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Financial Regulation Outlook

May 2015
Financial Systems and Regulation Area

- Basel updates progress in Basel III implementation: New liquidity and leverage rules adopted in most relevant jurisdictions in 2015
- Bank Structural Reform: Still a Lack of Consensus
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Summary

Basel updates progress in Basel III implementation

New liquidity and leverage rules adopted in most relevant jurisdictions in 2015. The Basel Committee on Banking Supervision (BCBS) has issued its eight progress report providing a high-level overview on its members' implementation of Basel II, Basel 2.5 and Basel III. The report focuses on the status of domestic rule-making processes to ensure that the Basel standards are transformed into national law or regulation according to the internationally agreed timeframes. It details the state of play in 27 jurisdictions as at the end of March 2015.

Bank Structural Reform: Still a Lack of Consensus

State of play and open issues. The European Commission released its proposal in January 2014. Both Parliament and Council have yet to achieve internal agreement. The Parliament failed to agree on a common position in the vote on 26 May. This represents a new hurdle and increases the uncertainty about the final reform. Against this background, an agreement under the Latvian Presidency is unlikely.

Endorsing Macroprudential Policies

A step in the right direction, just the beginning. The relevance of macroprudential policies is increasing day by day, after the last global crisis evidenced that microprudential, monetary, fiscal and structural policies were not sufficient to achieve a stable long-term balance between financial stability and economic growth. In that vein, policy-makers, the financial industry and academia are increasingly devoting their resources to deepen in this discipline that is still in its infancy and combines art and science.

Capital Markets Union

10 highlights on Europe's new flagship initiative. The Capital Markets Union aims at developing a truly integrated single market for capital, through the removal of barriers to investment, a more efficient capital allocation and the development of alternative funding sources. The Commission opened the debate with a Green Paper published in late February, but further clarification should be expected in the Action Plan to be released in September. We highlight the key issues that will mostly influence the development of this Union.

The first six months of European banking supervision

The first six months of the SSM from a different perspective. Up to now, the bulk of the assessment of the SSM has been from the ECB standpoint. However, National Competent Authorities (NCAs) and financial institutions have also made a remarkable effort to face this new reality. After six months since the launch of the SSM, it is a good moment to look back and see how the different parties involved have adapted and what are the main challenges ahead.

The new resolution tools and liquidity provision

Liquidity in resolution has been uncharted territory. Since 2011, financial regulation has been making progress in developing a comprehensive resolution regime to deal with a future bank crisis. The need for a minimum amount of loss-absorbing liabilities (TLAC) and the use of the bail-in are the cornerstones of the resolution process, but they are not the answer to all problems. Authorities should ensure that failed banks have access to liquidity from the opening business day after entering into resolution. In this sense, solving liquidity issues in resolution is still uncharted territory, which the FSB is planning to tackle in 2015 and 2016.

A Digital Single Market Strategy for Europe

An opportunity to unleash the potential of ICTs. The Digital Single Market Strategy is an opportunity to unleash the potential of ICTs, which are the enablers that underpin innovation, allow companies to grow in scale and increase efficiency and productivity. However, to achieve a comprehensive Digital Single Market, the initiatives should be consistent with next actions and other regulatory framework reviews.

1 Basel updates progress in Basel III implementation

New liquidity and leverage rules adopted in 2015

The Basel Committee on Banking Supervision (BCBS) has issued its eighth progress report, providing a high-level overview on its members' implementation of Basel II, Basel 2.5 and Basel III. The report focuses on the status of domestic rule-making processes, to ensure that the Basel standards are transformed into national law or regulations according to the internationally agreed timeframes. It details the state of play in 27 jurisdictions as of the end of March 2015. The report, published on a semi-annual basis since October 2011, covers: i) risk-based capital requirements; ii) the liquidity coverage ratio; iii) disclosure of the leverage ratio, and iv) the standards for global and domestic systemically important banks.

Monitoring progress in implementation to promote timely adoption

The BCBS started the Regulatory Consistency Assessment Programme (RCAP) in 2012, to favour timely and consistent implementation of the global banking prudential standards, necessary to provide a level playing field and promote market confidence in the banking system. Promoting the timely adoption of Basel III, together with ensuring consistency regarding both the adopted standards and the outcomes in national implementation are part of this programme. To this end, the BCBS monitors and discloses the status of adoption of Basel III in its member jurisdictions as a way of increasing the peer pressure to adopt the new standards on a timely basis. A table follows summarising the latest exercise.

