International Banking Federation

Newsletter

2015 Summer Edition

Contents

IBFed Board Meeting in Brussels

On 27th and 28th May 2015, the 42nd Board meeting was hosted in Brussels by the European Banking Federation.

The Board issued a communique following the meeting. This stressed the role of the banking industry in supporting growth and noted the need for continued industry participation in the Basel Committee's work to promote simplicity and comparability in the calculation of risk weighted assets. Click *here* to read the communique.

The Board took the opportunities to meet with senior EU policy makers and regulators and an OECD senior officer to exchange views.

Olivier Guersent, Deputy Director General, DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA), explained the European Commission's work to promote growth including via Capital Markets Union.

John Berrigan, Director Financial System Surveillance and Crisis Management, DG FISMA, analysed the European economic situation. He concluded in his presentation that there were strong economic tailwinds in the short term but strong headwinds in the medium term and financial stability risk remained post crisis.

Jeroen Hooijer, Head of Unit Company Law, DG Justice, Consumers and Gender Equality (DG JUST), explained the global tide of regulations about Corporate Governance in financial sector and discussed the consequences of the EU's rules on bonuses with Board members.

Contents

Flore-Anne Messy, Deputy Head of Financial Affairs Division and Executive Secretary of the International Network on Financial Education and Directorate for Financial and Enterprise Affairs, OECD, explained the OECD's work on financial education. She emphasised the need for coordinated approaches based on evidence and partnerships to enhance financial education.

IBFed argues for better cross-border regulation

On 15th April 2015, the Financial Markets Working Group (FMWG) wrote to the US CFTC and the European Commission urging them to prioritise solutions to differences in the implementation of reforms to derivative markets. In the letter, we asked the regulators to overcome bottlenecks by prioritising consistency across their regulatory regimes and facilitating reliance on substituted compliance based on the principle of mutual recognition. We also recommended that the CFTC should work toward finalising more concrete and lasting relief and should consider additional determinations that a foreign jurisdiction's rules are "comparable to and as comprehensive as" the CFTC's regulations. We expressed our support for co-operative work at an international level to ease the challenges firms and their clients are facing as a result of the way the domestic and cross-border rule-making processes are operating in this area. Click *here* to read the letter.

On 3rd March 2015, the FMWG responded to an IOSCO consultation report on *Cross-Border Regulation*. The report described three cross-border regulatory tools that have been used, or are under consideration, by IOSCO members to help address the challenges they face in protecting investors, maintaining market quality and reducing systemic risk.

The letter argued that cross-border regulation should first identify instances of regulatory duplication, gaps, and conflicts. We also suggested that in contested areas of cross-border regulation, affected regions initially should be allowed to work out their differences, which would minimise the need for possibly disruptive international prescriptions from IOSCO. Moreover, we suggested that the equivalence of jurisdictions' regulations should be explored in areas where there is simultaneous application of duplicative or conflicting regulations to the same transactions or intermediaries, and where such equivalence can facilitate, rather than burden, an efficient global market system. We also described our belief that recognition generally provides the best avenue for developing coordinated and sustained approach to cross-border regulation. In this context, recognition refers to a tool under which a host regulator recognises a foreign regulatory regime, or parts thereof, following an assessment of the foreign regulatory regime by the host regulator. Click *here* to read the letter.

Contents

IBFed Comments on Loss-absorbing Capacity proposals

On 2nd February 2015, IBFed responded to the FSB's proposals for the *Adequacy of loss-absorbing capacity of global systemically important banks in resolution*. The document followed a call by the G20 Leaders for proposals to enhance the loss-absorbing capacity of G-SIBs in resolution. The policy proposals consisted of principles to govern the loss absorbing and recapitalisation capacity of G-SIBs in resolution, known as Total Loss Absorbency Capacity or 'TLAC'.

In the letter, we offered firm support for the 'guiding principle' that firms should have sufficient resources to absorb loss in resolution and, if appropriate, to support orderly resolution without exposing public funds to risk. The IBFed response argued that a minimum requirement of 16% of RWAs would be more than sufficient to absorb losses sustained in the past and to provide resources to support recapitalisation should this be necessary to maintain critical economic functions. Click *here* to read the letter, including detailed comments on the design of the final rules.

