3 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA

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In 2012, international committees continued to work on designing and implementing the new international prudential standards on capital, liquidity, resolution and systemically important banks.

The response to the crisis that broke in 2007 was given momentum and political direction at the highest level by the G20. The basic objectives of their agenda for financial reform were to reduce systemic risk and to make financial institutions more resilient in the face of adverse shocks. The Financial Stability Board (FSB) played a key role in developing these objectives and coordinated the work of numerous institutions and international committees, including most notably, in the banking field, the Basel Committee on Banking Supervision (BCBS). As regards the FSB's work in 2012, there was progress on the project seeking to lessen the moral hazard arising from the existence of systemic financial institutions, on the monitoring and regulation of so-called shadow banking and on the reform of the workings of OTC derivatives markets.

In December 2010 the BCBS approved the package of measures known as Basel III. In addition to strengthening the capital framework already in place, this accord entailed the introduction of a leverage ratio and two liquidity ratios. In 2012 the Committee finalised the design of the short-term liquidity ratio and concluded the framework for the treatment of domestic systemic banks, the treatment of exposures to central counterparties and the review of key supervisory principles. It also issued consultative documents on the fundamental review of the trading book and on the securitisation framework. Furthermore, it is reviewing the guidelines on large exposures, which date back to 1991, to bring about an effective and internationally harmonised standard in this area.

Within the European Union, the European Banking Authority (EBA), in its second year of operating, worked most actively in the regulatory arena issuing, among other documents, guidelines and binding technical standards. It also contributed with its opinions to various European legislative initiatives and consultative papers relating to the banking sector. Further work saw it promoting the convergence of supervisory practices through active participation in the European supervisory colleges and fostering customer safeguards. Lastly, following the recapitalisation exercise in June 2012, it continued monitoring the capital levels of European banks.

The European Systemic Risk Board (ESRB), which is responsible for macroprudential supervision in the European Union, continued its work on identifying and analysing the chief risks to financial stability. The results of this were its recommendations on the dollar financing of banks, on bank financing and on money market funds, with specific proposals to mitigate the risks identified in these areas. The ESRB also continued working on the development of a macroprudential supervision framework in the European Union.

3.1 International fora

3.1.1 WORK OF THE FINANCIAL STABILITY BOARD (FSB)

The FSB has a mandate from the G20 to promote financial stability. Represented on the FSB are the authorities responsible for supervision, financial stability and the ministries of finance of 24 countries, including Spain, and the main bodies and international committees with responsibility for the financial sector. As well as analysing the main vulnerabilities affecting the financial system in coordination with the International Monetary Fund (IMF) and the Bank for International Settlements (BIS), and collaborating in the early-

ACTIVITY OF SUPERVISORY COMMITTEES IN 2012 (a) TABLE 3.1

	Meetings (b)	Groups (as of 31.12.2012)
European Systemic Risk Board (ESRB)	33	10
European Banking Authority (EBA)	151	42
General Board	11	1
Management Board (c)	3	1
Standing Committee on Accounting, Reporting and Auditing (SCARA)	18	8
Standing Committee on Consumer Protection and Financial Innovation (SCConFin) (d)	12	4
Standing Committee on Oversight and Practices (SCOP)	24	6
Standing Committee on Regulation and Policy (SCRePol)	66	17
Other	17	5
Groups of the Joint Committee of the European Supervisory Authorities (e)	13	10
Financial Stability Committee (FSC)	6	6
Financial Stability Board (FSB)	46	27
Basel Committee on Banking Supervision (BCBS)	95	31
BCBS	5	1
Accounting Task Force (ATF)	14	2
Policy Development Group (PDG)	44	16
Standards Implementation Group (SIG)	22	8
Other	10	4
Joint Forum	7	3
Association of Supervisors of Banks of the Americas (ASBA)	5	1
Senior Supervisors Group (SSG)	8	1
TOTAL	**364**	**131**

SOURCE: Banco de España.

a The numbers for each committee include the individuals in the groups reporting to the committee and the committee members.
b The number of meetings includes conference calls by the committees and the permanent groups reporting to them ("level 2 groups").
c Fernando Vargas has been one of the members of the EBA Management Board since June 2012.
d Up to 4 May 2012: Standing Committee for Financial Innovation (SCFI).
e Joint groups of the three Supervisory Authorities (Banking, Insurance and Occupational Pensions, Securities and Markets).

warning exercises, the FSB has since its creation led the reform of international financial regulations in response to the crisis that broke in 2007-2008 and taken responsibility for overseeing the consistent implementation of the reforms proposed in the various jurisdictions.