Table 1
Status of adoption of Basel III as of end-March in member countries

Basel III components	Basel III calendar Entry into force	Status of national adoption	Countries ahead	Countries delayed
Risk-based capital binding	**Jan 2013**	**Already in force in all members**		Most starting in 2014 (in. EU and US) Japan: incomplete (buffers pending)
Liquidity Coverage Ratio binding	**Jan 2015**	**Entry into force in 2015 in most members**	Turkey (Apr'14) China (Mar'14)	EU (Oct'15) Indonesia/Russia Brazil (Oct'15)
Leverage Ratio disclosure	**Jan 2015**	**Entry into force in 2015 in most members**	Turkey (Jan'14)	Mexico (draft in 2015) Australia Russia (Jun'15) Brazil (Oct'15)
G-SIB/D-SIB capital buffers binding	**Jan 2016**	**Work in progress in most members**	EU (CRD IV – 2014) Sweden: 4 banks (Jan'15) Switzerland (2013)	Turkey Mexico
Net Stable Funding Ratio and Leverage Ratio binding	**Jan 2018**	Not monitored yet		

***Member countries** include: Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, Spain, South Africa, Sweden, Switzerland, Turkey, the United Kingdom and the United States
Source: BBVA Research based on BCBS

As a complementary exercise, the Financial Stability Institute monitors the implementation in jurisdictions that are neither members of the BCBS nor of the EU. According to the last annual survey (FSI survey. Basel II, 2.5 and III Implementation. July 2014) that covers 90 countries, significant improvement has been achieved in the adoption of international prudential standards. Around half of them have already implemented Basel II. Nevertheless, the scope of timely adoption of Basel III is quite limited at the moment (less than 10%), but around a third of the countries have partially implemented, or are in the process of implementing, the new standards.

Assessment

The adoption of Basel III is largely progressing according to the internationally agreed timeframes in most BCBS member jurisdictions. The new liquidity requirements and the disclosure of the leverage ratio have been widely adopted, to come into force in 2015, and the required changes at the national level - to implement in 2016 the new requirement of capital buffers for entities considered to be systemic - have already started. Certainly, this timely implementation of Basel III rules will contribute favourably to enhance the resilience of the global banking system to financial stress and to promote confidence, insofar as it is accompanied by an internationally consistent implementation of the rules.

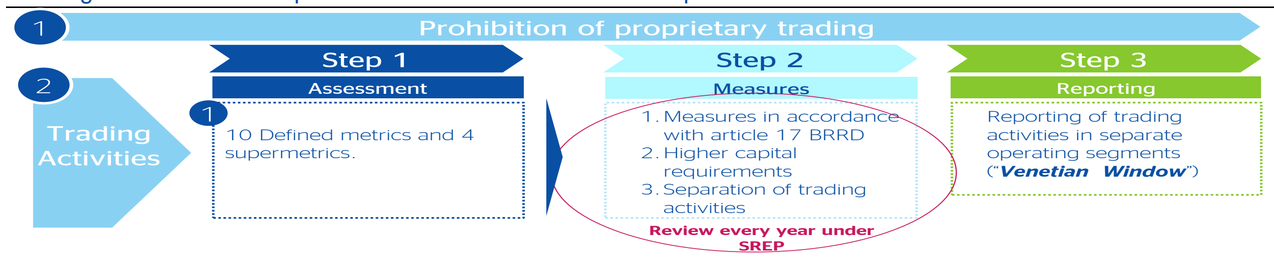
2 Bank Structural Reform: Still a Lack of Consensus

State of play and open issues

The European Commission released its proposal in January 2014. Both Parliament and Council have yet to achieve internal agreement. The Parliament failed to agree on a common position in the vote on 26 May. This represents a new hurdle and increases the uncertainty about the final reform. Against this background, an agreement under the Latvian Presidency is unlikely.

After eighteen months, the Council's and Parliament's positions on Banking Structural Reform (BSR) are divergent in key issues such as how to regulate proprietary trading. However, according to the latest Parliament position as of 18 May, they share views regarding the support for a more discretionary approach on the separation of trading activities in exchange for higher transparency. Until now, the Parliament's amendments have sought to modify the initial proposal, so as to rely more on a risk-based approach. However, with the rejection of such a compromise in the vote on 26 May, Parliament's position might change. The following chart summarises the process for the application of the Regulation under the Parliament's rejected compromise

Chart 1
Banking Structural Reform process under latest Parliament compromise



Source: BBVA Research

We highlight below some of the open issues either in the Council or Parliament:

- **Proprietary trading**: Two main approaches are being considered to protect credit institutions from the losses that these activities may carry. First, a straightforward prohibition of proprietary trading which is the stance supported by Parliament (as the Volcker Rule and the Commission's proposal establish). Second, the separation of proprietary trading and other trading activities into a legally separate entity from the core credit institution, as some Member States prefer.
- **Market making:** Banks play a very important role in financial markets as liquidity providers. They do so by matching market participants' transactions between existing supply and demand, and by stepping in as the counterparty of their clients' trades by committing their own balance sheet capacity. In this way, they contribute to market liquidity and to cushion price volatility. There is huge discussion on whether a separation of this activity would hamper market liquidity. Member States are more favourable to preserving this activity as long as it does not represent systemic risk for the financial system, while the Parliament is more prone to separation.
- **Organisational structure of the group**: Parliament is weighted in favour of strict separation of the core credit institution and the trading entity (separate legal entity) while Member States admit a more flexible structure of the group without imposing limitations on ownership relations between them.
- **Derogation clause:** There is a determination to find a political solution to those countries that have already adopted national legislation, in particular the UK, although the fear of setting a negative precedent for the level playing field in Europe looms over this solution.
- **Use of derivatives:** The acceptance of derivatives in the core credit institution is limited to those cleared through CCP, both to hedge their own risk and also to provide management services to customers. This is a concern for the industry, as it might undermine the capacity of the entity and its clients to manage their own risks.
- **Framed discretion**. The extent of the supervisory judgment of national authorities in assessing the risk profile of a bank and the separation of certain trading activities has also been discussed. Both the majority of Member States and the Parliament (at least in its latest Parliament compromise) seem in favour of granting more discretion when deciding the measures to be applied, as opposed to automaticity based on the use of ratios and triggers. This would be agreed in exchange for increased transparency and reporting requirements on the risk associated with these activities.

3 Endorsing Macroprudential Policies

A step in the right direction, just the beginning

The relevance of macroprudential policies is increasing day by day. The last global crisis evidenced that microprudential, monetary, fiscal and structural policies were not sufficient to achieve a stable long-term balance between financial stability and economic growth. In that vein, policy-makers, the financial industry and the academia are increasingly devoting their resources to deepen in this discipline that is still in its infancy and combines art and science.

Macroprudential policy: a powerful tool to be used wisely

There is consensus among policy-makers, the financial industry and academia - as the last report of the World Economic Forum highlights - about the prominent role of macroprudential measures in contributing, jointly with other policies, to the enhancement of society's welfare.
Three main conditions necessary for macroprudential supervision policy to be effective in achieving financial stability would be:

1.- Coordination and cooperation among all the players. Non-coordinated actions and an inconsistent use of the macroprudential toolkit can undermine the intended objective, thus increasing systemic risk instead of reducing it. Therefore, in Europe a balanced division of responsibilities between national and EU authorities is necessary, because some shocks still remain national. The adoption of measures at a national level is also needed as financial stability lies first within national frameworks. Coordination between the Single Supervisory Mechanism, the national central banks and the Member States will be key. Whereas the ECB has a prominent role, the Member States should still have a very deep involvement.

2.- An adequate interaction between macroprudential policies and other policies, such as monetary or fiscal policies, has to be properly considered. Indeed, the existence of spillover effects among those policies makes necessary the design of a multidisciplinary and holistic approach to increase its efficiency and avoid potential conflicts. Macroprudential and monetary policies tend to pull in the same direction and most of the time they have huge synergies; however, there is also the possibility of a conflict of interest and, in this case, a hierarchy of objectives is needed. It is our view that in case of conflicting objectives, financial stability must be preserved above any other goal. In short, **considering cross-border and spillover effects** with other policies and instruments increases the effectiveness of macroprudential policy.

3.- Macroprudential policy should also look at shadow banking. A tailor-made approach wide enough to cover all systemic risk activities and entities is required. Otherwise, regulatory arbitrage from the more-regulated banking sector to the less-regulated shadow banking sector will cause a substitution effect in systemic risk to the non-banking sector, and the implementation of measures might not have the desired effects, due to the externalities and cross-border effects that escape the radar of the policy makers. Stress tests for the asset management industry[1], minimum haircuts on non-centrally cleared securities financing transactions[2] or the reform of the money market funds in the USA (Section 120 of the Dodd-Frank Act and FSOC 2015 annual Report) and in Europe are examples of macroprudential tools for the non-banking sector.

Our assessment

On the one hand, the increasing consensus in favour of macroprudential policies sends a positive signal to the whole financial system. But it is necessary to move beyond a declaration of good intentions. More specificity is necessary in addressing questions such as what tools are required to deal with different imbalances, how to calibrate the use of these new tools, to what extent the authorities should rely on either rules or discretion, etc.

The next steps should be to evolve towards a more forward-looking and rule-based framework, bearing in mind that the main difficulty is calibrating the cycle ex-ante, and adequately fostering the macroprudential toolkit with customised instruments for the non-banking sector, to pave the way for a level playing field and financial integration.

1: IMF. GFSR. Chapter 3. *The asset management industry and financial stability*. April 2015.
2: FSB. Strengthening Oversight and Regulation of Shadow Banking. *Regulatory framework for haircuts on non-centrally cleared securities financing transactions*. 14 Oct 2014.