IBFed highlights the impact of proposed capital rules

Revisions to the Standardised approach

On 25th February 2015, IBFed representatives attended a hearing hosted by the BCBS Task Force on Standardised Approaches (TFSA). The purpose of the meeting was to discuss the BCBS consultative document on *Revisions to the standardised approach for credit risk*. Some commentators have argued that the current approaches for calculating risk are not sufficiently risk-sensitive, the BCBS is therefore revising the standardised approaches for operational and market risk, and has proposed changes to the standardised approach for counterparty credit risk. In the document, the BCBS considers replacing references to external ratings, as used in the current standardised approach, with a limited number of risk drivers. The industry has expressed its unease at the proposals and warned that despite the stated intentions of the Basel Committee the proposals would result in a significant increase in capital. At the meeting, the TFSA acknowledged that there were flaws in the proposed approach and indicated that they were looking to industry to suggest improvements. Click *here* to read Debbie Crossman's summary of the meeting on the IBFed blog.

On 26th March 2015, the Prudential Supervision Working Group (PSWG) responded to the consultation on the standardised approach discussed above. The response offered support for a more risk sensitive approach to drive comparability but expressed concern that the new proposals seek to deliver a one size fits all approach, without recognising that exposures in the same asset classes can behave differently in different jurisdictions. The response also disagreed with the proposed removal of the ability for banks to utilise external credit ratings and urged the Basel Committee to continue to engage with the banking industry and other interested stakeholders after considering the preliminary

Contents

comments received and the results of the Quantitative Impact Study (QIS) in order to refine the approach. A further QIS may then also be appropriate. Click *here* to read the letter.

On 27th March 2015, the PSWG also responded to the BCBS consultative document on *Capital floors: the design of a framework based on standardised approaches*. According to the document, the proposed floor would replace the existing transitional capital floor based on the Basel I framework with the intention of enhancing the reliability and comparability of risk-weighted capital ratios. In conclusion, we suggested that floors based on the new standardised approach should only be considered once they have been calibrated and fully implemented and should be considered in the context of the many policy reforms already in place. In addition, we recommended that if an additional floor framework is put in place, it should be kept simple and it would be important that the floor serves only as a backstop but not as a generally binding constraint. Finally we recommended that the floor be calibrated only when the new standardised approach is finalised to ensure an accurate impact assessment. Click *here* to read the letter.

Interest Rate Risk in the Banking Book

On 11th November 2014, IBFed representatives attended a meeting with the BCBS Taskforce on Interest Rate Risk in the Banking Book (BCBS TFIR). Along with the fundamental review of the trading book framework, the BCBS is also reviewing the banking book framework. Notably it is investigating the development of Pillar 1 charges to capture interest rate and credit spread risk in the banking book (IRRBB/CSRBB). The purpose of the meeting was to discuss the QIS template intended to assess the impact of the requirement. The industry set out the need for clearer QIS guidance and a more flexible timeline. We also requested that the BCBS TFIR share the QIS results and main take-aways with the industry. The BCBS TFIR asked the industry to send any written comments on the proposed QIS template. The industry meeting was followed by a joint industry letter to the BCBS TFIR. Click *here* to read the letter.

The need for caution over funding disclosures

Net Stable Funding Ratio

On 16th March 2015, the PSWG responded to a BCBS consultative document on *Net Stable Funding Ratio disclosure standards*. The letter reiterated concerns regarding the potential adverse effects that may arise from the publication of detailed information about a financial institution's liquidity position, particularly in times of stress. It also suggested that as the disclosure standards are finalised, the BCBS should consider providing enhanced outreach communication/education to market participants that clearly highlights the intention and features of the NSFR metric. Finally, the letter strongly encouraged the BCBS to facilitate discussion between home and host supervisors regarding their response in the event that an institution falls out of compliance with the NSFR. Click *here* to read the letter.