Over the course of 2012, notable headway was made in concluding the regulatory reform agenda. There was progress in developing and setting in place the regulatory framework for global systemically important financial institutions (G-SIFIs), the reform of OTC derivatives markets and the regulation of the "shadow financial system".

In November 2012 the FSB released the updated list of global systemically important banks (G-SIBs) and various preliminary reports, most notably on resolution and on intensive and effective supervision. The FSB is also promoting the development of a specific treatment for systemic institutions outside the banking sector (insurance, infrastructures, securities houses). In the banking area, it promoted the publication by the Basel Committee of principles for the treatment of systemic institutions from a domestic standpoint (D-SIBs). To make it easier, moreover, to compile and analyse information on global systemic banks, the FSB has harmonised coding through the LEI (Legal Entity Identifier) system.

In June 2012 the political decision was taken to promote the single supervisory mechanism (SSM). This gave rise to the drawing up and subsequent approval by the European Council on 14 December 2012 of the proposal for a Regulation giving legal form to this initiative. Headway has been made in 2013 on the negotiation and technical refinement of this tax, to which the European Parliament has already expressed its support, pending the definition of the model of transparency and accountability of the new supervisor. The text is therefore expected to be approved shortly and, 12 months after its entry into force, the new supervisory mechanism should be operational. On 14 December 2012 the European Council (following the Ecofin resolution of 12 December) approved the proposal for a Regulation for the creation of the Single Supervisory Mechanism.

Rationale

Reflection on the usefulness of an integrated supervisory system to tackle the challenges associated with the increased financial interdependence of the European countries led to provision being made for the possibility, in Article 127.6 of the Treaty on the Functioning of the EU, of giving the ECB prudential supervisory powers over credit institutions and other financial institutions (with the exception of insurance companies) further to a unanimous decision by the Member States.

The different episodes of the economic, banking and sovereign debt crisis recently experienced in the European Union have spurred discussions and reflection on the shortcomings in the institutional design of Economic and Monetary Union.

In response, the decision to create the SSM aims to enhance the quality of supervision, to promote market integration and to break the link between banking risk and sovereign risk, whose harmful effects have been felt in various European countries over this period. In turn, the SSM is considered to be a pre-requisite for potential direct involvement of the European Stability Mechanism (ESM) in the recapitalisation of banks.

The SSM is part of a more extensive project, known broadly as "banking union". This umbrella heading also comprises the Single Resolution Mechanism, an initiative which, in terms of the resolution of credit institutions, aims to apply similar criteria to those planned for the supervision of banks, such that the attendant decisions will also be adopted at the European level. The European Commission is expected shortly to put forward an initial proposal, which would ideally be discussed and approved in time for its launch alongside the entry into force of the new supervisory mechanism. The banking union would be completed with a common deposit guarantee system, although the debate on this area has been postponed.

Scope of the Single Supervisory Mechanism

The SSM will encompass all the euro area countries. Additionally, it is envisaged that other European Union countries may apply to join, which would require prior agreement.

Under the proposal, the ECB will directly assume functions for the prudential supervision of credit institutions or consolidatable groups identified as most significant, considering as such, unless circumstances warrant otherwise, those that meet at least one of the following conditions:

- They have total assets exceeding €30 billion.
- They have an assets/GDP ratio of over 20 %, unless total assets are lower than €5 billion.
- They are considered significant at the national level by the competent national authority (CAN), following confirmation of this importance by the ECB, further to a full assessment.