4 Capital Markets Union

10 highlights on Europe's new flagship initiative

The Capital Markets Union (CMU) aims at developing a truly integrated single market for capital, through the removal of barriers to investment, more efficient capital allocation and the development of alternative funding sources. The European Commission (EC) opened the debate with a Green Paper published in late February, but further clarification can be expected in the Action Plan to be released in September. We highlight the key issues that will mainly influence the development of this Union.

1. **CMU can be very positive for the EU economy if it really achieves its goals.** However, the project is essentially long-term and it will take time until tangible results materialise. Therefore, we need to ensure a healthy and robust banking system able to provide credit and with a central role in capital markets as issuers, investors and intermediaries.
2. **The digital dimension is key and it should be a central part of the EU institutional agenda.** New technologies offer great opportunities for efficiency gains and will change market rules by creating new products and allowing new access to the markets. Therefore, the EU should support this transformation while dealing with some new challenges, which include the establishment of an appropriate regulation for new digital players, so as to preserve the level playing field. Further work is expected under EC's proposal for a Digital Single Market and the forthcoming Green Paper on retail financial services.
3. **Alternative funding sources are worth promoting, but financial stability must be ensured.** Crowdfunding, venture capital or private equity can complement bank financing and could be very useful in facilitating access to funding for high-growth start-ups and innovative firms. However, preserving the level playing field requires appropriate regulation and supervision at EU level to ensure consumer protection and avoid the risk of activity shifting to the less-regulated shadow banking sector.
4. **Uniform implementation of the single rulebook across the EU is of the utmost importance.** The effects of different rules should be coordinated not to unnecessarily duplicate requirements. Having said that, CMU objectives can be jeopardised by other EU initiatives, such as the banking structural reform or the financial transaction tax (FTT).
5. **In order to foster SMEs' participation in capital markets, further harmonisation of credit information and enhanced standardisation in reporting are desirable.** This could be achieved through the creation of an EU credit register that gathers information on SMEs (backed by a legal protection regime to clarify client confidentiality obligations); simplified albeit comprehensive reporting (e.g. XBRL) could also be useful. In addition, the development of private placement markets, which would especially benefit medium-sized companies, could be enhanced by harmonising their tax treatment.
6. **An institutional change is not necessary for the success of the Capital Markets Union, at least for now.** The European Supervisory Authorities should be more active in ensuring a harmonised implementation and avoiding national gold-plating of the rules.
7. **Institutional investors will be key for promoting long-term and infrastructure investment**. This requires careful project screening and selection, based on sound viability studies, and solving the legacy problems. To promote the new European Long-Term Investment Funds (ELTIFs) the EC should consider a revision of its tax and regulatory treatments. In addition, the EU should encourage private investment in pension funds to deal with current demographic trends, rather than focusing on creating a standardised EU product for personal pensions.
8. **The EU should also enhance the attractiveness of its capital markets for retail and international investors.** Increasing retail participation requires legal certainty and that investors understand all the risks. For that, the EU should promote clarity of the rules applicable to financial intermediaries and financial education, and ensure that investors receive information that is clear and proportionate to the risks. International investment can be enhanced through regulatory equivalence and mutual recognition agreements, and supported by Europe's international trade policy (e.g. by including financial services in the Transatlantic Trade and Investment Partnership).
9. **The Commission should review the regulatory treatment for high-quality securitisations in order to lift unnecessary regulatory burdens.** However, this is only part of the solution and the sustained recovery of securitisations should be underpinned by an improved macroeconomic situation.
10. **The success of the project ultimately rests on the harmonisation of Member States' legal, insolvency and tax frameworks.** The creation of an EU-level corporate vehicle subject to specific corporate and insolvency regimes could be a valid alternative to full harmonisation, to be offered as an option for companies seeking to operate cross-border. Notwithstanding, insolvency regimes need further harmonisation in areas such as early restructuring processes and the treatment of debtors. On taxation, harmonisation should be based on the principles of residence and neutrality.

5 The first six months of European banking supervision[3]

The first six months of the SSM from a different perspective

Up to now, the bulk of the assessment of the SSM has been from the ECB standpoint. However, National Competent Authorities (NCAs) and financial institutions have also made a remarkable effort to face this new reality. After six months since the launch of the SSM, it is a good moment to look back and see how the different parties involved have adapted and what are the main challenges ahead

The ECB

The ECB has been the main player in this new organisational reality. As such, it has made remarkable progress in three different domains. First, on direct supervision, it has followed up the results of the comprehensive assessment (CA), ensuring adequate remedial actions at the bank level and the implementation of the SREP 2014 decisions. In the same vein, it has prepared the 2015 SREP process (i.e. application of a common methodology described in the Supervisory Manual such as review of banks´ ICAAP and ILAAP and capital and liquidity quantification, etc.) and it has designed the strategic and operational planning for 2015 (i.e. defined the main supervisory activities to be carried out such as ongoing supervision, on-site inspections or internal model investigations). Second, the development of horizontal expertise through the establishment of common methodologies (i.e. for authorisations, for internal model validation, for on-site inspections or for policy development). These common methodologies will foster the harmonisation of supervisory approaches and will promote an intrusive approach. And third, there is the indirect supervision of Less Significant Institutions (LSI). In this sense, the ECB has defined and implemented a framework for indirect supervision and methodology that tries to promote best practices and ensure consistency of supervisory outcomes.