Contents

Engaging with the OECD on tax

On 17th February 2015, the Tax WG responded to an OECD consultation on *BEPS Action 4: Interest Deductions and other Financial Payments*. This is one of 15 initiatives included in the BEPS Action Plan delivered by the OECD in July 2013. The draft considered and sought input on a number of key issues concerning the design of rules to address base erosion and profit shifting using interest and financial payments economically equivalent to interest. In the letter, we recommended that any remaining areas of BEPS risk be identified in order to determine if there is a need to develop specific rules for allocating a group's net third party interest expense amongst its members for banks because the regulatory and operating environment for banks obviates the need for such a rule. Click *here* to read the letter.

Also on 17th February, the Tax WG wrote to OECD concerning the Common Reporting Standard (CRS) for the automatic exchange of tax information. The adoption of the CRS poses challenges not just for financial institutions but also for governments, particularly for those that have committed to early adoption, to introduce the necessary regulatory frameworks and infrastructure to facilitate the implementation of CRS in their jurisdictions. Therefore we asked for sufficient lead-time to meet their obligations under the CRS. We also highlighted the remaining areas of uncertainty and potential divergence that we consider should be resolved to ensure successful implementation and increase the likelihood of delivering a globally consistent automatic exchange of information regime. Click *here* to read the letter.

On 23rd and 24th February 2015, the Tax WG met in London and agreed a strategic plan to become a stakeholder of choice for the OECD. To this end, the WG will look to meet periodically with the OECD to engage on issues such as Base Erosion and Profit Shifting ('BEPS').

In follow up the IBFed wrote to the OECD on 5th May 2015. In the letter, we underlined the need for financial institutions to have certainty to enable the CRS rules to be implemented in a cost effective manner and within a realistic time frame. Finally we highlighted the need for clear and comprehensive local guidance to ensure the CRS rules are consistently implemented and interpreted across partner jurisdictions and the importance that domestic legal frameworks are in place well in advance of the due date so that financial institutions have a stable environment within which to commence their implementation projects. Click *here* to read the letter.

Working with Basel to implement new accounting standards

On 11th February 2015, the AWG met with the BCBS Accounting Experts Group (AEG) in Basel to discuss the BCBS consultative document on *Guidance on accounting for expected credit losses*. As a consequence of the transition from incurred-loss to expected credit loss (ECL) accounting frameworks, the document proposed

Contents

revisions to the BCBS 2006 guidance on *Sound credit risk assessment and valuation for loans*. It also covered supervisory expectations of how an ECL accounting framework should interact with a bank's overall credit risk practices and the regulatory framework. The purpose of the meeting was to gain a greater understanding of the BCBS AEG's reasoning, enhance the understanding of the requirements and exchange preliminary views. The AWG mentioned that the proportionality principle should be developed clarifying its application in relation to insignificant business lines of the institutions within the scope of the paper.

After exchanging views with the major auditors about the above BCBS consultative document on 9th April 2015 in London, the AWG provided its response on 29th April 2015. In the letter, we suggested that the Guidance should be principle-based and open to various approaches that are consistent with the accounting standard. We also insisted that it focus on credit risk practices associated with accounting for expected credit losses and clearly distinguish whether it relates only to risk management and control or to accounting for credit losses or to both aspects. At the same time, we suggested that it should recognise that the proportionality principle is relevant to ensuring that a bank has appropriate credit risk practices commensurate with the size, nature and complexity of its lending activities and so applies to all banks regardless of their size or complexity. Moreover, we noted that it should be consistent with both IFRS and U.S. GAAP as well. Click *here* to read the letter.

Promoting good corporate governance

On 30th January 2015, the Corporate Governance Working Group (CGWG) responded to a BCBS consultative document on *Corporate governance principles for banks*. In the response, we expressed support for principles relating to qualifications, composition, structure and practices of the Board, as appropriate to the nature, scale and complexity of the bank's business model, but expressed concern that the implementation of the principles could result in a significant increase in the responsibilities of a bank's Board of directors such that the directors' ability to carry out their responsibilities could be compromised. Click *here* to read the letter.