The ECB shall, moreover, assume direct supervision of those institutions or groups that have requested or received direct financial assistance from the European Financial Stability Fund (EFSF); the three most significant institutions of each participating Member State; and those institutions that the ECB considers significant for having subsidiaries in more than one SSM Member State and whose cross-border assets or liabilities account for a significant portion of the credit institution's total assets or liabilities.

Regarding other banks, the ECB will assume indirect supervision, involving the definition of criteria to be followed by the national authorities in the exercise of their functions and decision-making, and in the oversight of the functioning of the system. Further, if necessary, the ECB may decide to assume supervisory functions itself.

The ECB as the new supervisory authority and the role of the national authorities

The SSM is defined as a European supervisory system comprising the ECB and the CNAs of the participating Member States. It is not a reinforced cooperation arrangement between national authorities; rather, it entails the effective transfer to the ECB of all relevant functions pertaining to the supervision of the most significant banks. In this connection, the ECB will be supported and assisted by the national authorities.

Under the proposed Regulation, it befalls the national authorities, in relation to the supervision exercised by the ECB over the most significant banks:

- To provide assistance to the ECB in the preparation and application of supervisory decisions.
- To provide assistance to the ECB in validation tasks.
- To provide whatsoever information should be required for the ECB's performance of its functions.
- To formulate proposals on certain types of decision, such as the granting and repeal of authorisations, and on significant interests.

In any event, the practical arrangements for cooperation between the ECB and the national authorities in the performance of their new functions have to be specified in framework provisions on which the ECB, in cooperation with the national authorities, is working vigorously. Indeed, the different working groups of a Task Force set up to this end, under the leadership of the High Level Group on Supervision chaired by the president of the ECB, are tackling defining the supervisory model and the fit and functions of the national authorities within the SSM. They are likewise addressing other relevant issues, such as the collection of data for the identification of the map of institutions that will come under the direct supervision of the ECB, the definition of a uniform reporting system for banks and the details of the overall assessment exercise for banks, prior to the transfer of supervisory responsibilities.

In this work, and as far as the Regulation will allow, it would be advisable to strike the most appropriate balance so that, while maintaining the direct responsibility of the ECB, the SSM may benefit from the CNAs' experience, knowledge of local markets and resources. It would likewise be advisable to apply a degree of gradualism to the implementation of the unified procedures ultimately defined, so as to ensure a fluid transition and to avert the risk of discontinuity in the performance of the supervisory function.

Governance and accountability

Special relevance has been given in the draft Regulation to the need to safeguard the independence of the ECB's supervisory function in relation to its monetary policy function. In this connection, a Supervisory Board – on which both the CNAs and the ECB will sit – has been set up. Various provisions have been laid down with a view to mitigating potential conflicts of interest between both these ECB functions.

Within the SSM, the ECB will adopt relevant decisions that will have direct repercussions on banks across the euro area countries. For this reason, a dual institutional system of accountability is envisaged: on one hand to the European institutions, and on the other to national parliaments. It should be borne in mind that, unlike monetary policy decisions, which are extended to all euro area countries, supervisory decisions will have a direct effect on the banks of specific countries. Accordingly, the active presence of the ECB before the citizens and authorities of each country will be all the more welcome.

The strengthening of banking regulations entails the need to take measures to prevent a shift by credit intermediation towards less regulated sectors (the "shadow banking system") from giving rise to systemic risk situations. In coordination with the International Organization of Securities Commissions (IOSCO) and the Basel Committee, the FSB issued various consultative papers in 2012 with proposals for regulatory reforms in this area, most notably in connection with alternative funding through repos and securities lending. In addition, it released a second report monitoring intermediation that takes place outside the banking sector.

With a view to reducing interconnectedness between financial institutions, it continued to promote in 2012 the developments needed in OTC derivatives markets to meet G20 requirements that all transactions with standardised OTC derivatives should be cleared in central counterparty clearing houses (CCPs), traded on trading platforms and registered on centralised registration platforms.

In April 2012 it released principles for sound residential mortgage underwriting practices, in response to one of the root causes of the crisis, following up on prior work by the Joint Forum (for the banking, securities and insurance sectors).

The FSB was also instrumental in drawing up recommendations for the public dissemination of information by the industry and is raising the profile of the analysis of the unintended effects of regulatory reforms that may affect the financial stability of emerging and developing economies.