National Competent Authorities (NCAs)

Under the SSM, NCAs still play a role not only in keeping the responsibility of direct supervision for LSI but also of Significant Institutions (SI) as part of the Joint Supervisory Teams (JST). The latter role implied a non-negligible change for NCAs. First, at a personal standpoint, in a way that supervisors now have to adapt to a more international working environment with the difficulties implied (i.e. different supervisory cultures, languages, etc.). And, from an organisational standpoint, some NCAs have adapted their structures to this new reality. Regarding supervision, as Dr. Drombet, member of the Executive Board of the Deutsche Bundesbank remarked, the SSM should find a proper balance between harmonisation, subsidiarity and proportionality. Between the two first features the progress is considerable, but regarding proportionality there is some room for improvement. To be more precise there is the need to tailor supervisory processes to the size and complexity of individual banks. As such, the lessons learned up to now are that: first, JSTs need to be of sufficient size to be able to perform their supervisory duties in an effective manner. And, second, the size of a JST should be proportionate to the size and significance of the supervised institution.

Banks

Since the launch of the SSM, financial institutions have also done their homework to face this new reality. As such, banks need to understand the supervisory culture as soon as possible. In this regard, financial institutions have assessed in depth supervisory regulations including EBA SREP Guidelines or SSM regulations. In addition to this, there have been numerous contacts with the JST to enhance their knowledge of financial institutions' governance or of business models, among other things. In parallel, banks have had to decide the language to be used in their daily relations or written communications with the SSM. Finally, during these first six months, banks have also been subject to the first supervisory decisions as Pillar 2 measures, recommendations on dividend distribution policies or embarking on on-site inspections and thematic reviews.

Assessment

As mentioned in previous articles, the general assessment of the launch of the SSM is extremely positive from the three points of view here presented. Not only has the ECB done its homework but also NCAs and financial institutions have made a remarkable effort in adapting their internal organisations to this new reality and trying to speed up the understanding of this new culture.

3: Some of the ideas presented in this note were discussed during the ILF (Institute for Law and Finance) Conference on the Banking Union in Frankfurt, on May the 4th, where BBVA took part

6 The new resolution tools and liquidity provision

Liquidity in resolution has been uncharted territory

Since 2011, financial regulation has been making progress in developing a comprehensive resolution regime to deal with bank crises. The need of a minimum amount of loss-absorbing liabilities (TLAC) and the use of the bail-in are the cornerstones of the resolution process, but they are not the answer to all problems. Authorities should ensure that failed banks have access to liquidity from the first business day after entering resolution. In this sense, solving liquidity issues in resolution is still uncharted territory, which the FSB is planning to tackle in 2015 and 2016.

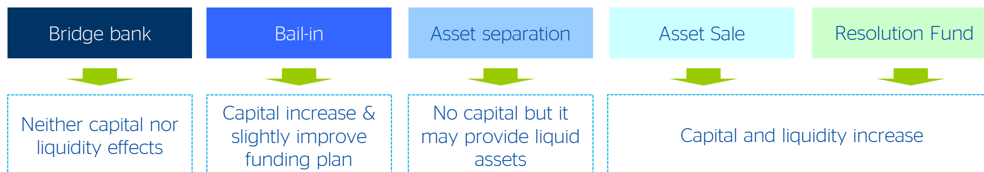
In 2014, the discussion of resolution was focused on how to recapitalise failed banks and avoiding the need for public support through the use of the Total Loss Absorbing Capacity (TLAC). However, the connection of this framework with the liquidity provision of failed banks has been uncharted territory that the FSB is planning to tackle in 2015.

The FSB's key attributes (in particular section 6) identify different sources for funding in resolution, such as privately-financed deposit insurance, resolution funds or public temporary funding subjected to strict conditions. However, the FSB's principles do not tackle the conditions, interplay and the amount of resolution funding. In this sense, opening the discussion on how to ensure liquidity in a resolution is more than necessary at the current stage of the regulatory discussion.

The new resolution regime establishes a series of tools ranging from asset sales to financial arrangements to deal with banks in trouble. From a liquidity and funding standpoint, the new resolution tools have different implications as shown in Figure 1.

