prudential policy framework and the instruments set out in the CRR/CRD IV, together with some other instruments which may be used by national authorities on a discretionary basis, for example, the loan-to-value ratios (LTV). The report also discusses the ESRB's role in this area. The Handbook analyses in depth the technical aspects of each instrument (for example, the indicators used for activating/deactivating instruments, the transmission mechanism, interaction with other policy areas), and establishes the legal basis in Europe, as well as decision-making, coordination and communication processes to be followed in each case.

Also within the area of macro-prudential instruments, the ESRB, as requested under the CRR/CRD IV, issued a Recommendation in June 2014 providing guidance for setting countercyclical buffer (CCB) rates in the EU (ESRB/2014/1). This Recommendation implements and adapts the Basel principles to the European Union and establishes two additional principles: one on communication, and the other on mutual recognition by countries of the buffer rate. It also establishes elements for measuring and calculating the credit-to-GDP gap and calculating the CCB rate to be applied. The Recommendation also offers guidance on which other quantitative indicators can help signal both the activation and deactivation of the CCB. The technical analysis which informed this Recommendation is described in Occasional Paper No 5 of the ESRB ("Operationalising the countercyclical capital buffer: indicator selection, threshold identification and calibration options").

Still on the subject of recommendations, the ESRB carried out an initial assessment of the implementation of its Recommendation on the macro-prudential mandates of national authorities (ESRB/2011/3) and published a follow-up report in this regard.

The ESRB has also continued working with other European authorities on macro-prudential matters, which notably include cooperation in the design of adverse scenarios for stress tests in the banking system (with EBA) and in the area of insurance (EIOPA). With regard to the EBA, the ESRB sent replies to some of the questions raised in the EBA's consultation paper on the transparency requirements for encumbered and unencumbered assets. The ESRB has also responded to the European Commission's request for guidance in connection with the macro-prudential regulations contained in CRR/CRD IV. Lastly, the ESRB published a response to ESMA's public consultation paper on mandatory clearing for OTC credit, interest rate and foreign exchange derivatives through central counterparties (CCP).

Publications of a technical nature on macro-prudential issues include two noteworthy reports by the Advisory Scientific Committee (ASC) of the ESRB: one on the size of the European banking system (Reports of the ASC No 4: *Is Europe overbanked?*) and another on the institutional models for macro-prudential authorities (Reports of the ASC No 5: *Allocating macro-prudential powers*). Furthermore, the ESRB published Occasional Paper No. 6 ("An analysis of the ESRB's first data collection on securities financing transactions and collateral (re)use"), which contains a descriptive analysis based on information obtained about securities lending transactions. The ESRB also published a report on its role and initial experiences in connection with the macro-prudential measures adopted in different EU countries (*Macro-prudential Commentaries, issue 7: "The ESRB and national macro-prudential measures – its role and first experiences"*) and its Annual Report for 2013.

### 7.3 Work carried out jointly by banking, securities and insurance authorities

In the inter-sectoral arena, the Banco de España continued working at global level in the Joint Forum, an international group that draws together banking, securities and insurance supervisors, and at European level in projects of the supervisory authorities in banking (EBA), securities (ESMA) and insurance (EIOPA) through their Joint Committee.

The work of the Joint Forum notably included the publication of a report relating to the supervision of financial conglomerates which examines in depth the need for the existence of colleges of supervisors for financial conglomerates or the need to address inter-sectoral matters in already existing colleges. In addition, in order to provide investors with sufficient information about the risks associated with investment products, recommendations were published on the minimum information which institutions must provide to investors at the point of sale of certain financial products (point of sale disclosure).

In the global arena, the Banco de España also participates in the Senior Supervisors Group, which basically consists of banking supervisors and some securities supervisors from the countries where the most systemically important banks are headquartered. It is a forum basically for the exchange of supervisory experiences, analysing from a practical standpoint those issues considered to be important. In 2014 work focused on the area of IT security, identifying and explaining specific problems and analysing new risk channels, on the study of market operations using mathematical algorithms to generate purchase and sale orders (known as “high-frequency trading”), and on corporate governance issues (such as the interaction of supervisors with corporate senior management or the analysis of the suitability of directors).

Lastly, in the European arena, the Banco de España participates in the work of the Joint Committee through its presence in three of the four sub-committees through which the committee carries out its work: financial conglomerates, anti-money laundering, risk analysis and consumer protection, and financial innovation. Although the Banco de España only participates in the first three, it has recently begun working more intensively in the last sub-committee by taking part in several working sub-groups. In 2014 guidelines were adopted in the areas of financial conglomerates and financial services customer protection. Also noteworthy was the publication of the half-yearly report on risks and vulnerabilities of the European Union financial system which is submitted to the Financial Stability Table and to the Economic and Financial Committee (a Council group reporting directly to ECOFIN).

### 7.4 Other regional fora

#### 7.4.1 WORK OF THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA)

The ASBA is a high-level forum in which the banking supervision and regulation bodies of 35 countries of the Americas are represented. Its main aims are to develop and promote banking supervision practices in line with international standards and to support the development of banking supervision skills and resources through the organisation of training courses and the coordination of technical cooperation services. The Banco de España has been a collaborator member of the ASBA since its creation, and since 2006 it has been the only non-regional associate member, participating actively in the governing bodies of the Association, in its working groups and continuous training plans.

In 2014 the Banco de España attended the meetings of the ASBA’s governing bodies, and also participated in a working group on matters relating to stress testing. It also made significant efforts in the area of supervisor training through seminars in the region and in Spain.