Through its Standards Implementation Committee, the FSB is exhaustively monitoring the implementation of the reforms agreed in its various jurisdictions by means of mechanisms such as peer reviews or preliminary reports on areas of the reform identified as priorities

(Basel III in coordination with the Basel Committee, remuneration, OTC derivatives, etc.). In 2012 it also issued a thematic review on deposit guarantee schemes, and two country reviews (on Switzerland and Canada).

Lastly, the broad mandate extended by the G20 to the FSB and the volume of activities undertaken by the latter prompted a review of its governance so as to ensure its independence and endow it with sufficient resources, nonetheless maintaining its close links to the BIS. This process saw the FSB acquire legal personality, and it was specifically converted into an association under Swiss legislation, though it continues to be hosted and funded by the BIS. Further, as a means of extending the scope of its actions to a greater number of non-member jurisdictions, the FSB continued in 2012 to interact with these jurisdictions through the regional consultative groups.

3.1.2 WORK OF THE BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

The Banco de España continues to be closely involved in the work under way within the Basel Committee on Banking Supervision (BCBS). This work continues to respond to the weaknesses in prudential banking regulation highlighted during the crisis and focuses on reinforcing the regulatory framework and boosting the attendant implementation consistently.

In December 2010, the package of measures known as Basel III1 was approved. This accord, in addition to reinforcing the capital framework already in place, entailed the introduction of two new regulatory instruments: a leverage ratio, and two liquidity ratios. Both measures are subject to an observation period, during which their behaviour will be analysed to so as to confirm whether they meet the objectives for which they have been designed and to preclude any undesirable effects. On the basis of this observation, their design will be altered if necessary. During 2012 the Committee revised the design of the short-term liquidity coverage ratio (LCR), which was finally approved in January 2013 (see Box 3.2). Under this revised design, the calibration of the denominator (liquidity needs) has been altered, and the definition of the numerator – i.e. the stock of highly liquid assets that banks must have to cover their liquidity needs – has been changed. A distinction is drawn between several categories of assets, on the basis of their quality/degree of liquidity, with a new category being opened that allows for the inclusion of lower-graded assets, albeit in a very small proportion. Moreover, the Committee has decided to re-schedule the implementation of this new ratio, which will now be phased in from 2015, beginning with a 60 % ratio that will increase 10 % annually until 2019, when it will come fully into force. As regards other Basel III measures, the Committee continues to analyse the effects their implementation may have on banks' capital ratios and to respond to banks' doubts concerning the new regulations. In addition, the text regulating communication to the markets of the composition of capital has been released.

The Committee is particularly striving to ensure that its measures (Basel III and the previous regulatory packages) are implemented consistently across all the countries that have undertaken to follow them. In this connection, it is analysing the effective and consistent transposition of the rules to national legislation, and any potential slippage; and it is reviewing the practical application of specific elements. In 2012 the transposition of the Basel framework in the European Union (EU), the United States and Japan was analysed. In October the findings of these assessments were published, preliminarily so in the EU and the United States, since the legislative processes transposing the new framework had not yet been concluded. As to the review of specific elements, work focused on calculating asset weightings, in order to increase convergence in respect of the application of the broad Basel framework (see Section 4 of Chapter 1).

In January 2013 the Banking Supervision Committee published "The Liquidity Coverage Ratio and liquidity risk monitoring tools". This document includes changes to the design of the liquidity coverage ratio (LCR) published in 2010. The LCR is part of the package of measures endorsed by the G-20 leaders to strengthen international capital and liquidity regulations.

The LCR is intended to reinforce banks' short-term resilience in the face of a liquidity crisis scenario. In this connection banks must hold a stock of unencumbered high-quality liquid assets that can be converted into cash easily and immediately to cover their liquidity needs (or net cash outflows) over a 30-day period under a prescribed stress scenario. The scenario used to define this stressed situation is a combination of idiosyncratic and systemic events and includes several of the shocks experienced during the crisis that broke in 2007: the run-off of a proportion of retail deposits; a partial loss of unsecured wholesale funding capacity and even of secured funding with certain collateral and counterparties; up to a three-notch downgrade in the bank's public credit external rating; increased drawdowns on liquidity and credit facilities extended; and greater market volatility in the form of bigger collateral haircuts and the demand for additional collateral to back transactions.