Figure 1

Resolution tools and their capital and liquidity effects



Source: BBVA Research

The use of the resolution fund and the asset sale would be the only new resolution tools which could be used to fund banks in resolution, albeit with limited firepower, especially under a systemic liquidity crisis. In fact, there is broad agreement that the central banks' role as lenders of last resort (LOLR) has been critical in the recent crisis and will probably be a necessary liquidity backstop in the future. Therefore, the new regulatory landscape would help authorities in making the LOLR credible by minimising its shortcomings:

- The new resolution powers and the stress test supervisory exercises help to preserve the "no lending to insolvent firms" principle in the LOLR.
- The use of the resolution fund to cover liquidity needs, especially under an idiosyncratic crisis, would minimise the amount required of LOLR.
- The resolution fund, along with penalty rates in LOLR, may offset the future absence of the "constructive ambiguity" approach of central banks in relation to LOLR, which has been put in question in this crisis.
- Despite the expectation of lower and more transparent LOLR, the blurred distinction between solvency and liquidity problem is something that will challenge the provision of liquidity.

In order for the LOLR and resolution fund to be effective, policy-makers should set a clear road-map for how to use both tools. This should detail in which circumstances the resolution fund and/or the central bank may provide liquidity assistance in normal and stressed times. Finally, liquidity crisis preparedness and how to ensure liquidity and collateral provision in a liquidity stress scenario and resolution are becoming more important. Central banks, but also supervisors, resolution authorities and banks, should periodically assess the collateral availability from a LOLR perspective.

7 A Digital Single Market Strategy for Europe

An opportunity to unleash the potential of ICTs

The Digital Single Market Strategy is an opportunity to unleash the potential of ICTs, which are the enablers that underpin innovation, allow companies to grow in scale and increase efficiency and productivity. However to achieve a comprehensive Digital Single Market, the initiatives should be consistent with next actions and other regulatory frameworks reviews.

The Digital Single Market Strategy is built on three pillars and it is in total composed of 16 initiatives that will be opened to consultation during the following months. The pillars are: i) better access for consumers and businesses to digital goods and services across Europe, ii) creating the right conditions and a level playing field for digital networks and innovative services to flourish, and iii) maximising the growth potential of the digital economy.

Facilitating new digital services and ensuring trust and competition

The strategy includes measures to enhance the network infrastructure such as incentivising investment in high speed broadband, ensuring the provision of broadband services in rural areas and defining a new approach to the spectrum policy, among others. It also facilitates the development of new digital services such as cloud computing through initiatives including cloud services certification, contracts, switching of cloud services providers and a research open science cloud. Moreover, it tackles barriers to the free movement of data within the EU and unjustified restrictions on the location of data for storage or processing purposes.

Regarding the ensuring of a trust environment, the Strategy proposes a revision of the ePrivacy Directive and establishing a Public-Private Partnership on cybersecurity in the area of the technologies and solutions for online network security. Moreover, digital skills and expertise will be incorporated as a key component of the future EC’s initiatives on skills and training.

To address concerns over the growing market power of some online platforms, the Commission wants to assess the role of different platforms and intermediaries to ensure competition in the digital world, covering issues such as transparency, the usage of the information they collect and the relationships between platforms and suppliers.

Breaking down barriers to cross-border e-commerce

E-commerce is one of the key areas in which the European Commission is willing to remove the legal and technical barriers that prevent the EU to constitute a single market. In particular, harmonising rules on contracts and consumer protection, as well as making more efficient the cooperation on enforcement, would facilitate cross-border online sales of both digital content and tangible goods. As there are also barriers related to parcel delivery services, the EC wants to improve price transparency and regulatory oversight to make cross-border delivery more efficient and affordable. The strategy also proposes extending the single electronic registration and payment to online sales of tangible goods and introducing a common EU-wide simplification measure, VAT threshold, to help small start-up e-commerce businesses.

Apart from removing legal and technical barriers, the EC also wants to end unjustified geo-blocking or geographic price discrimination, which fragment the Internal Market. Furthermore, the Commission has launched along with the strategy a Competition Sector Inquiry focusing on the application of competition law in the e-commerce area. First results of this work are expected to be published on mid-2016, with a report for consultation.

However, the Strategy lacks from specific initiatives related to the development of e-payments, e-contracts and e-invoicing, which are essential drivers to cross-border e-commerce. Standardisation in these areas is a key priority to achieve interoperability within Member States and therefore it should be included into the extension of the European Interoperability Framework.

In any case, the achievement of a proper Digital Single Market requires the consistency of the previous initiatives with the Capital Markets Union´s strategy and the coming Green paper on Digital Retail Banking.