New Working Group Chairman

Arthur Reitsma, Head of Retail Banking at the Dutch Banking Association, has been appointed as the chairman of the **Consumer Affairs Working Group**,

Recent FSB developments

The G20 Leaders agreed at the Brisbane Summit the following priorities for the FSB's work in the next phase of reform:

(1) Full, consistent and prompt implementation of agreed reforms;

(2) Finalising the design of remaining post-crisis reforms; and

(3) Addressing new risks and vulnerabilities.

On 4th February, the FSB set out its work programme to advance these goals during the Turkish G20 Presidency in 2015 and announced progress on each priority for the Antalya Summit as follows:

(1) The FSB will provide regular reports on its key findings to the G20. This year the FSB will publish its first annual report on the implementation of the reforms and their effect.

(2) Further work is required to design reforms in three areas. The goal by the Antalya G20 Summit is as follow:

Completion of the capital framework for banks

- The Basel Committee will conduct public consultations and quantitative impact assessments to enhance the Basel framework standardised approaches for calculating risk-weighted assets, to be finalised in 2016;
- The Basel Committee will publish measures that address excessive variability in internal-model based approaches to Basel III;

Ending too-big-to-fail

- The FSB will finalise the international standard for total loss-absorbing capacity for global systemically important banks;
- FSB members will take measures to promote industry adoption of contractual provisions recognising temporary stays on the close-out of financial contracts when a firm enters resolution;
- The FSB will review progress towards implementation of resolution regimes and resolution planning requirements for central counterparties that are systemic across multiple jurisdictions and will assess the adequacy of CCPs' loss absorbing capacity in resolution;

Making derivatives markets safer

- The FSB will identify the legal barriers in member jurisdictions to the reporting of counterparty information to trade repositories and set a deadline for jurisdictions to address them;
- CPMI and IOSCO will propose for consultation guidance on the design of a global Unique Transaction Identifier and Unique Product Identifier to aid consistent trade reporting;
- IOSCO will finalise the measures in its proposed cross-border regulatory toolkit. These will be applicable not only for OTC derivatives but also for other market regulation;

(3) The FSB will focus on co-ordinating efforts to address two specific emerging vulnerabilities: market-based finance and misconduct.

On 9th April, the FSB provided a further update on progress of the above priorities as follows.

(1) The FSB has agreed an outline for its first annual consolidated report.

(2) The FSB made progress as follows:

Ending too-big-to-fail

Contents

- The FSB is reviewing the consultation responses on the proposal for total loss absorbing capacity (TLAC), and the various TLAC impact assessment studies are well underway;
- The FSB reviewed steps to finalise policy measures for statutory and contractual approaches to cross-border recognition of resolution actions following the recent public consultation;

Making derivatives markets safer

- The FSB has agreed a work plan to take forward, with CPMI and IOSCO, the standardisation and aggregation of OTC derivatives trade reporting data;

(3) Concerning risks stemming from market-based finance, the FSB is prioritising work to understand and address vulnerabilities in capital market and asset management activities. About Misconduct risks, the FSB has agreed a work plan.

List of upcoming key international meetings

Date	Meeting
7th to 8th June	G-7 Leaders Summit
14th to 18th June	IOSCO Annual Conference
21st to 26th June	FATF Plenary and Working Group meetings
30th June to 2nd July	Salzburg Global Seminar
4th to 5th September	G-20 Finance Ministers' and Central Bank Governors' meeting
8th October	G-20 Finance Ministers' and Central Bank Governors' meeting
9th to 11th October	2015 Annual Meetings of the World Bank Group and the International Monetary Fund
18th to 23rd October 2015 (TBC)	FATF Plenary and Working Group meetings
15th to 16th November	G20 Leaders Summit

ibfed International Banking Federation

International Banking Federation Head Office:
Pinners Hall, 105-108 Old Broad Street, London
EC2N 1EX United Kingdom
Tel: +44 207 216 8872 Fax: +44 207 217 8870
Email: sally.scutt@bba.org.uk Web: www.ibfed.org