The LCR is defined as:

$$\frac{\text{Stock of High Quality Liquid Assets}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\,\%$$

where

Net outflows = Outflows-Min (inflows; 75 % of outflows)

For an asset to qualify to be part of the numerator, it must have a sufficiently liquid market and not be subject to the operational restrictions laid down in the document. Two categories of assets can be included in the stock: Level 1 assets, that may be included in the numerator without limit; and Level 2 assets, that may be recognised up to a limit of two-thirds of Level 1 assets. Moreover, national supervisors may also choose to include within Level 2 assets an additional category (Level 2B assets), which shall account for no more than 15 % of the total stock. Briefly, the main types of assets included in each of the Levels are[1]:

- Level 1: cash, deposits at central banks and debt securities of sovereigns, central banks, PSEs and development banks (with no haircut).

- Level 2 A: corporate debt securities not issued by financial institutions with a minimum AA- rating and covered bonds not issued by the bank itself with a minimum AA- rating (with a haircut of 15 %).

- Level 2 B: residential mortgage-backed securities not issued or originated by the bank itself with a rating of AA or higher (and a haircut of 25 %), corporate debt not issued by financial institutions with a rating between A+ and BBB- (subject to a haircut of 50 %) and common equity shares not issued by financial institutions that are constituent of major stock market indices (subject to a haircut of 50 %).

In calculating net outflows, the contractual flows of cash payables or receivables in the following 30 days are taken into account. These flows are multiplied by parameters that seek to estimate the proportion that would actually be paid or collected in the above-mentioned stress situation.

Although the Committee published the liquidity coverage ratio for the first time in December 2010, it agreed to review its design should its implementation (originally envisaged for 2015) be deemed to have unintended consequences for the extension of credit, economic growth or the financial markets. The current version of the ratio described above thus includes several changes: the range of eligible liquid assets has been broadened and the calibration of the parameters applied to certain contractual flows of cash payables or receivables has been adjusted. Further, it has been made clear that the stock of liquid assets may be used in stress situations and a timetable has been approved for the phasing-in of the ratio (it will come into force in 2015 but the minimum requirement will begin at 60 %, rising to 100 % by 2019), as opposed to the previously envisaged full implementation by 2015. The phasing-in of the LCR has been designed to ensure that this ratio can be incorporated into prudential regulations without disruption to the orderly strengthening of banking systems or the ongoing financing of economic activity.

1 For the complete list of assets and characteristics of the categories, see paragraph 45-54 of "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools".

Also in 2012, progress was made on the treatment of domestic banks (D-SIBs). In 2011 the Committee published the framework for the treatment of global systemically important banks (methodology for their classification, applicable capital surcharge), and the G20 called for this work to be extended to domestic systemic banks since, although their bankruptcy does not affect the system as a whole, this may most adversely impact local economies. In response to this request, the Committee issued a framework document in October on their treatment, which may be considered to complement that on G-SIBs. In July a report outlining the prudential rules for calculating capital requirements associated with bank exposures to central counterparty clearing houses (CCPs) was released. And Sep-

tember saw the review of the core principles for effective banking supervision, where the weaknesses observed during the crisis were taken into account, namely: the need to step up the intensity of supervision and to have the appropriate resources to do so; the importance of the systemic perspective in supervision; and growing attention to matters relating to crisis management and bank resolution processes.