Main regulatory actions around the world over the last month

	Recent issues	Upcoming issues
GLOBAL	On **27 Apr BCBS** published its **8th progress report** on adoption of Basel regulatory framework On **7 May IOSCO** launched a **consultation** on sound practices at large intermediaries for **assessing credit risk** On **12 May BIS, FMI & ECB** published the Handbook for **securities statistics** On **20 May BIS** published a report on the **impact of regulatory changes** on monetary policy On **26 May FSB** reviewed the **supervisory framework** for global systemically important banks **(G-SIBs)**	In **Nov Turkey** will host the **G20 Leaders summit** in Antalya
EUROPE	On **20-24 Apr** the **EC** participated in the **9th round** of negotiations with the US on the **Transatlantic Trade and Investment Partnership** (TTIP) On **25 Apr** the **ECB** opinion on the EU **bank structural reform** and **decision** on inclusion of year-end profits in **CET1 capital** were published in the **OJEU** On **27 Apr ECB** and **EC** published reports on **Financial Integration** in Europe, highlighting improved conditions in 2014 On **29 Apr ECB** published a decision on the total amount of **supervisory fees** for 2015 On **29 Apr EBA** launched a **consultation** on a revised data template for **identification of G-SIIs** On **29 Apr EP** adopted the rules on **Money Market Funds** On **5 May Council and EP** reached a political agreement on the **payment services directive (PSD2)** On **6 May EBA** published its final guidelines on **recovery indicators** On **6 May EC** released its proposal to create an EU **digital single market** On **8 May EBA** published final guidelines for use of **early intervention measures** On **11 May EBA** launched a consultation on **RTS on specialised lending exposures** On **12 May ESAs** published a report on **securitisations** On **13 May EBA** launched a **consultation** on valuation of **derivatives in resolution** On **13 May** EC's delegated regulation on **RTS for major holdings** was published in the **OJEU** On **19 May EP** adopted its position on a regulation for **indices used as financial benchmarks** On **19 May** two Regulations were **published in OJEU** on: interchange fees for card-based transactions and European Long Term Investment Funds On **20 May EP** backed the Council's position on rules for preventing **money-laundering** and terrorism financing On **20 May EBA** published three sets of **guidelines** on implementation of **resolution tools** On **21 ECB** released the lists of **significant supervised entities** and of less significant entities, supervised by national competent authorities On **22 May EC** launched a public **consultation** on first experiences implementing **EMIR** On **22 May ESMA** published **opinion** to the EU institutions on the **impact of EMIR on the UCITS Directive** On **22 May EBA** updated its **guidelines** on **interest rate risk** arising from non-trading activities On **26 May EBA** published its final guidelines on **triggers for resolution** On **26 May ECON** voted on the proposal for a **Banking Structural Reform**	In **1H2015** several legislative proposals are expected to be adopted: MMFs, indices used as benchmarks, payment services directive, long-term shareholder engagement, reporting and transparency of SFTs and a revision of general data protection regulation In **June** a new **Four Presidents Report** will be presented In **2H 2015** an **EC** consultation is expected on retail financial services, insurance and consumer policy issues In **2H 2015 EC** will publish an **action plan** on **Capital Markets Union** In **2015 EC** will launch a consultation on an EU **covered bonds** framework In **2015 EC** will publish a proposal on an EU framework for **recovery and resolution of *systemically* important financial infrastructures** such as CCPs
MEXICO	On **17 Apr Banco de México** issued rules on **derivatives** establishing *TIIE 28 swaps* as a standardised contract, required to be traded on **exchanges** or **electronic trading platforms** and cleared on a CCP.	

Continued on next page

cont.	Recent issues	Upcoming issues
LATAM	In **May Colombia**'s Ministry of Finance launched **consultations** on: (i) restrictions for **pension funds**' (PF) investment in **infrastructure**, (ii) **credit rating** standards for PF's investments abroad on local issuers and (iii) a project to promote **financial integration** with Pacific Alliance's countries. In **May Colombia**'s Central Bank amended the **FX regulation**, allowing credit institutions to obtain external funding denominated in COP that can be used for local lending. It also allowed the use of FX swaps for FX intervention On **10 Apr Venezuela**'s Government reduced the hard currency quota for travelling abroad and reserved intermediation to buy **hard currency** for travels and e-purchases solely to public banks In **May Peru**'s Central Bank cut its **window facilities interest rates**: the lending rate went down by 25bp while the deposit rate was reduced by 5bp	
USA	On **29 Apr SEC** proposed rules for the cross-border security of **security-based swaps** based on activity in the US On **19 May Financial Stability Oversight Council** (FSOC) published its **annual report**, identifying the vulnerabilities and advances in regulatory reforms On **19 May** the **NY Stock Exchange** (NYSE) launched a new **bitcoin index** On **21 May Fed** proposed adding certain state and municipal bonds to the range of assets a bank can use to meet the **Liquidity Coverage Ratio**	In **2015**, regulators expect **banks to step up** standards for **governance, consumer protection** compliance, **third-party risk management, cybersecurity, credit quality and anti-money laundering** compliance. Other supervisors' priorities include the Volcker Rule, liquidity requirements and resolution planning. **Fed** intends to assess banks' proprietary trading and market-making exercises as enforcement of the **Volcker rule** takes effect. **SEC** is considering an **uniform fiduciary standard** for brokers and investment advisers
TURKEY	On **2 May Central Bank of Turkey** announced that US dollars denominated required reserves, reserve options and free reserves held at the CBT will be remunerated as of 5 May	
ASIA	On **25 Apr** Reserve Bank of **India** announced changes to **priority sector lending (PSL)** norms for domestic banks. It introduced new sectors and allowed banks to buy/sell PSL certificates to meet the PSL criteria. On **22 May China**'s Securities Regulatory Commission and **Hong Kong**'s Securities and Futures Commission agreed **mutual recognition of funds** between mainland China and Hong Kong, effective as of 1 Jul.	