Other banking prudential regulation work may also be highlighted. Concerning the treatment of large exposures, headway has been made on the revision of the recommendations issued in 1991. The analysis takes micro and macro-prudential elements into account. A consultative paper was released in March 2013. The Committee has also commenced work aimed at increasing the simplicity and comparability of the regulatory framework. In the short run the aim is to detect the areas that can clearly be improved and to establish checks as to whether the new standards and guidelines meet these two conditions; in the medium term the idea is to revise the regulatory framework as a whole. Furthermore, still under way is the fundamental review of the treatment of the trading book (where a dividing line is being clearly defined to determine when an exposure should be included in this book, in order to prevent regulatory arbitrage) and of the securitisation framework (where methods for calculating the capital requirements of these exposures and the hierarchy that determines their application are being reviewed). These consultative papers were issued in May and December, respectively. Work progresses in the accounting area on provisioning (the design of an expected losses-based model). The publication schedule includes guidelines on internal audits at banks; and two consultative papers (one on instruments for monitoring intra-day liquidity, and another on margin requirements for non-centrally-traded derivatives).

Finally, the Committee has wished to make its activities and decision-making process more transparent. In this connection it has released its Charter, which details its objectives and the key elements of its activities. The Charter was approved by the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, in January 2013.

3.1.3 WORK OF THE JOINT FORUM

In the inter-sectoral arena, and following its contributions in recent years, the Banco de España was appointed as an official member of the Joint Forum, the international group that draws banking, securities and insurance supervisors together. In 2012, following a consultative process, the final revised version of the 1999 principles for financial conglomerates was released. Also published was a report summarising intra-group support practices used by the financial institutions from the three sectors that seeks to inform current debate on the resolution capacity of these institutions. Analyses were made of mortgage underwriting and mortgage originators (as a complement to the FSB's retail-mortgage-granting principles), of point-of-sale disclosure practices in respect of financial products for customers, and of the risks associated with new financial products related to longevity risk.

3.2 European fora

3.2.1 WORK OF THE EUROPEAN BANKING AUTHORITY (EBA)

In its second year of operating the EBA worked intensely, especially in the regulatory field contributing to the *Single Rulebook* (see Box 3.3 for greater details). In 2012 the EBA prepared 23 draft binding technical standards, 6 guidelines, 14 consultative papers and 4 discussion papers. The technical standards are delegated regulations and currently most of them derive from the Capital Requirements Directive and Regulation (CRD IV and CRR). They are approved by the European Commission and, once sanctioned, form part of the European regulations to be directly applied by the Member States. The EBA contribution also involved imparting its opinion to the Commission, the European Parliament and the Council for various legislative initiatives and consultative papers, such as the proposal for

TOWARDS A SINGLE RULEBOOK: THE ROLE OF THE EUROPEAN BANKING AUTHORITY'S TECHNICAL STANDARDS

BOX 3.3

One of the cornerstones of the European Banking Union is the institution of a single rulebook for all European Union countries. The Ecofin resolution dated 12 December 2012 – approving the proposal for a regulation for the creation of the Single Supervisory Mechanism – highlights the key role to be played by the European Banking Authority (EBA) here, where the implementation of binding technical standards (BTS) is of particular importance.

BTS were provided for alongside the inception of the three European supervisory authorities (the EBA in the banking arena) in 2011 and are relatively recent regulatory instruments, whose preparation procedures and control mechanisms are set out in detail in the respective regulations creating these authorities (Articles 10 to 15 of Regulation 1093/2010 establishing the EBA).

BTS are a particular type of delegated act, as opposed to basic legislative acts (directives, regulations, decisions), through which the European Commission (EC) can approve legislation by means of a procedure that is swifter than the usual one since the texts do not have to be discussed with the European Parliament and the Council, although the latter do exert a posteriori control. The purpose of the BTS in the case of Regulatory Technical Standards (RTS) is to amend or complement the non-core elements of a basic act, while in the case of Implementing Technical Standards (ITS) their aim is to ensure the uniform application of a basic legislative act.

With BTS, the European Commission has a tool enabling it to legislate more swiftly in the case of complex directives/regulations (as is the case of the future Capital Requirements Directive and Regulation, the draft version of which, presented by the Council, calls for the preparation of around 100 BTS). And, above all, BTS allow for swifter progress towards establishing the Single Rulebook in the European Union, since national transposition is no longer necessary. On being approved as delegated regulations or decisions, these become directly applicable in all Member States.

BTS are to be adopted by the European Commission, which has delegated their preparation to the three supervisory authorities. In the case of banking directives, it is the EBA that has to prepare draft BTS; in this connection, its in-house working groups shall develop initial drafts which, following approval by the Board of Supervisors (the EBA decision-making body), will be put out to public consultation (ideally within three months, though this period may be shorter) in the form of a consultative paper. If necessary, in those matters that are more innovative by nature, the opinion of the banking industry may be sought at a prior phase. At the same time, the opinion of a group of experts representing the different sectors of the banking industry and bank consumers (the Banking Stakeholders Group) shall be sought.

Once the comments have been analysed and, where appropriate, duly reflected, the EBA will once again amend its draft and, having been approved by the Board of Supervisors (by a qualified majority), it will be submitted to the European Commission within the period established in the attendant directive/regulation. There is a possibility that the Commission may return the BTS to the authority involved and propose changes to it, which should be incorporated within a period of six weeks. Otherwise, it may be adopted, published in the Official Journal of the European Union and notified to the European Parliament and the Council, which may raise objections (only to RTS) within a period not exceeding three months.

In the 15 months (to March 2012) that the EBA has been operational, work has been ongoing on numerous BTS although only one of them (the capital requirements RTS for the central counterparty clearing houses) has been submitted to the European Commission, which adopted it in December 2012 for it to come into force in March 2013. It was possible to deliver the technical standard because it derived from a regulation that had already been approved by the European authorities (the European Market Infrastructure Regulation, EMIR). However, many of the BTS the EBA must implement stem from legislation that is still in the process of being approved (as is the case of the CRDIV/CRR or the future Crises Directive) and this is why many BTS that have been concluded are currently awaiting processing.[1] The standards shall be delivered to the European Commission as soon as the respective directives or regulations are approved and they will come into force simultaneously. The standards include most notably 14 RTS on own funds, two on market risk, one on securitisation and another on prudential provisions, apart from several ITS on financial reporting (COREP, FINREP, large exposures, liquidity and leverage).

1 At the date of publication of this Report, the Directive and the Regulation known as CRD-CRR have already been published in the Official Journal of the European Union and work has commenced on the related BTS.

a non-banking resolution framework, the shadow banking proposal and the Liikanen report. The EBA was likewise very active promoting the convergence of supervisory practices, through its active participation in the 40 main European supervisory colleges, and it is working actively to smooth the exchange of information between consolidating and host supervisors, and to strengthen the role of the colleges.

With regard to the monitoring of risks and vulnerabilities, the EBA is behind numerous periodical reports. Based on the data provided quarterly by 57 banking groups from the

European Economic Area, the EBA draws up a risk dashboard that summarises European banking sector conditions. It also produces a half-yearly report on European banking sector risks and vulnerabilities, which is submitted to the European Systemic Risk Board, the Economic and Financial Committee and the other European supervisory authorities. Once a year this report is presented to the European Parliament and to the Council. Finally, in the wake of the delicate situation of the EU during 2012, the EBA launched a weekly report – for internal use – on liquidity and funding in the EU based on the opinions of the supervisory authorities it contacts and of various external analysts.

In terms of customer protection, the EBA worked in 2012 on several guidelines relating to mortgage market customers and to the selling of complex products (exchange traded funds), holding the first EBA Consumer Protection Day with the industry, and, finally, collaborating closely with the European Securities and Markets Authority (ESMA) to issue advice to investors regarding the so-called Contracts for Differences. This close collaboration with ESMA was also visible in the area of improving the governance of the Euribor, with the publication of a raft of recommendations in early 2013.

Finally, following up on the recapitalisation exercise that required that the biggest European credit institutions should, as at June 2012, meet a capital ratio of 9 % plus a surcharge for sovereign risk, the EBA issued a report in October assessing the success of this recommendation and encouraging banks to maintain these capital levels. It further announced that a new recommendation would be released once the CRDIV/CRR came into force.

3.2.2 WORK OF THE EUROPEAN SYSTEMIC RISK BOARD (ESRB)

The European Systemic Risk Board (ESRB), comprising the central banks and banking supervision, securities and insurance authorities of the Member States, along with various European authorities, is responsible for macroprudential supervision in the European Union. As such, it has continued working to identify and analyse the main risks to financial stability.