Source: BBVA Research

Abbreviations

AIFMD	Alternative Investment Fund Managers Directive	**FROB**	Spanish Fund for Orderly Bank Restructuring
AQR	Asset Quality Review	**FSAP**	Financial Sector Assessment Program
BCBS	Basel Committee on Banking Supervision	**FSB**	Financial Stability Board
BIS	Bank for International Settlements	**FTT**	Financial Transactions Tax
BoE	Bank of England	**IAIS**	International Association of Insurance Supervisors
BoS	Bank of Spain	**IASB**	International Accounting Standards Board
BRRD	Bank Recovery and Resolution Directive	**IHC**	Intermediate Holding Company
CCAR	Comprehensive Capital Analysis and Review	**IIF**	Institute of International Finance
CCP	Central Counterparty	**IMF**	International Monetary Fund
CET	Common Equity Tier	**IOSCO**	International Organization of Securities Commissions
CFTC	Commodity Futures Trading Commission	**ISDA**	International Swaps and Derivatives Association
AMC	Company for the Management of Assets proceeding from Restructuring of the Banking System (Bad bank)	**ITS**	Implementing Technical Standard
CNMV	Comisión Nacional de Mercados de Valores (Spanish Securities and Exchange Commission)	**Joint Forum**	International group bringing together IOSCO, BCBS and IAIS
COREPER	Committee of Permanent Representatives to the Council of the European Union	**LCR**	Liquidity Coverage Ratio
CPSS	Committee on Payment and Settlement Systems	**LEI**	Legal Entity Identifier
CRA	Credit Rating Agency	**MAD**	Market Abuse Directive
CRD IV	Capital Requirements Directive IV	**MiFID**	Markets in Financial Instruments Directive
CRR	Capital Requirements Regulation	**MiFIR**	Markets in Financial Instruments Regulation
CSD	Central Securities Depository	**MMFs**	Money Market Funds
DGSD	Deposit Guarantee Schemes Directive	**MoU**	Memorandum of Understanding
DFA	The Dodd–Frank Wall Street Reform and Consumer Protection Act	**MPE**	Multiple Point of Entry
EBA	European Bank Authority	**MS**	Member States
EC	European Commission	**NRAs**	National Resolution Authorities
ECB	European Central Bank	**NSAs**	National Supervision Authorities
ECOFIN	Economic and Financial Affairs Council	**NSFR**	Net Stable Funding Ratio
ECON	Economic and Monetary Affairs Committee of the European Parliament	**OJ**	Official Journal of the European Union
EFSF	European Financial Stability Facility	**OTC**	Over-The-Counter (Derivatives)
EIOPA	European Insurance and Occupational Pensions Authority	**PRA**	Prudential Regulation Authority
EMIR	European Market Infrastructure Regulation	**QIS**	Quantitative Impact Study
EP	European Parliament	**RRPs**	Recovery and Resolution Plans
ESA	European Supervisory Authority	**RTS**	Regulatory Technical Standards
ESFS	European System of Financial Supervisors	**SCAP**	Supervisory Capital Assessment Program
ESM	European Stability Mechanism	**SEC**	Securities and Exchange Commission
ESMA	European Securities and Markets Authority	**SIB (G-SIB, D-SIB)**	Global-Systemically Important Bank, Domestic-Systemically Important Bank
ESRB	European Systemic Risk Board	**SIFI (G-SIFI, D-SIFI)**	Global-Systemically Important Financial Institution, Domestic-Systemically Financial Institution
EU	European Union	**SII (G-SII, D-SII)**	Systemically Important Insurance
EZ	Eurozone	**SPE**	Single Point of Entry
FASB	Financial Accounting Standards Board	**SRB**	Single Resolution Board
FBO	Foreign Bank Organisations	**SREP**	Supervisory Review and Evaluation Process
FCA	Financial Conduct Authority	**SRF**	Single Resolution Fund
FDIC	Federal Deposit Insurance Corporation	**SRM**	Single Resolution Mechanism
Fed	Federal Reserve	**SSM**	Single Supervisory Mechanism
FPC	Financial Policy Committee	**UCITS**	Undertakings for Collective Investment in Transferrable Securities Directive

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