The results of this work have been the recommendations published in January 2012 on dollar financing and those released in February 2013 on bank funding and on money market funds. These recommendations propose specific measures to mitigate the risks identified in these areas.

During the crisis the banks funding themselves in dollars were exposed to vulnerabilities owing, on one hand, to the mismatches in maturities between dollar-denominated long-term assets and short-term liabilities and, on the other, to US money market funds' aversion to risk at times of heightened market tension. In this connection, the ESRB has issued a recommendation for national authorities to step up their supervision to prevent banks building up an excessive exposure to financing in dollars. The national authorities should also ensure that banks include measures in their funding contingency plans to manage a dollar-financing shock.

With regard to the recommendation on bank financing, the crisis has highlighted weaknesses in banks' funding structure and an excessive dependence on short-term funding. The ESRB therefore recommends supervisors assess financing plans individually and in an aggregate fashion for the entire banking sector. Prominent among the changes in funding structures that have come about in recent years owing to the financial crisis is the increase in secured funding and, therefore, in the assets committed to such financing. This increase in encumbered assets can, on one hand, hamper the management of liquidity and bank

financing by making the obtaining of additional funding more difficult; and, on the other, from the structural standpoint, it subordinates ordinary creditors. To mitigate these risks, the ESRB recommends that banks manage the encumbered assets and that the related national authorities supervise this management, along with the level of and changes in the encumbered assets at banks. It further recommends that the EBA design guidelines to harmonise the publication of information on banks' encumbered assets. Finally, owing to the increase in the use of covered bonds by European banks, the ESRB recommends that the best practices concerning the regimes for these instruments be identified and promoted, and that Europe-wide convergence be encouraged.

Lastly, the recommendation on money market funds is aimed at the European Commission with the intention that EU legislation in this area, on which work is currently under way, should be sound.

The ESRB has also begun analysis and assessment of shadow banking, focusing primarily on identifying and mitigating the systemic risks arising from securities financing transactions. It is likewise examining, along with other European authorities, aspects related to interconnectedness and how risk spreads on financial markets.

The ESRB has continued working on the development of a macroprudential framework in the European Union. The following actions may be highlighted here: in January 2012 it issued a recommendation, to the Member States, on the key elements that the mandates granted to national macroprudential authorities should contain; throughout 2012 it pursued its work on the classification and description of the instruments to be used to prevent or mitigate systemic risks; it is also working on drawing up a broad framework for the coordination of macroprudential policies in the European Union; lastly, it continues to analyse and discuss legislative proposals in the European Union to ensure that macroprudential aspects are taken into account in the legislative development of the financial sector.

Finally, the ESRB has launched the quarterly publication of a set of quantitative and qualitative indicators, known as the risk dashboard, aimed at identifying and measuring systemic risk. The ESRB itself uses these indicators as part of the information on which discussions about EU financial system risks and vulnerabilities are based.

3.3 Other regional fora

3.3.1 WORK OF THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA)

The ASBA is a high-level forum in which the heads of the banking supervision and regulation bodies of 35 countries of the Americas are represented. Its main aims are to support the adoption of international standards on regulation and banking supervision practices, to promote technical cooperation between members and to encourage training programmes to bolster the level of skills in the region.

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 training plans.

The Association's work in 2012 focused on issues which are of more interest to Latin American supervisors: the analysis and effects of the new regulatory framework, macroprudential supervision and the financial inclusion of unbanked segments of the population.

The Banco de España resolutely supports the work of the Association, participating in the meetings of its governing bodies and in those working groups in which its experience may prove most valuable. Accordingly, during 2012 it collaborated on various initiatives relating

to the management and supervision of liquidity risk, corporate governance and the regulatory framework for consumer protection. It also chairs a group set up in late 2012 to develop stress tests at financial institutions.

Lastly, it is worth mentioning the training that the Banco de España offers to officials from the supervisory authorities associated with the ASBA. This is in the form of both attendance-based and on-line ad-hoc seminars, and of reserved places for these officials in most of the in-house training courses for DG Banking Supervision staff.